Annex

Action Fiche for Jordan

1. IDENTIFICATION

Title	Support to the Public Financial Management Reform Programme (ENPI/2010/21932)
Total cost	EU contribution: EUR 65 million
Aid method / Method of implementation	Sector Budget Support (SBS) Centralised management
DAC-code	15120 Public Sector Financial Management

2. RATIONALE AND COUNTRY CONTEXT

2.1. Country context and rationale

2.1.1. Economic situation

The Jordanian economy showed signs of progressive recovery in 2010, after being negatively affected in 2009 by the global economic downturn, when growth declined from 7.3% in 2008 to 2.3% in 2009, combined with a shortfall of external financing the overall budget deficit rose in 2009 to 7.3% of GDP (including grants), its highest level in two decades. Despite a gradual GDP growth recovery in 2010 to 3.1% from 2.3% in 2009, recovery was slower than expected.

In an effort to counter lower revenues and a high deficit, the Government of Jordan adopted responsive stringent austerity measures throughout 2010 by cutting expenditures and increasing revenues, which resulted in an improved fiscal position in 2010. Spending consolidation measures in force since 2010 include: a constant wage bill as a share of GDP, a freeze in public sector recruitment except for the Education, Health and Social Development Ministries, and reduction and prioritisation of capital spending. Moreover food and fuel subsidies were reduced in 2010, although they were again raised in 2011 following domestic protests linked to inflation (inflation was 5% in 2010, and 4.4% in first quarter of 2011) and increasing unemployment (12.5% in 2010, 13.1% in 2011).

Consolidation measures helped to reduce the budget deficit in 2010 from 7.3% of GDP to 5.5% of GDP. Moreover the Government of Jordan set itself to reduce the budget by 1% each year until it reaches safe levels, at about 3% of GDP. Debt was maintained under the 60% of GDP legislative ceiling, although it increased overall. Jordan also managed to issue 750 million USD in Euro bonds in 2010. Inflation rose to 5% in 2010 compared to -0.7% in 2009, largely driven by food and fuel inflation. Jordan remains highly exposed to inflation due to international fuel and food prices, both are likely to remain the main sources of inflationary pressures in 2011. Inflation in the first quarter of 2011 was 4.4%.

In light of the political unrest in the region and local protests since the beginning of 2011, the new government adopted a series of measures aimed at controlling inflation to respond to citizens' concerns and introduced a number of political reforms. In addition, the Government of Jordan established a National Dialogue Committee aimed at seeking consensus for the political reform process and revising the electoral and political parties' laws. An Economic National Dialogue Committee was also tasked with formulating concrete proposals to improve the business climate and review fiscal policy.

Furthermore, the Government of Jordan revised its spending priorities, adopted economic relief packages, and reversed some foreseen spending cuts in the general budget for 2011. Although these are not expected by the Government of Jordan to have an important impact on the budget deficit, it is very likely that these combined with the cost of subsidies will remain important costs reducing fiscal space.

The regional and domestic unrest had a negative impact on Jordan's economy so far, the full extent of which remains to be seen. Thus far, the impact of regional and domestic unrest has meant a 6% decrease of tourism revenues in Jordan (tourism accounts for 11-14% of GDP). Moreover 2011 has also seen the unexpected cut off of Egypt's supply of natural gas to Jordan, thus costing Jordan about 3 million Jordanian Dinars (JOD) per day, or a total yearly estimated cost of 1.2 billion JOD in 2011 (2% of GDP). Jordan depends on Egyptian gas to generate 80% of its electricity; both countries are currently renegotiating the original gas supply price and contract.

The International Monetary Fund (IMF) estimates that the medium-term outlook is subject to uncertainly related to international commodity prices, and maintains that Jordan's recovery is closely linked to the recovery of Jordan's neighbouring countries, in particular the Gulf Co-operation Council countries.

The monetary stance remains a strong point and appropriate according to the IMF. Safeguarding the exchange rate peg remains the lynchpin for the maintenance of financial stability according to the IMF. The peg of the JOD to the USD has served the country well by anchoring inflation expectations and providing stability.

2.2. Sector context: policies and challenges

(1) **Sector context**: The key Public Financial Management (PFM) organisations and stakeholders are: the Ministry of Finance, with policy and treasury responsibilities; the Income and Sales Tax Directorate, with income and sales tax responsibilities; the General budget Department, with budgeting responsibilities; the Audit Bureau, with external audit responsibilities and currently also involved in internal audit functions; and the Anti-Corruption Commission (ACC) an independent civil body which deals mainly with anti financial corruption in the public and private sectors. The Income and Sales Tax Directorate and the General budget Department report directly to the Ministry of Finance, but operate semi autonomously.

