Ref. Ares(2017)5327369 - 31/10/2017

Ex-post Evaluation of Macro-Financial Assistance to Jordan

ECFIN 2016 019/D

Final Report

Client: Directorate-General for Economic and Financial Affairs (DG ECFIN)

Rotterdam, 31 October 2017

Ex-post Evaluation of Macro-Financial Assistance to Jordan

ECFIN 2016 019/D

Final Report

Client: Directorate-General for Economic and Financial Affairs (DG ECFIN)

Rotterdam, 31 October 2017

Abstract

This report presents the Ex-post Evaluation of the Macro-Financial Assistance (MFA) provided to Jordan in 2015. Faced with an increasingly challenging external environment, the Government of Jordan requested the MFA from the European Union in December 2012. The financial assistance of EUR 180 million in the form of a medium-term concessional loan was disbursed in two tranches in 2015. Based on a multiple of quantitative and qualitative methods and an extensive stakeholder consultation, the evaluation concluded that (i) the MFA, combined with a simultaneous IMF SBA programme, effectively contributed to the timely stabilization and the medium-term sustainability of Jordan's external financial and fiscal positions; (ii) the favourable terms of the MFA compared to market-based alternatives implied substantial fiscal savings; (iii) apart from the primary financial gains, EU added-value was most prominent in reinforcing the promotion of structural reforms in several EU priority areas and in addressing short and medium-term social challenges. Furthermore, while we assess the MFA operation as highly relevant (in terms of its objectives, financial terms and conditionality) and coherent with other EU instruments, we consider that the implementation process could be improved so as to avoid unnecessary delays.

Abstrait

Ce rapport présente l'évaluation ex-post de l'assistance macro-financière (AMF) fournie à la Jordanie en 2015. Confronté à un environnement extérieur de plus en plus difficile, le gouvernement de la Jordanie a fait une demande d'AMF à l'Union européenne en décembre 2012. L'aide financière de 180 millions d'euros sous la forme d'emprunts concessionnels à moyen terme a été décaissée en deux tranches en 2015. Sur la base des plusieurs méthodes quantitatives et qualitatives et une large consultation des parties prenantes, l'évaluation a conclu que (i) l'AMF, combinée avec un programme SBA simultané du FMI, a contribué de manière efficace à la stabilisation et à la viabilité à moyen terme des positions financières et fiscales extérieures de la Jordanie ; (ii) les conditions favorables de l'AMF par rapport aux alternatives du marché impliquaient des économies budgétaires substantielles ; (iii) en plus des principaux gains financiers, la valeur ajoutée de l'UE a été la plus importante dans le renforcement de la promotion des réformes structurelles dans plusieurs domaines prioritaires de l'UE et dans la résolution des défis sociaux à court et à moyen terme. Par ailleurs, même si nous estimons que l'opération d'AMF est hautement pertinente et cohérente avec d'autres instruments de l'UE, nous considérons que le processus de mise en œuvre pourrait être amélioré afin d'éviter des retards inutiles.

Abbreviations

ACAA	Agreement on Conformity Assessment and Acceptance
BOP	Balance of Payments
CBJ	Central Bank of Jordan
CoM	Council of Ministers
DCFTA	Deep and Comprehensive Free Trade Area
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG NEAR	Directorate-General for Neighbourhood and Enlargement Negotiations
DPL	Development Policy Loan
DTF	Distance to Frontier
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EFF	Extended Fund Facility
EFTA	European Free Trade Association
EIB	European Investment Bank
EMBI	JPMorgan Emerging Market Bond Index
EMRC	Energy and Minerals Regulatory Commission
ENI	European Neighbourhood Instrument
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EPC	Executive Privatization Commission
EQ	Evaluation question
EU	European Union
EUR	EURO
FDI	Foreign Direct Investment
FTA	Free Trade Area
FX	Foreign exchange
GAFTA	Greater Arab Free Trade Agreement
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GCFF	Global Concessional Financing Facility
GGDC	Good Governance Development Contract
GoJ	Government of Jordan
ICU	Internal Control Unit
IEG	Independent Evaluation Group (World Bank)
IFI	International Financial Institution
IMF	International Monetary Fund
INTOSAI	International Standards for Supreme Audit Institutions
ISG	Inter-Service Steering Group
ISTD	Income and Sales Tax Department
JD	Jordanian Dinar
JIB	Jordan Investment Board
JIC	Jordanian Investment Commission
JSMO	Jordan Standards and Metrology Organization
LFA	Loan Facility Agreement
LNG	Liquefied natural gas
LPG	Liquefied petroleum gas

