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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL
providing further macro-financial assistance to the Hashemite Kingdom of Jordan

{SWD(2016) 213 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• **Reasons for and objectives of the proposal**

Since early 2011, the Jordanian economy has been significantly affected by the ongoing regional unrest, notably in neighbouring Iraq and Syria. Combined with a weaker global environment, this regional unrest has taken a heavy toll on external receipts and has strained public finances. Lower tourism and FDI inflows, blocked trade routes, and repeated disruptions to the flow of natural gas from Egypt, which forced Jordan to replace gas imports from Egypt with more expensive fuels for electricity generation, have put a drag on growth and weighed on Jordan's external and fiscal position. The Syrian conflict has impacted Jordan not only by disrupting trade with and through Syria but also by causing an inflow of around 1.3 million of Syrian refugees into Jordan that has increased pressure on Jordan's fiscal position, public services and infrastructure.

In 2012, Jordan and the IMF agreed on a first adjustment programme, which was supported by a three-year Stand-By Arrangement (SBA) in the amount of USD 2 billion. This programme was successfully completed in August 2015. The IMF programme was complemented by a first Macro-Financial Assistance from the European Union (the EU) in the amount of EUR 180 million (MFA-I), which was adopted by the European Parliament and the Council in December 2013 and was disbursed in two tranches of EUR 100 million and EUR 80 million in February 2015 and in October 2015, respectively.

While the country made progress with macroeconomic stabilisation and reform under the first programme supported by the IMF, the EU and other donors, the persistence of the conflicts in neighbouring Syria and Iraq continued to disrupt Jordan's foreign trade and undermine investor and tourist confidence, with the economic situation deteriorating again in 2015. In this context, the Jordanian government has called for increased support from the international community to address the economic consequences of the Syrian crisis, and in particular the presence of a large number of Syrian refugees in Jordan. At the conference 'Supporting Syria and the Region', held in London on 4 February 2016, the international community pledged about USD 10 billion to help the countries most affected by the Syrian refugee crisis. Of this amount, the EU pledged EUR 2.39 billion for the countries affected by the Syrian refugee crisis including a EUR 200 million loan for the purpose of a second Macro-Financial Assistance operation for Jordan (MFA-II). On 3 March 2016, through a letter from the Ministry of Planning and International Cooperation to the Commissioner for Economic and Financial Affairs Taxation and Customs, the Jordanian authorities formalised their request for a new MFA from the EU¹. The new proposed MFA operation will be part of the so-called EU-Jordan Compact (annexed to EU-Jordan partnership priorities), a document that the EU and Jordan are discussing and that would contain precise commitments on both sides (including financial assistance from the EU) aimed at addressing a number of policy priorities.

At the same time, Jordan and the IMF have been negotiating a successor financial arrangement, which is expected to be put in place in the second half of 2016. The arrangement, which will probably take the form of an Extended Fund Facility (EFF), would support a new economic programme probably covering 3 years.

In this context, and consistent with the pledge made at the London conference, the European Commission is submitting to the European Parliament and the Council a proposal for a

¹ In this letter, the authorities requested a new MFA in the amount of EUR 350 million.

Decision providing a new MFA to Jordan of up to EUR 200 million, in the form of medium-term loans. The proposed amount seems justified based on an updated assessment of the country's external financing needs, the size of the expected IMF programme, burden-sharing considerations and the room for manoeuvre available in the EU budget.

The proposed EU MFA would help Jordan cover part of its residual external financing needs, for the period 2016-17, estimated at about USD 3.2 billion. Since it is intended that the assistance would be channelled to the budget, the new assistance (as the previous one) would also help Jordan cover part of the fiscal costs associated with the Syrian refugee crisis.

As further elaborated in the Commission Staff Working Document accompanying this proposal, the Commission considers, based also on the assessment of the political situation made by the European External Action Service, that the political and economic pre-conditions for the proposed MFA operation are satisfied.

- **General context**

Following a period of robust *growth* averaging 6.5% during 2000-2009, Jordan's GDP growth has decelerated to an average of 2¾% in 2011-2014. While growth recovered to 3.1% in 2014, the intensification of the Syrian crisis in 2015, through its effects on trade, tourism and investor confidence, as well as the slowdown in the Gulf Cooperation Council (GCC) economies, which are major trading partners for Jordan and also an important source of tourism, remittances and financial flows, contributed to a deceleration of growth back to 2.4% in 2015.

The deceleration of the economy resulted in a sizeable increase in *unemployment*. After declining from 12.6% in 2013 to 11.9% in 2014, the unemployment rate increased again to 14.6% in the first quarter of 2016. Unemployment remains particularly high for young people and women (33% and 23.7%, respectively, in the first quarter of 2016).

Helped by sharp declines in food and fuel-related prices, *consumer prices* fell by 0.9% in 2015 (with core inflation at about 2%, however, partly reflecting the demand from Syrian refugees). Consumer price inflation is expected to recover this year as fuel prices stabilise or pick up somewhat, but it is expected to remain low (in the 1%-1.5% range). Reflecting this subdued inflation trends and the weakening of growth, the *Central Bank of Jordan* reduced the rediscount rate from 4.25% in early 2015 to 3.75% in July 2015.

Jordan has made substantial progress with *fiscal consolidation* since its fiscal deficit jumped in 2012-2013, largely reflecting adjustment measures taken in the context of the IMF programme (including the introduction of a new income tax law in 2015) and the decline in oil prices, which allowed to reduce markedly the operating loss of NEPCO (the national electricity company) and the state transfers to this company. Thus, the overall fiscal balance, which includes transfers to NEPCO and to WAJ (the Water Authority of Jordan) as well as grants, declined from a peak of about 11% of GDP in 2013 to 3.5% of GDP in 2015.

The improvement in the underlying fiscal position is, however, less substantial when looking to the primary deficit of the central government, excluding grants and transfers to NEPCO and to WAJ. This measure deteriorated in 2015 (increasing to 5.2% of GDP) and remains more than three percentage points of GDP above what the IMF had programmed. The combined deficit of the central government and NEPCO (which adds to the above-mentioned primary deficit measure NEPCO's operating loss) remains above 6% of GDP and is also substantially above what had been targeted under the IMF's SBA programme (3.5% of GDP).

