Macro-financial assistance for the Hashemite Kingdom of Jordan
Loan from the European Union of up to EUR 200 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

[ ] 2017
MEMORANDUM OF UNDERSTANDING
BETWEEN THE EUROPEAN UNION
AND THE HASHEMITE KINGDOM OF JORDAN

1. On 14 December 2016, 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 200 million in the form of a loan (Decision n° 2371/EU1). The assistance shall be made available for two and a half 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 it address the current external and financial vulnerabilities stemming largely from the regional instability and adverse economic and political developments in neighbouring countries, 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 of EUR 100 million each.

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, conditional upon a satisfactory track record of implementation of the current Extended Fund Facility programme agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”).

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

The disbursement of the second instalment of the assistance will be conditional on both a satisfactory track record of implementation of the current Extended Fund Facility programme agreed between the Country and the IMF and on 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 a number of macroeconomic and structural adjustment measures.

The macroeconomic and structural adjustment policy conditions attached to this assistance are based on the economic stabilisation and reform programme adopted 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 O.J. L352/18 of 23/12/2016
Prior to the release of the second instalment by the Commission, the Country’s authorities shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to the instalment in question. Upon receipt of the compliance statement, 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; enhance tax policies; strengthen the social safety net; promote employment (notably among Syrian refugees); and improve efficiency in the water sector. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of a 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 will 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 supplying 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
Directorate General for Economic and Financial Affairs
CHAR 11/248, B-1049, Brussels

For the Hashemite Kingdom of Jordan
Ministry of Finance
HE the 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
HE the 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 Hashemite Kingdom of Jordan and the European Union.

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 19/09/2017 in four originals in the English language.

HASHEMITE KINGDOM OF JORDAN as Borrower
Represented by
the MINISTRY OF FINANCE
Represented by

H.E. Omar Malhas
Minister of Finance

the CENTRAL BANK OF JORDAN as agent to the borrower
Represented by

H.E. Dr. Ziad Fariz
Governor of the Central Bank of Jordan

EUROPEAN UNION as Lender
Represented by
the EUROPEAN COMMISSION
Represented by

H.E. Pierre Moscovici
Member of the European Commission
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 FINANCE MANAGEMENT

Condition 1

With a view to enhancing the sustainability of public debt, the government will adopt and publish an updated Medium-Term Public Debt Management Strategy covering both the central government and its agencies. In this context, it will make substantial progress in re-organising the Public Debt Directorate at the Ministry of Finance, including by building capacity in the middle and front offices and ensuring appropriate staffing. It will also take steps to further develop the domestic market for public securities (notably the secondary market for bonds), including by better disseminating pre-trade information such as auction calendars displaying all relevant information (including the type of securities to be issued), increasing price transparency and developing benchmark debt instruments.

Condition 2

As part of its plan to gradually disengage from pre-audit activities, the Audit Bureau will withdraw from 20 additional internal control units (ICUs) established in Ministries, Departments and Agencies. The withdrawal process will focus on those ICUs that are certified by the Audit Bureau to be ready to handle pre-audit independently without Audit Bureau’s involvement.

Condition 3

Consistent with the Audit Bureau’s medium-term Strategic Plan 2016-2020 which aims at strengthening its performance, capacity and independence, the Cabinet of Ministers will submit to the Parliament revisions to the law on the Audit Bureau, in line with INTOSAI standards and building on the recommendations of SIGMA.

Condition 4

With a view to increasing transparency and objectivity in public procurement, the government will establish an independent appeals system applicable to at least the three main existing procurement entities (the Government Tenders Department, the Joint Procurement Directorate, the General Supplies Department). Under this new appeals system, complaints from bidders will be reviewed, at first instance, by a specialised unit within the procuring entity whose members must not participate in the tendering process and, at second instance, through a specialised Tribunal. For each appeals case, competent Tribunal members will be selected in equal measure by the complainant and the procuring entity from a closed list of persons. The persons on this list will be selected and nominated through a process ensuring their qualification, independence and integrity. The procurement entities will be excluded from the selection of the persons in the above list.
TAX REFORM

Condition 5
The government will submit to Parliament a new income tax law with a view to broadening the tax base, increasing tax collection and improving the equity aspects of the tax. In particular, the law will lower significantly the exempted threshold under the personal income tax and will increase progressivity within the rate structure.