MDAs	Ministries, Departments and Agencies
MFA	Macro-financial assistance
MIT	Ministry of Industry and Trade
MOF	Ministry of Finance
MOE	Ministry of Energy
MOPIC	Ministry of Planning and International Cooperation
MoU	Memorandum of Understanding
NEEAP	National Energy Efficiency Action Plan
NEPCO	National Electric Power Company
NIP	National Indicative Programme
NGO	Non-governmental organisation
NUR	National Unified Register
OECD	Organisation for Economic Co-operation and Development (OECD)
PFM	Public Finance Management
PPIAF	Public - Private Infrastructure Advisory Facility
PPP	Public Private Partnership
SPRING	Support for Partnership, Reform and Inclusive Growth
SBA	Stand-By Arrangement
SRC	Sector Reform Contract
SSC	Social Security Corporation
SSF	Single Support Framework
SWD	Staff Working Document
TOR	Terms of Reference
UNPD	United Nations Population Division
US	United States
USD	US Dollar
WAJ	Water Authority of Jordan

Executive summary

This report presents the results of the Ex-post Evaluation of the Macro-Financial Assistance (MFA) provided to Jordan in 2015. The evaluation was commissioned by the Directorate-General for Economic and Financial Affairs (DG ECFIN). The work was undertaken by a consortium of Ecorys, OGResearch, WiiW and NIESR with inputs from a local expert based in Jordan.

Objective and scope of the evaluation

The objective of this ex-post evaluation was: i) to analyse the impact of the MFA on the economy of Jordan, and in particular on the sustainability of its external position; and ii) to assess the added value of the European Union's (EU) intervention. The evaluation aims to draw conclusions whether the ex-ante considerations determining the design and terms of the MFA operation were appropriate, taking into account the economic, political and institutional context and whether the outcome of the programme met the objectives. The evaluation mandate for this assignment was set out in the Terms-of-Reference (TOR), ECFIN 2016 019/D.

The evaluation covers three main areas of analysis: i) the economic impact of the MFA operation on the economy of Jordan; ii) the value added of the EU intervention; and iii) the sustainability of the country's external position as a result of the assistance. These three areas have been assessed along the following criteria: relevance, effectiveness, efficiency, EU added-value, and coherence with other EU policies. The TOR specified two additional topics assessing the impact of the MFA on the social sector and the public debt sustainability.

The method of the evaluation

The methodological approach for evaluating the MFA operation is guided by the Commission's Better Regulation Guidelines[1] and the Guidelines for the Ex-Post Evaluation of Macro-Financial Assistance Operations (2015)[2] provided a specific methodological framework.

The evaluation is based on a mixed-methods approach. A variety of quantitative and qualitative techniques have been used together with extensive stakeholder consultation to build the evidence base for the evaluation and to provide a basis for triangulation of results: (i) a review of relevant literature and official documentation; (ii) semi-structured interviews with key informants during two missions in Jordan, missions to Brussels and Washington DC, including consultations with Government officials of Jordan, European Commission (EC) officials, International Financial Institutions (IFIs) / multilateral development banks (IMF, World Bank) and key development partners; (iii) focus group discussions with parliamentarians, academics, non-governmental organisations and financial sector officials; (iv) desk-based analyses of macroeconomic outcomes and impacts of structural reforms; (v) a version of the Delphi method to gain insight into the value added of the MFA operation; (vi) quantitative economic analysis based on the IMF's debt sustainability analysis framework and (vii) quantitative analysis of the potential fiscal savings associated with the favourable terms of the MFA compared to market based alternatives.

Despite the multiple approaches, data limitation in certain areas (e.g. social indicators, grants), as well as relatively short time series (MFA was disbursed in 2015) provided challenges in terms of impact measurement. Furthermore, the rapidly changing external environment and the fact that the MFA was provided in parallel with a Stand-By Arrangement (SBA) from the International Monetary Fund (IMF) and

1 See http://ec.europa.eu/smart-regulation/guidelines/docs/swd_br_guidelines_en.pdf.
2 See http://ec.europa.eu/dgs/economy_finance/procurement_grants/calls_for_tender/2015/015d/annex4-methodological_orientations_en.pdf.

other international financing instruments encumbered the disentangling of the different factors behind the developments. Despite these difficulties, we believe that the conclusions are well founded.

