



Macro-financial assistance for the Hashemite Kingdom of Jordan

Loan from the European Union of up to EUR 180 million

MEMORANDUM OF UNDERSTANDING

between

**THE EUROPEAN UNION
as Lender**

AND

**THE HASHEMITE KINGDOM OF JORDAN
as Borrower**

and

**THE CENTRAL BANK OF JORDAN
as Agent to the Borrower**

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND THE HASHEMITE KINGDOM OF JORDAN

1. On 11 December 2013, the European Parliament and the Council of the European Union adopted a decision to make available to the Hashemite Kingdom of Jordan (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 180 million in the form of a loan (Decision n° 1351/2013/EU¹). The assistance shall be made available for two years starting from the first day after the entry into force of the Memorandum of Understanding (hereinafter MoU).

The objective of this assistance is to ease the Country’s external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the Country face the current external and financial vulnerabilities stemming largely from the negative shocks to the energy sector and economic and political developments in the region, including the impact of the Syrian refugee crisis. This assistance from the European Union is complementary to the resources provided to the Country by International Financial Institutions and bilateral donors in support of the authorities’ economic stabilisation and reform programme.

2. The assistance shall be disbursed in two instalments. The principal amount of the first and second instalments shall be of up to EUR 100 million and up to EUR 80 million, respectively.
3. The first instalment of the assistance shall be disbursed upon the signature and entry into force of this MoU and the corresponding Loan Facility Agreement. The disbursement of the second instalment shall not take place earlier than three months after the release of the first instalment.
4. The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of the current Stand-By Arrangement (SBA) agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”), as well as upon a positive assessment by the European Commission (hereafter referred to as “the Commission”) on behalf of the European Union, of progress made with respect to economic stabilisation and structural reforms.

The macroeconomic and structural adjustment policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the Country’s authorities and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the national authorities and IMF staff, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

¹ OJ L 341, 18.12.2013, p. 4.

Prior to the release of the second instalment by the Commission, the Country's authorities shall provide the Commission with Compliance Statements on the fulfilment of the conditionality attached to the instalment in question. Upon receipt of compliance statements by the authorities of the Country, the Commission will evaluate, in co-operation with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms to improve public finance management, strengthen the social safety net, raise labour participation rates (notably among women) and promote investment and entrepreneurship. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of negative evaluation, the Commission may withhold the disbursement of the second instalment until the Country proves the compliance with the conditionality. If necessary, Annex I may be amended upon mutual agreement, following the completion of the respective approval processes of the EU and Jordan.

The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel the assistance in case the financing needs of the Country have decreased fundamentally during the period of disbursement compared to the initial projections.

5. The Commission shall transfer the instalments to a euro account of the Ministry of Finance of the Country (hereafter referred to as "the Recipient") with the Central Bank of Jordan (hereafter referred to as "the Agent"). Given the substantial budgetary financing needs faced by the Country, the proceeds of the loan may be used to finance the Country's budget.
6. During the implementation of the assistance, the Country's authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
7. With a view to preventing irregularities and fraud related to the use of the assistance and ensuring the protection of the EU's financial interests, the relevant provisions of the Loan Facility Agreement will apply, notably those regarding regular checks by Jordan on the use of EU assistance, and checks and audits performed by the Commission and the Court of Auditors. Also, the provisions of the Loan Facility Agreement on early repayment will apply in case it has been established that Jordan has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.
8. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of EU macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
9. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supply all necessary information to the Commission, represented by its

own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.

10. The authorities will ensure, as appropriate, close co-operation with the European Commission.
11. This assistance is implemented on the understanding that the authorities of the Country will continue to respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and to guarantee the respect for human rights.
12. Annexes I and II are an integral part of this MoU.
13. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the European Union

European Commission
Directorate General for
Economic and Financial Affairs
CHAR 11/248, B-1049, Brussels

For the Hashemite Kingdom of Jordan

Ministry of Finance
Minister of Finance
King Hussein Street, no. 67
P.O. Box 85 Amman 11118 Jordan

For the Central Bank of Jordan

Central Bank of Jordan
Governor of the Central Bank of Jordan
King Hussein Street, no.62
P.O Box: 37 Amman 11118, Jordan

14. The present MoU shall enter into force following the signature by the European Union and the Hashemite Kingdom of Jordan.
15. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

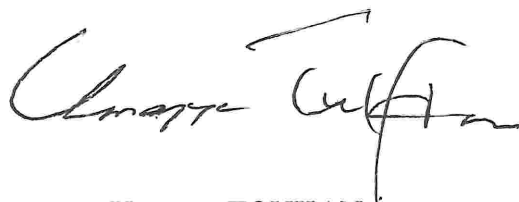
Done in Brussels on 18 March 2014 in four originals in the English language, two originals for the European Union, one for the Hashemite Kingdom of Jordan and one for the Central Bank of Jordan.

FOR THE EUROPEAN UNION

A handwritten signature in black ink, appearing to read 'Olli Rehn'.

Olli REHN
Vice-President of the European
Commission for Economic and Monetary
Affairs and the Euro

FOR THE HASHEMITE KINGDOM
OF JORDAN

A handwritten signature in black ink, appearing to read 'Umayya Toukan'.

Umayya TOUKAN
Minister of Finance

FOR THE CENTRAL BANK
OF JORDAN

A handwritten signature in black ink, appearing to read 'Ziad Fariz'.