The persistent fragility of Jordan's fiscal position is further highlighted by the fact that the country continues to be very dependent on foreign grants (which are expected to remain lower

in the coming years, reflecting the impact of lower oil prices on the finances of GCC donors) and by the risk that oil prices will recover more markedly than currently assumed. Moreover, Jordan must continue to accommodate the significant fiscal cost related to the Syrian refugees, which mainly reflects higher expenditure in subsidies, health, education and infrastructure. According to the Jordanian authorities, the cost of direct and indirect expenses related to the hosting the Syrian refugees has amounted to approximately USD 6.6 billion since the beginning of the Syrian conflict.

Reflecting substantial borrowing from foreign donors, as well as the issuance of international bonds, Jordan's gross *public debt* increased further to 93.4% of GDP end the end of 2015, continuing an upward trend observed since 2008, when the ratio stood at 60.2% of GDP. The public debt's dynamics are, however, judged by the IMF to be sustainable provided that the country continues to deliver on further medium-term fiscal adjustment and continues to receive substantial grants from the international community.

While Jordan has achieved a substantial correction of its *current account deficit* since 2013 (reflecting fiscal consolidation, the decline in oil prices and the shift to cheaper types of fuel), the deficit remains very large, amounting to 11.7% of GDP in 2015. The escalation of the conflicts in Syria and Iraq in 2015 weighed on exports, tourism and investor confidence. Exports decreased by 6.6% as a result of disrupted trade routes while income from tourism dropped by 7.1%, reflecting a sizeable decrease in tourists' arrivals from 4.1 million in 2014 to 3.7 million in 2015. This partly compensated for the decline in imports in a context of weaker growth and low oil prices. External pressures continued in the first quarter of 2016, leading to a sizeable widening of the trade deficit (by 13% on a year-on-year basis), reflecting new declines in exports and tourism revenues. The current account deficit excluding grants is expected to remain close to 10% of GDP in 2016-2017 (or around 6% of GDP including foreign grants).

The decline in *foreign direct investment*, from USD 1.8 billion in 2014 to around USD 1.2 billion in 2015, created further pressures to the external position. Despite the decline in FDI, the capital and financial account recorded a net inflow of USD 2.2 billion in 2015, compared to a net inflow of USD 1.2 in 2014. This was made possible by the issuance in June of two Eurobonds guaranteed by the US Treasury for a total of USD 1.5 billion and the issuance in November of a non-guaranteed Eurobond of USD 500 million.

In March 2016, *net international reserves* stood at a comfortable level of USD 13.4 billion, equivalent to around 7 months of next year's imports. Including gold, international reserves stood at about USD 15 billion.

In the context of the adjustment and reform programmes supported by the assistance of the IMF, the World Bank and the EU's first MFA operation, which was completed in October 2015, the Jordanian authorities made significant progress in a number of key *structural reform* areas. This included the reform of fuel subsidies and introduction of a compensatory cash transfer scheme, efforts to diversify energy sources, tax reform and the revamping of the investment framework. However, the country continues to face significant structural reform challenges. The tax base is still narrow, entailing many tax-exemptions, and there is still scope for strengthening tax administration and for further reforming income taxation in order to increase both revenues and progressivity. These reforms should support fiscal consolidation. Jordan also suffers from rigid labour markets and skill mismatches, which contributes to high unemployment, particularly among the youth, as well as from very low rates of participation among women. Efforts to diversify energy sources and increase energy efficiency should continue, in order to meet the increased demand for electricity and reduce further Jordan's dependency on oil fuel. Water sector reform is another key reform challenge, with transfers to

WAJ remaining a substantial burden on the budget. There is also scope for further improvement the business and investment climate, which is key for raising investment inflows under the current difficult regional environment. Also, economic governance and transparency should be strengthened, including by pursuing efforts to improve public finance management, for example by adopting the new legislation on the Audit Bureau and by modernising debt management.

The projections by the IMF, in February 2016, point towards significant *balance of payments needs* for the period 2016-2017, with the total external financing gap estimated at USD 3.2 billion (USD 2 billion in 2016 and USD 1.2 billion in 2017). This financing gap can broadly be attributed to three factors: a persistently large current account deficit large debt amortization requirements expected, especially for 2016, and the need to maintain a prudent foreign exchange reserve level. The proposed new MFA operation of EUR 200 million would cover 7.4% of the estimated residual financing gap (after deducting net IMF financing and the expected disbursement of World Bank policy-based loans).

As in recent years, other donors (including France, Japan, the US and the GCC countries and the Arab Monetary Fund, as well as the EU through its grant-based budgetary support financed by the European Neighbourhood Instrument) are expected to contribute substantial additional funds in the coming period, ensuring a reasonable burden-sharing in the donors' support effort.

- **Existing provisions in the area of the proposal**

Decision No 1351/2013/EU providing a first macro-financial assistance to Jordan in the amount of EUR 180 million was adopted by the European Parliament and the Council on 11 December 2013². The assistance was fully disbursed during 2015.