Background to the MFA operation

From the early 2010s, a series of adverse shocks seriously weakened Jordan's external and fiscal position, which had already been undermined by the fall-out from the Global Financial Crisis. Export performance has remained weak after the financial crisis, as a result of both the slowdown in external demand (related mostly to regional turbulences) and lower potash prices, which constitute a key export good of the country. Tourism receipts as well as remittances and foreign direct investment inflows have fallen drastically due to the ongoing regional unrest induced by the Arab Spring. Finally, the conflict in Syria resulted in an intensifying number of refugees flowing into the country, resulting in a sharp increase in import demand. Furthermore, the repeated sabotage of the Arab Gas Pipeline caused severe disruptions in the natural gas flows from Egypt, pushing Jordan to import fuel products at a time when oil prices were high.

These factors had a marked effect on Jordan's economic growth performance. After a period of stable and dynamic growth (2004-2008), the real GDP growth rate fell from 7.2 percent in 2008 to 2.3 percent in 2010 and remained sluggish ever since. The adverse shocks also resulted in a sharp increase of the current account deficit (to 15 percent of GDP in 2012), a steady decrease of the central bank's reserves (falling by one third in 2012), and, consequently, put the external debt of the country on an increasing trajectory.

To avert a full-scale escalation of the looming balance-of-payments crisis the Jordanian authorities started negotiations on a Stand-by Arrangement (SBA) with the IMF in the first half of 2012. In August 2012, the IMF approved a USD 2 billion (800 percent of quota) SBA for Jordan for a period of three years. The approved level of IMF support was 'exceptional' in the sense that it was significantly above Jordan's allowed quota. The primary reason for this was that Jordan faced exceptional external financing pressures.

The challenging external environment was also reflected in a worsening fiscal position. The two most important factors were the mounting costs of the fuel price subsidies and the Government's initial reluctance to increase the retail electricity prices in face of the widespread social tensions. Adding to these drivers was the influx of the refugees from Syria, which elevated social expenditures. These factors culminated in the steady increase of the budget deficit (reaching 9 percent of GDP in 2012) and of the public debt (surpassing 80 percent in 2012).

The MFA operation

In addition to the IMF's SBA, the Government of Jordan requested a MFA from the European Union in December 2012. The EC responded in April 2013 with proposing financial assistance of EUR 180 million in medium-term MFA loans with a maximum maturity of 15 years, and the European Parliament and the Council approved it in December 2013. The Memorandum of Understanding (MoU) and the Loan Facility Agreement were signed in March 2014.

The overall and specific objectives of the MFA are stated in the legislative Decision of the European Parliament and the Council of 11 December 2013. The general objective of the MFA (which for the purpose of this evaluation we also call a primary objective) was "to support the restoration of a sustainable external financing situation for Jordan, thereby supporting its economic and social development". The specific (or secondary) objectives of the MFA were "to strengthen the efficiency, transparency and accountability of the public finance management systems in Jordan and promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation."

The macroeconomic and structural adjustment policy conditions attached to the MFA were based on the economic stabilisation and reform programme endorsed by the Jordanian authorities and were consistent with the agreements reached by the country with the IMF. The first instalment of EUR 100 million was conditional on the SBA being on track as well as on the fulfilment of the general political pre-conditions and was disbursed in February 2015. The second instalment of EUR 80 million was subject to the fulfilment of a set of nine structural reform conditions specified in the MoU:

Reform areas	Structural reform condition
Public Financial Management and Tax Reform	1. Implementation of a new Audit Bureau law
	2. Increasing the number of internal control units
	3. Submission of a new income tax law to Parliament
Social Safety Net and Labour Market Reform	4. Establish a National Unified Registry
	5. Make Unemployment Fund and Maternity Fund permanent
Investment Framework and Trade	6.Submit a new Public Private Partnership law to Parliament
	7. Improve the regulatory framework for investment
	8. Implementation of the amended law on Standardization and Metrology
Energy Sector Reform	9. Adopt a National Energy Efficiency Action Plan

In June 2015, the EC concluded that the Jordanian authorities achieved substantial progress in eight of the nine structural conditions, and only failed to meet the condition of the adoption of the Audit Bureau law. The IMF also confirmed a positive development in Jordan's reforms in mid-2015. Therefore in August 2015, the Commission decided to grant a waiver on the Audit Bureau law condition and disbursed the second tranche in October 2015.