Analysis of the PFM sector policy and strategy confirms that a well-defined policy and strategy framework that responds to the challenges Jordan faces is under implementation. Thus, the sector policy and strategy is considered appropriate for the provision of Sector Budget Support (SBS). Considerable progress in public financial management reform has been achieved in recent years. The stakeholders' Strategic and Action Plans for 2010–2013 were prepared and discussed with the identification and formulation missions of the present SBS and provide evidence of national ownership and commitment to the policy and strategy. The Strategic Plans present clear and coherent statements of policy and strategy that are consistent with the *National Agenda 2006–2015* and the European Commission sector policies and principles.

Concurrent with the development of the *National Agenda* in 2005, the Government launched its aggressive financial reform agenda focused on its identification of its highest priority needs, including tax policy and administration reform, development of a medium-term fiscal framework (MTFF) process, preparation of medium-term expenditure framework (MTEF), installation of a Government Financial Management Information System, introduction and implementation of results-oriented budgeting, reform of commitment control and internal control processes, and institution of a treasury single account (TSA). There has been on-going support from the European Union (EU), the United States Agency for International Development (USAID), *Gesellschaft für Internationale Zusammenarbeit* (GIZ), the IMF, the World Bank (WB) and others to assist in this massive reform effort. Assessments by the EU, IMF, WB and USAID all confirm that significant progress has been made on all of these fronts.

Below are the main features of the stakeholders' strategies and their accompanying action plans for the period 2010–2013/2014 specifying what the Government aims to achieve in the PFM sector and how.

- ***Ministry of Finance*** *Strategic Plan 2010–2013* objectives: draw up public financial policy to enhance financial stability and encourage economic growth; reduce public indebtedness; improve the efficiency of control of public funds; promote the level of transparency and disclosure; improve the level of services; and enhance the capacities of Ministry of Finance staff.

- ***Income and Sales Tax Directorate*** *Strategic Plan 2010–2014* objectives: increase revenues; raise efficiency in managing the tax system to ensure that every taxpayer complies with tax obligations; raise voluntary compliance of taxpayers by increasing tax awareness, improving transparency, and providing quality taxpayer services; develop staff capability; and develop modern and effective information technology to raise efficiency in managing tax system processes.

- ***General Budget Department***. This department has undertaken the most sweeping and challenging set of reforms in recent years. The *General budget Department Strategic Plan 2010–2013* includes among its major responsibilities: prepare the general budget; develop manpower tables, allocate funds to implement policy in accordance with national priorities; evaluate Government of Jordan's programs, projects, and activities; monitor the execution of the budget; and prepare regular analytical reports.

- ***Audit Bureau*** *Strategic Plan 2010–2014* includes the Audit Bureau's duties: submit annual report to the House of Representatives; monitor revenues, expenditures, trust accounts, advances, loans, settlements and warehouses; ensure spending of public funds is legal and effective among others.

- The ***Anti-Corruption Commission*** *(ACC)* began its work in 2008. The EU supported the drafting of the ACC Strategy 2008-2012. The strategy comprises several components such as strengthening the capacity of the ACC, simplifying the business environment, reforming the public sector, training of public officials, awareness raising and reviewing corruption legislation, and an action plan to implement the strategy has been made.

(2) **Sector budget and its medium-term financial perspectives.** Unlike traditional sectors such as education or transportation where the budget provides an important indication of the commitment of the sector to its declared priorities, advancing PFM reform by modernising audit systems for instance does not require a large proportion of the budget. The best indicator of any government's commitment to PFM reform is its positive track record in making progress against stated goals; Government of Jordan meets this test.

(3) **Co-ordination process.** Regular meetings are held between the EU Delegation and the stakeholder ministries and directorates – Ministry of Finance, General budget Department, Income and Sales Tax Directorate, and the Audit Bureau – to discuss progress and priorities in PFM reform. As well as with donors, particularly USAID, GIZ, IMF and World Bank.

(4) **Institutional capacity.** The organisational arrangements within which PFM is conducted in Jordan operate fairly well. Recommendations by the September 2009 IMF-WB report, *Advancing the PFM Reform Agenda* to modify organisation structures were taken on board. However limitations persist in areas where additional staff is required, as hiring in the public sector has been frozen since 2010 as a fiscal consolidation measure to reduce the budget deficit.