- **Consistency with the other policies and objectives of the Union policies**

The EU and Jordan have developed a close political and economic relationship over the years. In 2010, an Advanced Status partnership was agreed between the EU and Jordan that entails expanded areas of cooperation. The legal basis for the EU-Jordan relationship is the Association Agreement that entered into force on 1 May 2002 and the different cooperation and dialogue instruments created under the ENP. Jordan is also a member of the Union for the Mediterranean. The EU aims to assist Jordan in the implementation of its own reform process based on the priorities and actions defined in the Single Support Framework adopted for 2014-2017. In response to the conflicts in Syria and Iraq, and with a view to further strengthening the solid and multi-faceted relationship between the EU and Jordan, the two sides have started discussions on a new Partnership Priorities Agreement which should guide EU-Jordan relations for the period 2016-2018. The partnership priorities involve the fulfilment of mutual commitments, specified in the EU-Jordan Compact, also currently under discussion. Jordan has developed important economic ties with the EU. In 2014, the EU was Jordan's second largest trading partner, with a trading share of 15.5% after Saudi Arabia with 17.7% and before the US (third trading partner with a share of 8.5%). A preparatory process for launching negotiations on a Deep and Comprehensive Free Trade Area (DCFTA) is on-going. The DCFTA would aim at improving market access opportunities and the investment climate and promoting closer economic integration between the EU and Jordan. While the actual negotiations on the DCFTA have yet to be launched, the parties have started

² Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 providing macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 341, 18.12.2013, p. 4).

discussions on a temporary relaxation of the rules of origin on the part of the EU applied in their bilateral trade. It is hoped that this initiative, which forms part of the EU's support for Jordan in the present Syrian refugee crisis, will provide a boost to Jordanian exports to the EU and create additional employment opportunities for both Jordanians and Syrian refugees.

The EU MFA would complement the grants mobilised under the ENI and other EU programmes and in particular the conditionalities envisaged under the budget support packages being implemented by the EU. By supporting the adoption by the Jordanian authorities of an appropriate framework for macroeconomic policy and structural reforms, the EU's MFA would enhance the added value and effectiveness of the EU's overall financial interventions, including through other financial instruments.

Jordan has taken important steps towards strengthening democratic rights and the rule of law. A Constitutional Court and an Independent Electoral Commission have been set up and a number of major laws, including the Electoral Act and the Political Parties Act as well as laws on decentralisation and municipalities, have been passed by the Jordanian Parliament.

While there is still room for reinforcing its democratic institutions and legal framework and for making its democracy more representative of the different social and ethnic groups, Jordan has managed to make progress in this area despite a difficult regional environment and continues to exert a stabilising and moderating role in the region.

In this context, Jordan is deemed to meet the political preconditions for the granting of MFA, notably in terms of respect for democracy, human rights and the rule of law, and of being a country with which the EU maintains close political and economic relations. A detailed assessment of the satisfaction of these political criteria for MFA produced by the European External Action Service is annexed to the Commission Staff Working Document accompanying the proposal. The proposed new MFA is also consistent with the EU's commitment to support Jordan's economic and political transition.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

• Summary of the proposed action

The EU shall make MFA available to Jordan for a total maximum amount of EUR 200 million, provided in the form of a medium-term loan. The assistance will contribute to cover Jordan's residual external financing needs in 2016-2017, as identified by the Commission based on the estimates of the IMF.

The assistance is planned to be disbursed in two loan instalments of EUR 100 million each. The disbursement of the first instalment is expected to take place towards the end of 2016. The second instalment, conditional on a number of policy measures, could be disbursed in the second quarter of 2017. The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

As usual with the MFA instrument, the disbursements would be conditional on successful programme reviews under the new IMF's financial arrangement. In addition, the Commission and the Jordanian authorities would agree on specific structural reform measures in a Memorandum of Understanding. The Commission will target structural reforms aimed at improving the overall macroeconomic management and the conditions for sustainable growth. As noted above, these reform measures would support the authorities' reform agenda and complement the programmes agreed with the IMF, the World Bank and other donors, as well as the policy programmes associated with the EU's budgetary support operations. They would be consistent with the economic reform priorities agreed between the EU and Jordan in the

context of the Single Support Framework for 2014-2017 and other strategic documents (including the future Partnership Priorities and the Jordan Compact). They would also build upon the structural reforms implemented under MFA-I.

The decision to disburse the full MFA in the form of loans is justified by Jordan's level of economic development (as measured by its per-capita income) and debt indicators. It is also consistent with the treatment given to Jordan by the World Bank and the IMF. Indeed, Jordan is not eligible for concessional financing from either the International Development Agency or the IMF's Poverty Reduction and Growth Trust fund.

- **Legal basis**

The legal basis for this proposal is Article 212 TFEU.

- **Subsidiarity (for non-exclusive competence)**

The subsidiarity principle is respected as the objectives of restoring short-term macroeconomic stability in Jordan cannot be sufficiently achieved by the Member States alone and can be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectiveness of the assistance.

- **Proportionality**

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of short-term macroeconomic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission based on the estimates of the IMF in the context of the future Extended Fund Facility, the amount of the proposed new MFA corresponds to 7.4% of the estimated residual financing gap for the period 2016-2017. This is consistent with standard practices on burden-sharing for MFA operations. Given the assistance pledged to Jordan by other bilateral and multilateral donors, it is deemed an appropriate level of burden-sharing for the EU.

- **Choice of the instrument**

Project finance or technical assistance would not be suitable or sufficient to address these macroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be to alleviate the external financial constraint and to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate overall policy framework, MFA can increase the effectiveness of the actions financed in Jordan under other, more narrowly focused EU financial instruments.

3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Consultation of interested parties**

MFA is provided as an integral part of the international support for the economic stabilisation of Jordan. In the preparation of this proposal for MFA, the Commission services have

consulted with the IMF and the World Bank, which have already put in place sizeable financing programs and are preparing new ones. The Commission consulted the Economic and Financial Committee on 2 June 2016, receiving an endorsement for the proposal. The Commission has also been in regular contact with the Jordanian authorities.

- **Collection and use of expertise**

An Operational Assessment for verifying the quality and reliability of Jordan's public financial circuits and administrative procedures will be carried out by the Commission with the assistance of external experts before the effective implementation of the assistance. Its results, which will be shared with Jordanian authorities and the EU Delegation for further work on possible areas for improvement, might also be reflected in the policy conditionality of the proposed MFA.

- **Impact Assessment**

The EUs macro-financial assistance is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries. Therefore, this MFA proposal is exempted from the requirement to carry out an Impact Assessment in accordance with the Commission's Better Regulation Guidelines (SWD(2015) 111 final) as there is a political imperative to move ahead quickly in this emergency situation requiring a rapid response.