Findings and conclusions of the evaluation

RELEVANCE

Relevance of the objectives: The objectives of the MFA were very relevant for the economic challenges facing Jordan in 2013. Financial support was justified to help Jordan pursuing its fiscal consolidation and external adjustment efforts in the context of the IMF programme. Only some of the structural reform areas were directly relevant for tackling the current economic challenges (e.g. the Energy Sector Reform), but all were nonetheless important to strengthen medium-term fiscal sustainability, to ease social strains, as well as to promote sustainable growth.

Relevance of the financing envelope and the form of the assistance: The full amount of EUR 180 million was disbursed in the form of a medium-term loan, whose financial terms (i.e. low interest rate, long maturity and extensive grace period) were rather generous compared with the market terms or IMF's SBA at the time of the disbursement, generating substantial fiscal savings for the Government of Jordan. Furthermore, the MFA was part of a broader package of EC support to Jordan, which also included several budget support operations in the form of grants.

Relevance of the structural conditions: Only some of the conditions were directly relevant to the main economic challenges of the Jordanian economy at the inception of the assistance. In that respect, the National Energy Efficiency Action Plan and the Income Tax Law were perhaps the most relevant, while the Audit Bureau and Internal Control Units the least. From the nine MFA conditions included in the MoU, four can be assessed as relevant or very relevant at the moment of preparation of the MFA in 2013 in relation to the primary economic objectives, while the other five were relevant in terms of and consistent with the structural reform objectives.

EFFECTIVENESS

Effectiveness in improving the external financial conditions: The combined financial assistance from the IMF and the EU contributed substantially to the effective stabilization of Jordan's external financial position. Given the superior magnitude of the SBA assistance most of this beneficial effect came from the SBA programme by the IMF. A large share of the positive effect came through the confidence channel: an agreement with the IMF and EU reduced the risk premium for investors, and thus improved the financing conditions of Jordan's outstanding debt. Jordan's external financial situation is expected to remain on a sustainable path with gradually declining external debt to GDP ratios.

Effectiveness in fiscal consolidation: The Jordanian fiscal situation normalized in three years after the agreement with the IFIs. Since the support coming from the MFA was un-earmarked, it could efficiently and flexibly alleviate short-term fiscal pressures, and contribute to the fiscal consolidation path set forward in the IMF's SBA programme. However, as the consolidation was mostly built on the expenditure side, a decrease in subsidies in particular, fiscal policy continues to be characterized by serious structural challenges, most importantly in the revenue side of the budget. Income taxation, in particular, remains a major unresolved issue.

Effectiveness in structural reforms: The conditions agreed for the MFA appeared to have been achieved in a satisfactory manner before the disbursement of the second tranche in 2015 and without serious implementation deficits. The only real exception is the implementation of the Audit Bureau law (condition 1), for which a waiver was given. The direct effects of most of the MFA conditions on the implementation of the structural reform agenda have been limited, mainly because the conditions were also covered in other interventions and lacked technical support on the ground to help the authorities implement the reforms. Nevertheless, there have been indirect channels through which the MFA conditions have contributed to the implementation of the structural reforms, e.g. by reinforcing the reforms efforts of the IFIs or other donors.

EFFICIENCY

Efficiency of the design of the MFA operation: The MFA operation was closely coordinated with the IMF and some conditions were also closely linked to interventions by the World Bank. Therefore, the EC was able to draw on the expertise of these institutions and could keep the preparation cost of the MFA relatively low. The cross conditionality with other interventions also contributed to the efficiency of the operation, because the authorities could focus on a limited number of conditions.