Condition 6
With a view to increasing revenue collection, reducing allocative distortions and increasing transparency, the government will adopt and submit to Parliament a new framework entailing a gradual reduction of exemptions in the general sales tax and customs duties. As a first step, the budget law for 2018 submitted to Parliament will substantially reduce exemptions on these two taxes and will include an estimate of the tax revenue foregone due to the existing exemptions.

SOCIAL SAFETY NET

Condition 7
With a view to protecting vulnerable groups while supporting fiscal consolidation, the government will take steps to better target the social safety net. In particular, it will make substantial progress towards establishing an operational National Unified Registry (NUR), building on the project on the matter financed by the Deauville Partnership’s Transition Fund. The NUR will act as a mechanism for automated data exchange between the National Aid Fund (NAF) and other participating institutions or government entities, such as the Social Security Corporation, the Pension Roll and the Income and Sales Tax Department of the Ministry of Finance, and the Civil Status and Passport Department.

Condition 8
The Department of Statistics of Jordan will launch a new Household Expenditure and Income Survey and, as part of this exercise, will produce updated poverty indicators, including an updated official estimate of the poverty line. Sampling for the Household Expenditure and Income Survey will allow representative data separately for Jordanians and other nationalities, including Syrians.

EMPLOYMENT AND TRADE

Condition 9
Consistent with the understandings in the EU-Jordan Partnership Priorities and its annexed Compact, the government will take measures to facilitate the access of Syrian refugees to formal employment opportunities in the 18 Special Economic Zones (SEZ) that benefit from the agreement of 19 July 2016 between the EU and Jordan on rules of origin relaxation in the context of the Syrian refugee crisis. Compliance with this condition will be assessed on the basis of: i) the stock of active work permits issued to Syrian refugees formally working for companies located in the 18 SEZ benefitting from the relaxation of rules of origin; ii) the total stock of active work permits issued to Syrian refugees working in Jordan; iii) the amount of social security contributions paid by Syrian refugees working in the 18 Special Economic Zones; and iv) the amount of the value added tax (VAT) reliefs granted to Syrian refugees working in the 18 SEZ benefitting from the relaxation of rules of origin.
Zones and in the rest of the country. The assessment of progress in employing Syrian refugees will also take into account the monitoring reports to be produced by the International Labour Organisation on the number of Syrian refugees employed in Jordan and on their working conditions.

**Condition 10**

As part of efforts to increase employment opportunities for Syrian refugees, the government, through the Vocational Training Centres (VTC) under the Ministry of Labour, will extend access of Syrian refugees to existing **vocational training** programmes. In addition, the Department of Statistics of Jordan will launch, as part of its quarterly Labour Force Survey, a survey of the educational qualifications, professional profiles and technical skills of the Syrian refugees living in Jordan. The survey results will provide representative data separately for Jordanians, Syrians and other nationalities.

**WATER SECTOR REFORM**

**Condition 11**

In order to make the financial situation of the Water Authority of Jordan sustainable, thereby also supporting fiscal consolidation efforts, the Ministry of Water and Irrigation will adopt an updated **Action Plan to Reduce Water Sector Losses**, including both revenue enhancing and cost reduction measures. It will also launch and complete the tender for the selection of the contractors for a project aimed at reducing energy consumption in major pumping stations, as laid out in the **Action Plan for the Implementation of Energy Efficiency and Renewable Energy Policy for the Water Sector**.
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)
   • Consumer and producer prices (monthly)
   • Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the Central Bank of Jordan
   • Interbank interest rates at benchmark maturities (monthly)
   • Banks’ overall lending rate (monthly)
   • Balance-of-payments and main components (quarterly)
   • International reserve position (monthly)
   • 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)