More generally, the Commission's MFA proposals build on lessons learned from ex-post evaluations carried out on past operations in the EU's neighbourhood. Like MFA-I, MFA-II and the economic adjustment and reform programme attached to it will help alleviate Jordan's short-term financing needs while supporting policy measures aimed at strengthening medium-term balance of payments and fiscal sustainability and raising sustainable growth, thus complementing the programme to be agreed with the IMF. These measures are likely to cover reform areas such as public financial management and other aspects of economic governance, tax reform, the strengthening of the social safety net, energy and water sector reforms, trade and investment, and the labour market, including measures to facilitate the integration of Syrian refugees into the Jordanian labour market.

4. BUDGETARY IMPLICATIONS

The planned assistance would be provided in the form of a loan and would be financed through a borrowing operation that the Commission will conduct on behalf of the EU. The budgetary impact of the assistance will correspond to the provisioning of the EU's Guarantee Fund for external actions, at a rate of 9% of the amounts disbursed, from budget line 01 03 06 ("Provisioning of the Guarantee Fund"). Assuming that the first loan disbursement (of EUR 100 million) will be made in 2016 and the second loan disbursement (of EUR 100 million) in 2017 in accordance with the rules governing the guarantee fund mechanism, the provisioning will take place in the 2018-19 budgets. Based on current projections on the utilisation of the budget line 01 03 06, the Commission assesses that the budgetary impact of the operation can be accommodated.

5. OTHER ELEMENTS

- **Review/revision/sunset clause**

The proposal includes a sunset clause. The proposed MFA would be made available for two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing further macro-financial assistance to the Hashemite Kingdom of Jordan

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Relations between the European Union ('the Union') and the Hashemite Kingdom of Jordan ('Jordan') are developing within the framework of the European Neighbourhood Policy (ENP). Jordan signed an Association Agreement with the EU on 24 November 1997, which came into force on 1 May 2002. Under the Association Agreement the EU and Jordan gradually established a Free Trade Area over a transitional period of 12 years. In addition, an agreement on further liberalisation of agricultural products entered into force in 2007. In 2010, an Advanced Status partnership was agreed between the EU and Jordan that entails expanded areas of cooperation. A protocol on Dispute Settlement Mechanisms for trade between the EU and Jordan initialed in December 2009 entered into force on 1 July 2011. Bilateral political dialogue and economic cooperation have been further developed within the framework of ENP Association Agreement and the Single Support Framework adopted for 2014-2017.
- (2) Since 2011, Jordan has embarked on a number of political reforms to strengthen parliamentary democracy and the rule of law. A Constitutional Court and an Independent Electoral Commission have been set up and a number of major laws, including the Electoral Act and the Political Parties Act as well as laws on decentralisation and municipalities, have been passed by the Jordanian Parliament.
- (3) The Jordanian economy has suffered significantly from the ongoing regional unrest, notably in neighbouring Iraq and Syria. Combined with a weaker global environment, this regional unrest has taken a heavy toll on external receipts and has strained public finances. Tourism and foreign direct investment inflows have been negatively affected, trading routes blocked and the flow of natural gas from Egypt disrupted. In addition, the Jordanian economy has also been impacted from a large inflow of Syrian refugees, which has increased pressure on its fiscal position, public services and infrastructure.
- (4) Since the outbreak of the conflicts in Syria in 2011 the Union has expressed its unequivocal commitment to supporting Jordan as it addresses the economic and social consequences of the Syrian crisis, and in particular of the presence of a large number of Syrian refugees in its territory. It has increased its financial support to Jordan, strengthening its cooperation in many fields, including the civil society, the electoral system, security, regional development

and social and economic reforms. And the Union has offered the possibility of concluding a Deep and Comprehensive Free Trade Area agreement.

- (5) In this difficult economic and financial context, the Jordanian authorities and the International Monetary Fund (IMF) agreed in August 2012 on a first economic adjustment programme, which was supported by a three-year Stand-By Arrangement (SBA) in the amount of USD 2 billion. This programme was successfully completed in August 2015. Under this programme, Jordan made considerable progress with fiscal consolidation (also helped by the decline in oil prices) and with a number of structural reforms.
- (6) In December 2012, Jordan requested complementary macro-financial assistance from the Union. In response, macro-financial assistance of EUR 180 million in the form of loans was adopted in December 2013³ (MFA-I). The Memorandum of Understanding defining the policy conditions related to this first macro-financial assistance entered into force on 18 March 2014. Following the implementation of the agreed policy measures, the first tranche of MFA-I was disbursed on 10 February 2015 and the second tranche was disbursed on 15 October 2015.
- (7) Since the outbreak of the Syrian crisis, the EU has allocated almost EUR 1.13 billion to Jordan. This includes, in addition to the EUR 180 million from the first macro-financial assistance operation, EUR 500 million in regular programmed bilateral cooperation for Jordan financed under the European Neighbourhood Instrument, about EUR 250 million from the humanitarian budget and more than EUR 30 million from the Instrument contributing to Stability and Peace. Moreover, the European Investment Bank has made available loans in the amount of EUR 264 million since 2011.
- (8) The intensification of the Syrian crisis in 2015 affected severely Jordan through its effects on trade, tourism and investor confidence. Jordan was also affected by a decline in financial support from the Gulf Cooperation Council (GCC) countries, affected by the decline in oil prices. As a result, economic growth has slowed down again, unemployment has increased and new fiscal and external financing needs have emerged.
- (9) In this challenging context, the Union has reaffirmed its commitment to supporting Jordan in its economic and social challenges and reform process. In particular, this commitment was expressed at the conference 'Supporting Syria and the Region', held in London on 4 February 2016, where the EU pledged 2.39 billion in 2016-2017 in financial support for the countries most affected by the refugee crisis, including Jordan. Political and economic support from the Union to Jordan's reform process is consistent with the Union's policy towards the Southern Mediterranean region, as set out in the context of the ENP.
- (10) Following the deterioration in Jordan's economic and financial situation, the IMF and Jordan have also started discussions on a successor arrangement, which could take the form of an Extended Fund Facility ('IMF programme') and would likely cover a period of three years, starting in the second semester of 2016. The new IMF programme would aim at alleviating Jordan's short-term balance of payment difficulties while encouraging the implementation of strong adjustment measures.
- (11) In March 2016, in view of the worsening economic situation and outlook, Jordan requested additional macro-financial assistance from the Union.

³ Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 providing macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 341, 18.12.2013, p. 4).

- (12) Given that Jordan is a country covered by the ENP, it should be considered to be eligible to receive macro-financial assistance from the Union.
- (13) The Union's macro-financial assistance should be an exceptional financial instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary's immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position in the short term.
- (14) Given that there is still a significant residual external financing gap in Jordan's balance of payments over and above the resources provided by IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Jordan is, under the current exceptional circumstances, considered to be an appropriate response to Jordan's request for support to the economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of Jordan, supplementing resources made available under the IMF's financial arrangement.
- (15) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for Jordan thereby supporting its economic and social development.
- (16) The determination of the amount of the Union's macro-financial assistance is based on a complete quantitative assessment of Jordan's residual external financing needs, and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account expected financial contributions from multilateral donors and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Jordan and the added value of the overall Union involvement.
- (17) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in line with the key principles, objectives and measures taken within the different areas of external action and other relevant Union policies.
- (18) The Union's macro-financial assistance should support the Union's external policy towards Jordan. Commission services and the European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and to ensure the consistency of, Union external policy.
- (19) The Union's macro-financial assistance should support Jordan's commitment to values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rule-based and fair trade.
- (20) A pre-condition for granting the Union's macro-financial assistance should be that Jordan respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems in Jordan and to promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both fulfilment of the preconditions and the

achievement of those objectives should be regularly monitored by the Commission and the European External Action Service.

- (21) In order to ensure that the Union's financial interests linked to the Union's macro-financial assistance are protected efficiently, Jordan should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, provision should be made for the Commission to carry out checks and for the Court of Auditors to carry out audits.
- (22) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council (as budgetary authority).
- (23) The amounts of provisioning required for macro-financial assistance should be consistent with the budgetary appropriations provided for in the multi-annual financial framework.
- (24) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.
- (25) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council⁴.
- (26) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Jordanian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-financial assistance to Jordan, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of EUR 200 million available to Jordan ("the Union's macro-financial assistance"), with a view to supporting Jordan's economic stabilisation and a substantive reform agenda. The assistance shall contribute to covering Jordan's balance of payments needs as identified in the IMF programme.
2. The full amount of the Union's macro-financial assistance shall be provided to Jordan in the form of loans. The Commission shall be empowered on behalf of the Union to borrow

⁴ Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

the necessary funds on the capital markets or from financial institutions and to on-lend them to Jordan. The loans shall have a maximum average maturity of 15 years.

3. The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Jordan, and with the key principles and objectives of economic reforms set out in the EU-Jordan Association Agreement, the Single Support Framework for 2014-2017 and the future Partnership Priorities. The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.
4. The Union's macro-financial assistance shall be made available for a period of two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1).
5. Where the financing needs of Jordan decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

Article 2

1. A pre-condition for granting the Union's macro-financial assistance shall be that Jordan respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.
2. The Commission and the European External Action Service shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance.
3. Paragraphs 1 and 2 of this Article shall be applied in accordance with Council Decision 2010/427/EU⁵.

Article 3

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Jordanian authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding"). The economic policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Jordan with the support of the IMF.
2. The conditions referred to in paragraph 1 shall aim, in particular, at enhancing the efficiency, transparency and accountability of the public finance management systems in Jordan, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade and other priorities in the context of the Union's external policy shall also be duly taken into account when designing

⁵ Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).

the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.

3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a Loan Agreement to be concluded between the Commission and the Jordanian authorities.
4. The Commission shall verify at regular intervals that the conditions referred to in Article 4(3) continue to be met, including whether the economic policies of Jordan are in accordance with the objectives of the Union's macro-financial assistance. In so doing, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

Article 4

1. Subject to the conditions in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in two loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3.
2. The amounts of the Union's macro-financial assistance shall give rise to provisioning of the Guarantee Fund for external actions, where required, in accordance with Council Regulation (EC, Euratom) No 480/2009⁶.
3. The Commission shall decide on the release of the instalments subject to the fulfilment of all of the following conditions:
 - (a) the pre-condition set out in Article 2;
 - (b) a continuous satisfactory track record of implementing a policy programme that contains strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement; and
 - (c) the satisfactory implementation of the economic policy and financial conditions agreed in the Memorandum of Understanding.

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.

4. Where the conditions in paragraph 3 are continuously not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for that suspension or cancellation.
5. The Union's macro-financial assistance shall be disbursed to the Central Bank of Jordan. Subject to the provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred to the Jordanian Ministry of Finance as the final beneficiary.

Article 5

1. The borrowing and lending operations related to the Union's macro-financial assistance shall be carried out in euro using the same value date and shall not involve the Union in the transformation of maturities, or expose it to any exchange or interest rate risk, or to any other commercial risk.

⁶ Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (OJ L 145, 10.6.2009, p. 10).

2. Where the circumstances permit, and if Jordan so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.
3. Where circumstances permit an improvement of the interest rate of the loan and if Jordan so requests, the Commission may decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with paragraphs 1 and 4 and shall not have the effect of extending the maturity of the borrowings concerned or of increasing the amount of capital outstanding at the date of the refinancing or restructuring.
4. All costs incurred by the Union which relate to the borrowing and lending operations under this Decision shall be borne by Jordan.
5. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraphs 2 and 3.

Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council⁷ and Commission Delegated Regulation (EU) No 1268/2012⁸.
2. The implementation of the Union's macro-financial assistance shall be under direct management.
3. The Loan Agreement to be agreed with the Jordanian authorities shall contain provisions:
 - (a) ensuring that Jordan regularly checks that financing provided from the budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any funds provided under this Decision that have been misappropriated;
 - (b) ensuring the protection of the Union's financial interests, in particular providing for specific measures in relation to the prevention of, and fight against, fraud, corruption and any other irregularities affecting the Union's macro-financial assistance, in accordance with Council Regulation (EC, Euratom) No 2988/95⁹, Council Regulation (EC, Euratom) No 2185/96¹⁰ and Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council¹¹;

⁷ Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

⁸ Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

⁹ Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

¹⁰ Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission to protect the Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

¹¹ Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

- (c) expressly authorising the Commission, including the European Anti-Fraud Office, or its representatives to carry out checks, including on-the-spot checks and inspections;
 - (d) expressly authorising the Commission and the Court of Auditors to perform audits during and after the availability period of the Union's macro-financial assistance, including document audits and on-the-spot audits, such as operational assessments;
 - (e) ensuring that the Union is entitled to early repayment of the loan where it has been established that, in relation to the management of the Union's macro-financial assistance, Jordan has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.
4. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, the soundness of Jordan's financial arrangements, the administrative procedures, and the internal and external control mechanisms which are relevant to the assistance.

Article 7

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.
2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Article 8

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:
 - (a) examine the progress made in implementing the Union's macro-financial assistance;
 - (b) assess the economic situation and prospects of Jordan, as well as progress made in implementing the policy measures referred to in Article 3(1);
 - (c) indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, Jordan's on-going economic and fiscal performance and the Commission's decisions to release the instalments of the Union's macro-financial assistance.
2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex-post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Article 9

This Decision shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

- 1.1. Title of the proposal/initiative
- 1.2. Policy area(s) concerned in the ABM/ABB structure
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- 3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected
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LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Decision of the European Parliament and of the Council providing further macro-financial assistance to the Hashemite Kingdom of Jordan

1.2. Policy area(s) concerned in the ABM/ABB structure¹²

Policy area: Title 01 – Economic and Financial Affairs

Activity: 03 – International economic and financial affairs

1.3. Nature of the proposal/initiative

X The proposal/initiative relates to **a new action**

1.4. Objectives

1.4.1. *The Commission's multiannual strategic objective(s) targeted by the proposal/initiative*

"A new boost for jobs, growth and investment: promoting prosperity beyond the EU"

The major area of DG ECFIN related activity pertains to:

1. Fostering the implementation of the European Neighbourhood Policy by deepening economic analysis and strengthening policy dialogue and advice on the economic aspects of the Action Plans.

2. Developing, monitoring and implementing macro-financial assistance for partner third countries, in co-operation with the relevant international financial institutions.

1.4.2. *Specific objective(s) and ABM/ABB activity(ies) concerned*

Specific objective No 1: "Promoting prosperity beyond the EU: supporting macro-financial stability and promoting growth-enhancing reforms outside the EU, including through regular economic dialogues with key partners and by providing macro-financial assistance"

ABM/ABB activity(ies) concerned: International Economic and Financial Affairs.

1.4.3. *Expected result(s) and impact*

The proposed assistance consists of an EU loan of EUR 200 million to the Hashemite Kingdom of Jordan ('Jordan'), with a view to contributing to a more sustainable balance of payments situation. The assistance, to be disbursed in two instalments, will help the country to alleviate the economic and social hardships stemming from the regional instability and the hosting of Syrian refugees. It will also promote structural reforms aimed at raising sustainable economic growth, reducing macroeconomic vulnerabilities and improving public finance management.

1.4.4. *Indicators of results and impact*

The authorities will be required to report on a set of indicators to the Commission services on a regular basis and provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the second instalment of the assistance.

¹² ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures in Jordan that will be carried out in preparation of this operation. The EU Delegation in Jordan will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in Jordan.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, comprising an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of a disbursing economic programme between Jordan and the IMF, which is expected to be in place in the second half of 2016. In addition, the Commission shall agree with the Jordanian authorities on specific policy conditions, listed in a Memorandum of Understanding, to be met before the second instalment is released by the Commission.

1.5.2. Added value of EU involvement

By helping the country overcome the economic shock caused by the regional instability and the Syrian refugee inflow the proposed MFA will contribute to promoting macroeconomic stability, economic reforms and political progress in the country. By complementing the resources made available by the international financial institutions, the EU and other donors, it will contribute to the overall effectiveness of the package of financial support provided by the international donor community.

The proposed programme will also strengthen the government's reform commitment and its aspiration towards closer relations with the EU. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal to the other countries in the region that the EU continues to support countries embarking on a clear path towards political reforms in times of economic difficulties.

1.5.3. Lessons learned from similar experiences in the past

Since 2004, a total of sixteen ex-post evaluations have been carried out on macro-financial assistance operations. These evaluations conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the recipient country. In most cases, MFA operations had a positive effect on the balance of payments of the beneficiary country and helped to relax their budgetary constraints. They also led to a somewhat higher economic growth.

1.5.4. Compatibility and possible synergy with other appropriate instruments

The EU is among the major donors of Jordan. Financial assistance committed for Jordan under the European Neighbourhood Partnership Instrument (ENPI) for the period 2007-2013 totalled EUR 589 million. This amount includes additional funding granted through the incentive-based SPRING programme. For the period 2014-2017, under the European Neighbourhood Instrument (ENI), EU's assistance to Jordan may range between a

minimum allocation of EUR 312 million and a maximum allocation of EUR 382 million. Jordan will benefit from the EU Regional Trust Fund, the ‘Madad fund, established in December 2014 to support Syria and the neighbouring countries, including Jordan. A first series of programmes for an amount of EUR 41 million financed by the Madad fund was approved in May 2015. These funds were complemented by financing from other EU instruments such as the Neighbourhood Investment Facility (NIF). In addition to bilateral cooperation programmes, Jordan also benefits from various regional programmes, mainly in the areas of rule of law and justice, environmental and climate protection, migration and culture and youth. Jordan also participates in initiatives open to all Neighbourhood partner countries such as: Erasmus+, which enhances mobility and co-operation with the EU in the field of higher education, TAIEX and SIGMA. Moreover, Jordan is also eligible for additional funds under several EU's thematic programmes and instruments, including the European Instrument for Democracy and Human Rights (EIDHR), the Non-State Actors and Local Authorities programme and the Migration and Asylum programme. The European Investment Bank is also supporting Jordan with a total amount of contracted loans of EUR 264.9 million since 2011, of which EUR 115.9 million in 2015. Lastly, the MFA-I of EUR 180 million approved in 2013 was satisfactorily implemented and fully disbursed in 2015.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. MFA does not provide a regular financial support nor is meant to support the economic and social development of the recipient countries. It is to be discontinued as soon as the country's external financial situation has been brought back into a sustainable path. Afterwards, regular EU cooperation assistance instruments are meant to take over.