Efficiency of the implementation of the MFA operation: In the first half of 2013, the Commission emphasised the need for quick action, given the severe balance of payments situation in Jordan, and aimed to disburse the first tranche of the MFA before the end of 2013. In the second half of 2013, the pressure to disburse quickly abated, due to some improvements in the external and fiscal balance. Mainly due to the Jordanian authorities' unfamiliarity with the MFA instrument, the discussions with the authorities on three of the conditions still continued till early 2014 and therefore caused delays. After signing the MoU in March 2014, the MFA disbursement was further delayed by six months reflecting Jordan's need to amend certain aspects of its public debt legislation. The first tranche was finally disbursed on 10 February 2015 and the second tranche on 15 October 2015. While the above mentioned factors all contributed to the delays, the implementation process of the MFA to Jordan is assessed to be lengthy.

EU ADDED-VALUE

EU added-value of the financing: The size of the MFA operation (EUR 180 million) corresponded to 0.5 percent of Jordan's GDP in 2015. The main attractiveness of the MFA loan versus alternative sources of financing was its highly concessional terms, which have generated significant fiscal savings for the Government of Jordan, thus increasing the financial value added of the instrument. The prospects of the MFA loan provided the Government an important breathing space at a time, when it was clear that substantial fiscal consolidation was needed and the social and political tensions were not conducive for a very rapid stabilisation path. The MFA and its un-earmarked nature allowed for a more gradual fiscal adjustment path.

Focus on social impact: While a number of international donor agencies focus on various social development areas in Jordan, the short and medium-term social aspects of the MFA are relatively unique with a high value added among general balance-of-payments and budget support instruments.

COHERENCE

Coherence of the operation: Since 2011 the EU has increased its financial support to Jordan in response to the conflict in Syria and the influx of refugees. The MFA was part of a comprehensive package of the EU support to Jordan. There was close coordination within the Commission and with the European External Action Service, especially between ECFIN and the EU Delegation in Amman when designing the MFA. As a result, a number of the MFA conditions built on what had been agreed and achieved in earlier EU budget support operations. The structural conditions of the MFA were also closely aligned with the EU priority reform areas: i) reinforcing the rule of law for enhanced accountability and equity in public service delivery; ii) employment and private sector development; and iii) renewable energy and energy efficiency.

SOCIAL IMPACT

Social impact of the operation: The MFA instrument, though by nature not explicitly targeting particular areas of social development, had featured certain design elements that were meant to help the Jordanian authorities to address some social and labour market challenges in the face of the refugee crisis and the fiscal consolidation. Such challenges included sustaining wage growth and social safety in the short-term and helping to reduce high unemployment, stimulate equality, inclusion and protection in the labour market, and reduce the poverty rate in the medium-term. The focus on the short and medium-term social aspects is a relatively unique characteristic of the MFA with a high value added.

Short-term social impact: The assistance in the short-term helped to sustain wage growth and employment, thus alleviating the social strife resulting from the refugee crisis and the ongoing fiscal consolidation. The beneficial short-term effect came mostly from the un-earmarked character of the assistance, through the relaxation of the overall budget constraint.

Medium-term social impact: The assistance has had to date only a marginal impact on the most relevant medium-term social indicators. However, the most promising MFA-relevant effects could come in the future from the permanent Unemployment Fund and the Maternity Fund. The Maternity Fund, in particular, is a unique initiative specific to the EU's long-term agenda in Jordan, and can provide an important contribution towards inclusive growth. Overall, the labour market reforms, as well as the measures aimed at improving the social safety net require more time to take effect.

PUBLIC DEBT SUSTAINABILITY

The combined financial assistance from the IMF and the EU has contributed significantly to returning Jordan's fiscal indebtedness to a manageable level. The positive effects of the joint assistance have worked both through the confidence channel (reduction in risk premium), and the real growth channel (upward revision of the growth outlook due to the alleviation of immediate pressures and increased potential growth on the account of the structural reforms). Combined with the IMF's SBA, the MFA helped the Jordanian public debt to stabilize in barely four years. The financing terms of the MFA were very favourable, and have contributed to significant fiscal savings (amounting to EUR 101 million, or 0.3 percent of GDP cumulatively) when compared to market based alternatives. The longer-term outlook for Jordan's public debt remains optimistic, assuming only moderate increases in the effective interest payments and a persistently tight fiscal stance.