Ziad FARIZ
Governor

ANNEX I

STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the second instalment, the authorities of the Hashemite Kingdom of Jordan are committed to have accomplished the following actions:

PUBLIC FINANCIAL MANAGEMENT AND TAX REFORM

Condition 1

With a view to improving economic governance and public sector transparency, the government will implement a new Audit Bureau law. The new law will strengthen the role of the Audit Bureau as a Supreme Audit Institution in Jordan, ensure its financial independence in line with INTOSAI standards and ensure an appropriate separation between internal and external audit.

Condition 2

With a view to strengthening internal financial control while ensuring a phased withdrawal of the Audit Bureau from pre-audit activities, the number and performance of Internal Control Units (ICUs) will be substantially increased through a combination of training and increased staffing, consistent with the multi-annual training plan developed jointly by the Ministry of Finance and the Audit Bureau. Work should focus on the 43 budget entities that were assessed by the Audit Bureau in its 2011 review, which found that 20 of these entities had functioning ICUs, 9 had ICUs with significant deficiencies and 14 had no ICUs. During 2013, training efforts will cover a first batch of 25 budgetary entities.

Compliance with this measure will be assessed on the basis of a review, to be completed by the Audit Bureau, of progress achieved in the 25 budgetary entities covered by the 2013 training plan.

The EU will continue supporting efforts for training the staff of ICUs through the three institutional building instruments (Twinning, TAIEX and SIGMA).

Condition 3

The government will submit to Parliament a new income tax law with a view to increasing tax collection and the progressivity of personal income taxation. In particular, the new tax law will lower significantly the exempted threshold and increase top tax rates for individuals and corporates.

SOCIAL SAFETY NET AND LABOUR MARKET REFORM

Condition 4

With a view to protecting vulnerable groups in the context of the reform of energy subsidies while supporting fiscal consolidation, the government will take steps to better target the social safety net.

In particular, the government will make substantial progress towards establishing a National Unified Registry (NUR) combining in a single database all potential beneficiaries of

government social assistance programmes. The NUR will consolidate existing databases (e.g., for pensioners, NAF beneficiaries, military, etc.) while developing a database for private and informal sector workers at the Incomes and Sales Tax Department (ISTD) of the Ministry of Finance. In order to develop and manage the NUR, an appropriately staffed technical unit will be established at the ISTD.

Condition 5

With a view to protecting the unemployed and increasing women's participation in the labour market, an Unemployment Fund and Maternity Fund were created in 2011 on a temporary basis. The aim now is to make them operational on a permanent basis through the adoption by the Parliament of the new social security law. In case the latter adoption is delayed, the government will ensure the continuous operation of these two Funds, if necessary through the submission of separate legislation.

INVESTMENT FRAMEWORK AND TRADE

Condition 6

With a view to supporting public and private investment as well as job creation, the government will submit to Parliament a new law on Public Private Partnerships (PPPs) in line with international best practices.

The law will clarify the new central institution which will have responsibility for dealing with PPP matters and will provide it with a clear mandate and staff.

Condition 7

The government will take steps to improve the institutional and regulatory framework for investment in Jordan, including by addressing the recommendations made by the OECD in the context of Jordan's application for adherence to the OECD Declaration on International Investment and Multinational Enterprises.

To this end, a new Investment Law will be implemented, once adopted by Parliament and published in the official Gazette, and substantial progress will be made towards the adoption by Cabinet of the relevant by-laws. The aim will be to unify the regulatory framework for investment, streamline the system of investment incentives and ease statutory restrictions to foreign ownership. The new legislation will also establish the principle of one-stop shop to facilitate company registration and project licencing.

Condition 8

As part of the preparations for the launching of negotiations between Jordan and the EU on the Agreement on Conformity Assessment and Acceptance (ACAA) of industrial products, the government will implement the amended Standards and Metrology Law, once adopted by Parliament and published in the official Gazette. This law will define, inter alia, new obligations of economic operators regarding product safety and will establish a new conformity assessment and market surveillance regime in Jordan consistent with EU practices. Also, in preparation of the launching of the ACAA negotiations, a substantial number of the 41 envisaged horizontal instructions and vertical regulations, which are related to the three priority sectors that will be covered by the ACAA (toys, electrical equipment and

gas appliances), will be adopted by the Board of Directors of the Jordan Standards and Metrology Organization (JSMO).

ENERGY SECTOR REFORM

Condition 9

With a view to implementing the 'Law on Renewable Energy and Energy Efficiency' of April 2012, as well as the relevant by-laws, in particular the By-law of Energy Efficiency of October 2012, the government will adopt a National Energy Efficiency Action Plan. These measures should help reduce energy dependency and diversify energy sources.

ANNEX II

MONITORING SYSTEM

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be provided to the Commission by the relevant authorities, on a quarterly basis.

1. Monitoring of macro-economic and financial developments and policies

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- External public debt, including external arrears (quarterly)
- External public debt service payments (quarterly)
- Domestic public debt and debt service (quarterly)

b) Information submitted by the Central Bank of Jordan

- Consumer and producer prices (monthly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)
- Interbank interest rates at benchmark maturities (monthly)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- Foreign trade (monthly)
- International reserve position (monthly)
- Capital ratio aggregates of the domestic banking sector regulated by the CBJ (semi-annual)
- Nominal bilateral exchange rates against the euro and the USD (monthly)

2. Monitoring of structural policies:

- Progress reports on reforms in the areas specified in Annex I (quarterly)