MFA is also meant to be complementary to interventions by the international financial institutions, in particular the adjustment and reform programme to be supported by the IMF's Extended Fund Facility, and the Development Policy Loan of the World Bank.

1.6. Duration and financial impact

X Proposal/initiative of **limited duration**

X Proposal/initiative in effect for 2 and a half years from the entry into force of the Memorandum of Understanding, as stated in Article 1(4) of the Decision

X The financial impact is expected to occur from 2016 to 2019

1.7. Management mode(s) envisaged¹³

X **Direct management** by the Commission

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

This assistance is of macroeconomic nature and its design will be consistent with the future IMF-supported economic programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the IMF

¹³ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

programme and specific reform measures to be agreed with the Jordanian authorities in a Memorandum of Understanding (see also point 1.4.4).

2.2. Management and control system

2.2.1. Risk(s) identified

There are fiduciary, policy and political risks related to the proposed MFA operation.

There is a risk that the macro-financial assistance, which is not dedicated to specific expenses, could be used in a fraudulent way. In general terms, this risk is related to factors such as the quality of management systems in the central bank and the ministry of finance and the appropriatedness of internal and external audit capabilities.

Another key risk to the operation stems from the regional economic and political uncertainty, notably in Syria and Iraq, which has direct implications for the Jordanian economy. On the domestic front, the main risk is related to difficulties in the economic reform process and to existing macroeconomic vulnerabilities, including the fiscal implications of the Syrian refugees' inflow.

Jordan also remains vulnerable to possible new disruptions in the supply of imported natural gas from Egypt. Finally, there are risks stemming from a possible weakening of the European and global economic environment and an increase in international energy and food prices.

2.2.2. Control method(s) envisaged

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF), and by the European Court of Auditors.

2.2.3. Costs and benefits of controls and probable non-compliance rate

The basic costs for the Commission related to the methods of verification and control, as well as the cost of the Operational Assessment of financial and administrative circuits conducted prior to the operation, are described in Table 3.2.1. In addition, there are costs for the European Court of Auditors and of possible interventions of OLAF. The Operational Assessment not only helps assess risks of misuse of the funds but, as a collateral benefit, it provides useful information on the necessary reforms in the area of public finance management, which may be reflected in the policy conditionality of the operation. Regarding the probable non-compliance rate, the risk of non-compliance (in the form of non-repayment of the loan or misuse of the funds) is judged to be low, based on the experience with the MFA instrument since its creation.

2.3. Measures to prevent fraud and irregularities

To mitigate the risks of fraudulent use several measures will be taken:

First, the proposed legal basis for macro-financial assistance to Jordan includes a provision on fraud prevention measures. These measures will be elaborated further in the Loan Agreement, envisaging a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, mainly in the area of public finance management, with a view to strengthening efficiency, transparency and accountability.

Second, before the agreement on the Memorandum of Understanding is reached, the Commission services, with the support of duly mandated external experts, will carry out a new Operational Assessment of the financial circuits and administrative procedures at the Ministry of Finance and the Central Bank of Jordan, in order to fulfil the requirements of the Financial Regulation applicable to the general budget of the Union. This review will determine whether the framework for sound financial management of macro-financial assistance is sufficiently effective in Jordan by covering areas such as management structure and organisation, management and control of funds, security of IT systems, internal and external audit capacity as well as the independence of the central bank. In the light of this assessment, specific mechanisms applying to the management of the funds by the beneficiaries may be introduced in agreement with the national authorities. Also, the assistance will be paid to a dedicated account at the Central Bank of Jordan.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF) and the European Court of Auditors.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

01 03 02 – Macro-financial assistance

01 03 06 – Provisioning of the Guarantee Fund

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Description.....]	Diff./non-diff. ⁽¹⁴⁾	from EFTA countries ¹⁵	from candidate countries ¹⁶	from third countries	within the meaning of Article 18(1)(aa) of the Financial Regulation
4	01 03 02 Macro-financial assistance	Diff.	NO	NO	NO	NO
4	01 03 06 Provisioning of the Guarantee Fund	Diff.	NO	NO	NO	NO

01 03 06 – European Union guarantee for EU loans raised for macro-financial assistance to third countries: The Guarantee Fund for external actions has to be provisioned according to the Fund

¹⁴ Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.

¹⁵ EFTA: European Free Trade Association.

¹⁶ Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

Regulation¹⁷. In line with this Regulation, loans are based on the outstanding amount at the end of a year. The Guarantee Fund must be provisioned, using the appropriations under budget line 01 03 06 ("Provisioning of the Guarantee Fund"), at a rate of 9% of the total outstanding liabilities. The provisioning amount is calculated at the beginning of the year "n" as the difference between the target amount and the Fund's net assets at the end of the year "n-1". This provisioning amount is entered in year "n" into the "n+1" draft budget and effectively paid in one transaction at the beginning of the year "n+1" from the budget line "Provisioning of the Guarantee Fund" (budget line 01 03 06). As a result, 9% (i.e. a maximum of EUR 18 million) of the effectively disbursed amount will be considered in the target amount at the end of the year "n-1" for the calculation of the provisioning of the Fund.

New budget lines requested: not applicable.