RECENT DEVELOPMENTS

The EU's MFA coupled with the IMF's SBA has enabled Jordan to make substantial progress in strengthening its fiscal and external situation despite a very difficult regional environment. The widening current account deficit was reverted and the foreign exchange reserves replenished. However, new external shocks emerged after the MFA was disbursed. The closure of the Iraq trade route in July 2015 and the increasing cost of hosting Syrian refugees put external and public finances under renewed pressure, and also delayed fiscal consolidation needed to ensure the sustainability of Jordan's public debt. As a response, the country requested an Extended Fund Facility (EFF) for the period 2016-2019 from the IMF and a second MFA from the EU in March 2016, for covering its external financing needs in the medium term. In August 2016 the Executive Board of the IMF approved a three year extended arrangement under the EFF for Jordan for an amount of equivalent to SDR 515 million (USD 723 million) to further support the country's economic and financial reform programme. On 29 June 2016, the EC proposed a decision on a new programme for Jordan (MFA-II). The European Parliament and the Council adopted on 14 December 2016 the MFA-II for Jordan, and following negotiations between ECFIN staff and the Jordanian authorities, the MoU and the Loan Facility Agreement of the new operation were signed on 19 September 2017.

The information and views set out in this evaluation are those of the authors and do not necessarily reflect the official opinion of the Commission. The Commission does not guarantee the accuracy of the data included in this study. Neither the Commission nor any person acting on the Commission's behalf may be held responsible for the use which may be made of the information contained therein.

Résumé exécutif

Ce rapport présente l'évaluation ex-post de l'assistance macro-financière (AMF) fournie à la Jordanie en 2015. L'évaluation a été commanditée par la Direction Générale des Affaires Economiques et Financières (DG ECFIN). Le travail a été entrepris par un consortium composé d'Ecorys, OGResearch, WiiW et NIESR, avec les contributions d'un expert local basé en Jordanie.

Objectif et champ de l'évaluation

L'objectif de cette évaluation ex post est: i) d'analyser l'impact de l'AMF sur l'économie de la Jordanie, et en particulier sur la durabilité de sa position extérieure et ii) d'évaluer la valeur ajoutée de l'intervention de l'Union européenne (UE). L'évaluation vise à déterminer si les considérations ex ante déterminant la conception et les modalités de l'opération d'AMF étaient appropriées en tenant compte du contexte économique, politique et institutionnel et si les résultats du programme ont réalisé ces objectifs. Le mandat d'évaluation de cette mission a été défini dans les Termes de Référence (TdR) ECFIN 2016 019 / D.

L'évaluation couvre trois principaux domaines d'analyse: i) l'impact économique de l'opération AMF sur l'économie de la Jordanie ; ii) la valeur ajoutée de l'intervention de l'UE et iii) la durabilité de la position extérieure du pays à travers l'assistance reçue. Ces trois domaines ont été évalués en fonction des critères suivants: pertinence, efficacité, efficience, valeur ajoutée de l'UE et cohérence avec les autres politiques de l'UE. Les TdR ont précisé que deux domaines supplémentaires devaient être évalués : 1) l'impact de l'AMF sur le secteur social et 2) la viabilité de la dette publique.

La méthode de l'évaluation

L'approche méthodologique utilisé pour l'évaluation de l'opération AMF est guidée par les lignes directrices « Améliorer la règlementation » de la Commission européenne. Les Lignes Directrices pour l'Evaluation ex post des Opérations d'Assistance Macro-financière (2015) fournissent un cadre méthodologique spécifique.

L'évaluation est basée sur une approche mixte. Plusieurs méthodes quantitatives et qualitatives et une large consultation des parties prenantes ont été entreprises afin de collecter les données pour l'évaluation et la triangulation des résultats : (i) une revue de littérature et de la documentation officielle; (ii) entretiens semi-structurés avec des acteurs principaux lors de deux missions en Jordanie, des missions à Bruxelles et Washington DC, incluant des consultations avec des fonctionnaires jordaniens, des fonctionnaires de la Commission européenne, des institutions financières internationales (IFI) / banques multilatérales de développement (FMI, Banque mondiale) et les principaux partenaires de développement; (iii) des discussions ciblées avec des parlementaires, des universitaires, des organisations non gouvernementales et des responsables du secteur financier; (iv) des analyses documentaires des résultats macroéconomiques et des impacts des réformes structurelles; (v) l'utilisation d'une version de la méthode Delphi pour mieux comprendre la valeur ajoutée de l'opération AMF; (vi) analyse économique quantitative fondée sur le cadre d'analyse de la viabilité de la dette du FMI et (vii) analyse quantitative des économies fiscales potentielles associées aux conditions favorables de l'AMF par rapport aux alternatives du marché.