(5) **Performance monitoring.** All stakeholders are accustomed to using performance measurement as a means for determining disbursement of European Union (SBS) funds. Ministry of Finance developed a new element of its strategic plan entitled "Overarching Financial Management Reform for Jordan's Public Financial Management 2010–2013" which includes tables of performance indicators covering Ministry of Finance, General budget Department, Income and Sales Tax Directorate, and the Audit Bureau that will be monitored based on the Public Expenditure and Financial Accountability (PEFA) methodology. Individual action plans of the stakeholders also include performance indicators to measure results. The Ministry of Finance Progress Report on the strategic plan implementation produced in 2010 shall continue on a yearly basis throughout the present programme.

(6) **Macroeconomic framework.** A stability-oriented macroeconomic policy is under implementation in Jordan and is expected to be in place during the SBS implementation according to the IMF Article IV *Aide-Mémoire* for 2010 Staff Visit Discussions of 20 December 2010.

The IMF had initially forecast a higher economic recovery to about 3.5% growth in 2010 (from 2.3% in 2009); the actual growth rate was lower at 3.1% in 2010. Nonetheless the IMF expects economic recovery to continue progressively to reach an estimated 4.5% growth then re-adjusted to an estimated 3.5% growth in 2011 due to regional political unrest. Fiscal prudence and credible monetary management, combined with strong supervision and regulation of the financial sector are expected to provide a solid platform for gradual recovery to continue in 2011.

However, the near-term outlook is subject to considerable uncertainty related to the impact of world commodity price developments, the full economic extent of regional and domestic unrest which remains to be seen, and the pace of recovery of Gulf Co-operation Council countries, which account for a large share of Jordan's Foreign Direct Investment, remittances, grants, and tourism receipts.

The IMF reported that the Jordanian banking system has been little affected by the global financial crisis, and remains sound because of prudent financial oversight and proactive supervision by the Central Bank of Jordan which shielded banks. Moreover the monetary stance is considered appropriate and banks' macro prudential indicators strong.

(7) **Public Financial Management.** The 2010 PFM annual monitoring report and the latest PFM SBS assessment of December 2010 submitted by the Delegation, reviewed all the latest PFM assessment studies and concluded that the PFM system in Jordan is sufficiently well-functioning to ensure the proper utilisation of donor funds, including SBS.

The September 2009 IMF-World Bank report, *Advancing the PFM Reform Agenda*, updated in January 2011 noted Jordan's commitment to the reforms and the considerable progress made in advancing PFM reforms, actively supported by donors. The trend is very positive as several of the recommendations of the IMF-World Bank report are currently being implemented as part of the reform process. The main improvements observed by the SBS missions and IMF-World Bank report of January 2011 include: strengthened forecasting mechanisms including the adoption of a MTFF, MTEF; results-oriented budgeting; extended application of Treasury Single Account; adoption of Special Data Dissemination Standards; formalised cash-flow mechanism; a new Chart of Accounts applied; and expanded Government Financial Management Information System. In addition the Government of Jordan embarked on significant reform efforts to modernise the internal and external audit of public funds in accordance with international standards. Weaknesses were mainly identified in some institutional and technical aspects of the budget preparation and management, and in capacity constraints in the Ministry of Finance and General budget Department.

The *PEFA assessment* of 2007 gave a positive assessment of Jordan's performance noting notable progress in terms of planning, controlling, monitoring and securing greater transparency of fiscal policies, budget implementation and debt management. A new PEFA assessment is on-going in 2011 financed by the European Union. Once finalised the assessment shall be submitted to the PEFA Secretariat for review, prior to its publication.

2.3. Eligibility for budget support

Jordan continues to be eligible for SBS and is also expected to maintain these conditions during its implementation. Furthermore, Jordan is a strong candidate for SBS, as it has already received and successfully managed SBS. The risk of non-utilisation of SBS is very limited. The conclusions on the three eligibility criteria for budget support follow:

(1) The analysis of the PFM sector policy and strategy confirms that a well-defined policy and strategy that responds to the challenges faced by Jordan is under implementation. The stakeholders prepared sound Strategic and Action Plans for 2010-2013/2014. Considerable progress in PFM reform has been achieved in recent years. Thus, the sector policy is considered appropriate for the provision of SBS.

(2) It follows from the first eligibility criterion that Jordan also meets the legal requirement on the PFM eligibility criterion to support budget support as indicated in Article 15(2)(e) of the European Neighbourhood and Partnership Instrument (ENPI).