¹⁷ Council Regulation (EC, EURATOM) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions, OJ L 145, 10.6.2009, p. 10.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework:

4

DG: ECFIN			Year 2016 ¹⁸	Year 2017	Year 2018	Year 2019	TOTAL
• Operational appropriations							
Budget line 01 03 06 Provisioning of the Guarantee Fund	Commitments	(1a)			9	9	18
	Payments	(2a)			9	9	18
Appropriations of an administrative nature financed from the envelope of specific programmes ¹⁹ (operational assessment and ex-post evaluation)							
Budget line 01 03 02	Commitments	(3)	0.10			0.15	0.25
	Payments	(3a)	0.10			0.15	0.25
TOTAL appropriations for DG ECFIN	Commitments	=1+1a+3	0.10		9	9.15	18.25
	Payments	=2+2a+3	0.10		9	9.15	18.25

• TOTAL operational appropriations	Commitments	(4)			9	9	18.00
	Payments	(5)			9	9	18.00
TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)	0.10			0.15	0.25

TOTAL appropriations under HEADING 4 of the multiannual financial framework	Commitments	=4+ 6	0.10		9	9.15	18.25
	Payments	=5+ 6	0.10		9	9.15	18.25

¹⁸ Year in which implementation of the proposal/initiative starts.

¹⁹ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (including administrative support lines, so-called former BA-lines), indirect research, direct research.

If more than one heading is affected by the proposal / initiative:

EUR million (to three decimal places)

Heading of multiannual financial framework:	5	‘Administrative expenditure’				
		Year 2016	Year 2017	Year 2018	Year 2019	TOTAL
DG: ECFIN						
• Human resources		0.039	0.029	0.021	0.016	0.105
• Other administrative expenditure		0.025	0.015			0.040
TOTAL DG ECFIN	Appropriations	0.064	0.044	0.021	0.016	0.145
TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.064	0.044	0.021	0.016	0.145

EUR million (to three decimal places)

		Year 2016 ²⁰	Year 2017	Year 2018	Year 2019	TOTAL
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0.164	0.044	9.021	9.166	18.395
	Payments	0.164	0.044	9.021	9.166	18.395

²⁰ Year in which implementation of the proposal starts.

3.2.2. *Estimated impact on operational appropriations*

- The proposal/initiative does not require the use of operational appropriations
- The proposal/initiative requires the use of operational appropriations, as explained below

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ↓	Type ²¹	Year 2016		Year 2017		Year 2018		Year 2019		TOTAL	
		Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total cost
SPECIFIC OBJECTIVE NO 3 ²²											
- Output 1	Operational assessment	1	0.10							1	0.10
- Output 2	Ex-post evaluation							1	0.15	1	0.15
- Output 3	Provisioning of the Guarantee Fund					1	9	1	9	2	18
Subtotal for specific objective No 1		1	0.10			1	9	2	9.15	4	18.25
TOTAL COST		1	0.10			1	9	2	9.15	4	18.25

²¹ Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

²² As described in point 1.4.2. ‘Specific objective(s)...’

3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

- The proposal/initiative does not require the use of appropriations of an administrative nature
- The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year 2016 ²³	Year 2017	Year 2018	Year 2019	Enter as many years as necessary to show the duration of the impact (see point 1.6)			TOTAL
HEADING 5 of the multiannual financial framework								
Human resources	0.039	0.029	0.021	0.016				0.105
Other administrative expenditure	0.025	0.015						0.040
Subtotal HEADING 5 of the multiannual financial framework	0.064	0.044	0.021	0.016				0.145
Outside HEADING 5²⁴ of the multiannual financial framework								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework								

TOTAL	0.064	0.044	0.021	0.016				0.145
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The administrative appropriations required will be met by the appropriations of the DG which are already assigned to management of the action and/or which have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

²³

Year in which implementation of the proposal/initiative starts.

²⁴

Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.3.2. Estimated requirements of human resources

- The proposal/initiative does not require the use of human resources.
- The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	Year 2016	Year 2017	Year 2018	Year 2019	Enter as many years as necessary to show the duration of the impact (see point 1.6)		
• Establishment plan posts (officials and temporary agents)							
01 01 01 01 (Headquarters and Commission's Representation Offices)	0.19	0.13	0.09	0.06			
XX 01 01 02 (Delegations)							
XX 01 05 01 (Indirect research)							
10 01 05 01 (Direct research)							
• External personnel (in Full Time Equivalent unit: FTE)²⁵							
XX 01 02 01 (CA, INT, SNE from the "global envelope")	0.20	0.16	0.12	0.10			
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)							
XX 01 04 yy²⁶	- at Headquarters						
	- in delegations						
XX 01 05 02 (CA, SNE, INT - Indirect research)							
10 01 05 02 (CA, SNE, INT - Direct research)							
Other budget lines (specify)							
TOTAL	0.39	0.29	0.21	0.16			

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Cost of the staff needed is estimated on the basis of 30% of the annual expenditure for an AD5 - AD 12 grade official.

Description of tasks to be carried out:

Officials and temporary staff	<p>HoU: Supervise and manage the operation, agree on the Loan Agreement review reports, lead missions and assess progress with conditionality compliance.</p> <p>Desk: Prepare the Memorandum of Understanding and the loan agreement, liaise with the authorities and the IFIs, liaise with external experts for the operational assessment and ex-post evaluation, conduct review missions, prepare Commission staff reports and Commission procedures related to the management of the assistance.</p>
External staff	N/A

²⁵ CA= Contract Agent; LA = Local Agent; SNE = Seconded National Expert; INT = agency staff ('Intérimaire'); JED= 'Jeune Expert en Délégation' (Young Experts in Delegations).

²⁶ Sub-ceiling for external staff covered by operational appropriations (former "BA" lines).

3.2.4. *Compatibility with the current multiannual financial framework*

- X Proposal/initiative is compatible with the current multiannual financial framework.

3.2.5. *Third-party contributions*

- X The proposal/initiative does not provide for co-financing by third parties.

3.3. Estimated impact on revenue

- X Proposal/initiative has no financial impact on revenue.