(3) The analysis of the macroeconomic framework and the macroeconomic perspective provided by the IMF in the *Aide-Mémoire* for the Staff Visit Discussions of 20 December 2010 shows that the macroeconomic policy in Jordan is conducive to maintaining macroeconomic stability and is not expected to put at risk sector objectives. Thus, the macroeconomic policy provides an appropriate basis for providing SBS to Jordan.

The eligibility criteria mentioned above are also general reform benchmarks of the present programme and will continue to be reviewed throughout the programme duration. An EU Delegation analysis of end 2010 confirmed these were being met.

2.4. Lessons learnt

Experience of the previous SBS for PFM was positive, as evidenced by positive evaluations of that programme and results-oriented monitoring (ROM) of 2010. The Government of Jordan has demonstrated commitment to PFM reforms and included several assessments' and monitoring recommendations in its strategic plans, and is already implementing several recommended reforms. However assessments also found that personnel policies must support the considerable changes required in human capacities, and organisational charts should be redesigned to allow for the most efficient use of process and staff, however such reforms have been slower than expected. Assessments and monitoring results found that donor financial and technical assistance was vital to many of the reforms to date, especially with regards to large projects like Government Financial Management Information System, results-oriented budgeting, and MTEF. Continuing assistance is necessary to further the reform process, especially during the current political and economic context.

Moreover, during the present political and economic situation it is important to continue to support further advance in the reform process and to consolidate and strengthen PFM results achieved so far.

2.5. Complementary actions

EU-funded actions in the area of PFM include:

(a) PFM programme (Budget Support-2007- EUR 43.14 million);

(b) a twinning project "Institutional strengthening of the Audit Bureau of the Hashemite Kingdom of Jordan" under the "Programme of Support to the Implementation of the EU-Jordan Association Agreement" (SAAP), which was completed in June 2008, but is relevant to this SBS as recommendations provided to the Audit Bureau then are included as specific reform benchmarks;

(c) Support for Improvement in Governance and Management (SIGMA) support missions for audit reform,

(d) sectoral budget support tied to a number of sectoral Government strategic reform initiatives;

(e) technical assistance in medium-term budget reforms to the Ministry of Education; and

(f) a twinning contract (EUR 1.5 million) aimed at supporting the Jordanian ACC to implement its strategy in line with international and EU best practices will be signed with an EU Member States in the second quarter of 2011 for 24 months.

USAID has provided and continues to provide resident advisors to the Ministry of Finance, General budget Department, and Income and Sales Tax Directorate, working extensively in helping establish the macro-fiscal unit, tax policy and administration reforms, results-oriented budgeting, and Government Financial Management Information System. The IMF Fiscal Affairs Department and the Middle East Regional Technical Assistance Centre (METAC) in Lebanon have provided technical assistance on treasury issues including treasury single account, cash management, and commitment control; the development of a public debt management strategy; and the Income and Sales Tax Directorate re-organization and operations to strengthen capacity and effectiveness. The World Bank provided a Development Policy Loan for USD 300 million to Jordan in October 2009 in support of Government's efforts to address economic and social consequences of the current global financial crisis and economic slowdown while improving resilience of the economy to adverse shocks. It has also supported a range of reform initiatives such as a joint expenditure review, developing macro-fiscal modelling capacities, a MTEF and policy development. The IMF and the World Bank provided technical assistance through a joint assessment of the PFM system in August 2009 and another in January 2011; a joint assessment was also provided in July 2004. GIZ has also supported the macro-fiscal unit and budget reforms including MTEF, sectoral expenditure review, budget classification, chart of accounts, and results-oriented budgeting. GIZ is currently providing advice to the Ministry of Finance on performance management and internal audit.

2.6. Donor co-ordination

The Ministry of Planning and International Co-operation created Government-Donor Co-ordination Working Groups in 10 priority sectors in 2007, which meet as needed. In 2011 a specific donor co-ordination group was established for PFM, led by the Ministry of Planning and International Co-operation and the Ministry of Finance in order to provide a platform which once fully operational and efficient can serve to further enhance aid effectiveness. The co-ordination group is consistent with the Paris Declaration on Aid Effectiveness of 2005 and the Accra Agenda for Action of 2008 to which Jordan is a participating country, and is consistent with EU commitments to aid effectiveness.

3. DESCRIPTION

3.1. Objectives

The overall objective of this programme is to support Jordan's public financial management reform strategy to achieve long-term fiscal sustainability.

3.2. Expected results and main activities

The expected results of this programme include the following:

- Improved debt management;
- Enhanced government leadership in donor co-ordination;
- Improved public expenditure management and improved allocation of funds;
- Improved tax collection;
- Improved expenditure rationalisation;
- Improved public access to key fiscal information and transparency;
- Improved corruption prevention.

In order to achieve the above-mentioned results, the indicative list of activities could include the following:

- Preparing a debt management strategy;
- Establishing an effective mechanism for leading donor co-ordination on PFM aid;
- Adopt measures to improve budget preparation consistent with the new budget preparation schedule, including a credible Medium Term Fiscal Framework (MTFF);
- Strengthening the role of the Audit Bureau;
- Establishing new procedures for writing off old, uncollectible tax debt;

- Implementing the stop-filer program;
- Implementing the audit tracking system for large and medium taxpayers;
- Using risk-based audit selection techniques;
- Introduce a more effective cash-flow mechanism;
- Strengthening the internal control and audit functions exercised by all general government agencies;
- Strengthen the comprehensiveness of information included in budget documentation;
- Strengthen corruption prevention in the area of Public Private Partnerships.

In order to achieve the above- mentioned results, the following first activities have been agreed:

- Complete a new Public Expenditure and Financial Accountability Assessment (PEFA) report.
- Training on Public Financial Management Assessment based on the PEFA framework.

3.3. Risks and assumptions

The main risks are that**:**

(a) the economic recovery deteriorates sufficiently to disrupt the government's ability to support continued reforms;

(b) the stakeholders are unable to improve their analytical capability sufficiently to utilize effectively the new technologies and process reforms put in place;

(c) Ministry of Finance leadership does not continue, putting the commitment to reform and its schedule in jeopardy;

(d) weak capacities in line ministries undermine PFM reform.

The main assumptions are that: (i) Ministry of Finance, Income and Sales Tax Directorate, General budget Department, and Audit Bureau will continue to implement their Strategic and Action Plans for 2010–2013/2014 on schedule; and (ii) USAID, GIZ, EU, World Bank, IMF and other technical and financial assistance critical to the reform progress will continue, and (iii) PFM reform remains high on the Government's agenda.

3.4. Crosscutting Issues

This programme contributes to improve governance and accountability by supporting the stakeholders' strategic and action plans. Many of the proposed conditionalities will tie directly to accountability (external audit, commitment control, internal control, tax administration), transparency (MTEF, debt management strategy), and anticorruption (external audit, tax administration, control of public expenditure).

3.5. Stakeholders

The main stakeholders are: the Ministry of Finance, Income and Sales Tax Directorate, General budget Department, Audit Bureau and Anti-Corruption Commission.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The programme will be implemented through centralised management mode. All contracts and payments will be centralised.

4.2. Procurement and grant award procedures

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

4.3. Indicative budget and calendar

The total allocation for this programme is EUR 65 million.

The allocation for budget support is estimated at EUR 64 million. Four variable tranches are foreseen.

The allocation for complementary support measures for the programme is estimated at EUR 0.4 million for a PEFA study and capacity building activities and at EUR 0.6 million for evaluation, audit and communication and visibility.

The operational duration foreseen is 48 months from the signature of the Financing Agreement.

Indicative Budget (EUR million)

Components	**Budget**
Budget Support	64.0
PEFA study; Capacity building activities (training)	0.4
Evaluation, audit, communication and visibility (service contracts)	0.6
Total	65.0

4.4. Performance monitoring and criteria for disbursement

The performance evaluation preceding the disbursement of the tranches will be undertaken by the European Commission through monitoring missions. Monitoring missions will be mobilised twice-yearly for the disbursement of the tranches. In each year, the first mission will review that the programme is on track ensuring that a common understanding exists among stakeholders of the processes and time-frame of actions required to meet the specific conditions and the second mission will undertake the detailed performance monitoring of the general and specific conditions.

4.5. Evaluation and audit

The European Commission will carry out a final evaluation of the programme. The European Commission may also carry out a mid-term evaluation if deemed necessary. Both evaluations will be carried out by independent consultants recruited directly by the Commission under specific Terms of Reference.

4.6. Communication and visibility

The EU Delegation will monitor that the EU visibility guidelines are respected, ensuring adequate perception of EU efforts among the key stakeholders and beneficiaries. Activities will be defined in close collaboration between the Government and the Delegation. It is envisaged that workshops might be arranged for discussions between stakeholders on the progress of programme implementation.