Malgré les différentes approches utilisées, la limitation des données dans certains domaines (par exemple indicateurs sociaux, subventions) ainsi que les délais relativement courts (l'AMF a été décaissée en 2015) ont posé des défis concernant la mesure de l'impact. En outre, l'évolution rapide de l'environnement extérieur et le fait que l'AMF ait été décaissée parallèlement avec un programme SBA du FMI et d'autres instruments de financement internationaux ont entravé le démêlage des différents facteurs à l'origine des développements. Malgré ces difficultés, nous considérons que nos conclusions sont bien fondées.

Contexte de l'opération AMF

À partir du début des années 2010, une série de chocs défavorables a sérieusement affaibli la position extérieure et budgétaire de la Jordanie, qui avait déjà été affectée par la crise financière mondiale. Les performances à l'exportation sont restées faibles après la crise financière, à cause de la diminution de la demande extérieure (liée principalement aux turbulences régionales) et de la baisse des prix de la potasse, qui constitue un bien d'exportation majeur du pays. Les recettes du tourisme ainsi que les envois de fonds et les investissements directs étrangers ont considérablement diminué en raison des troubles régionaux induits par le Printemps arabe. Enfin, le conflit en Syrie a entraîné un afflux croissant de réfugiés dans le pays, ce qui s'est traduit par une forte augmentation de la demande d'importation. En outre, le sabotage répété du gazoduc arabe a provoqué de graves perturbations dans les flux de gaz naturel en provenance de l'Egypte, poussant la Jordanie à importer des produits pétroliers à un moment où les prix du pétrole étaient élevés.

Ces facteurs ont eu un effet significatif sur la croissance économique de la Jordanie. Après une période de croissance stable et dynamique (2004-2008), le taux de croissance du PIB réel est tombé de 7,2% en 2008 à 2,3% en 2010 et est resté modeste depuis. Les chocs défavorables ont également entraîné une forte augmentation du déficit de la balance courante (à 15% du PIB en 2012), une diminution constante des réserves de la banque centrale (en baisse d'un tiers en 2012), et par conséquent plaçant la dette extérieure du pays sur une trajectoire croissante.

Pour éviter une escalade à grande échelle de la crise de la balance des paiements, les autorités jordaniennes ont entamé des négociations sur un accord SBE avec le FMI au premier semestre de 2012. En août 2012, le FMI a approuvé un SBE de 2 milliards USD (800% du quota) pour la Jordanie pour une période de trois ans. Le niveau d'appui approuvé par FMI était «exceptionnel» en ce sens qu'il dépassait de manière significative le quota autorisé par la Jordanie. La principale raison était que la Jordanie était confrontée à des pressions financières extérieures exceptionnelles.

L'environnement externe difficile s'est également traduit par une détérioration de la position budgétaire. Les deux facteurs les plus importants étaient les coûts croissants des subventions aux prix du carburant et la réticence initiale du gouvernement à augmenter les prix de l'électricité pour la population dans un contexte de tensions sociales. L'afflux de réfugiés en provenance de Syrie a été un autre facteur, à travers l'augmentation des dépenses sociales. Tous ces éléments ont contribué à l'augmentation constante du déficit budgétaire (atteignant 9% du PIB en 2012) et de la dette publique (dépassant 80% en 2012).

L´opération AMF

En plus du SBA du FMI, le gouvernement de la Jordanie a fait une demande d'AMF à l'Union européenne en décembre 2012. La CE a répondu en avril 2013 en proposant une aide financière de 180 millions d'EUR en emprunts AMF à moyen terme d'une échéance maximale de 15 ans, et le Parlement européen et le Conseil l'ont approuvée en décembre 2013. Le protocole d'accord et la convention d'emprunt ont été signés en mars 2014.

Les objectifs généraux et spécifiques de l'AMF sont énoncés dans la décision législative du Parlement européen et du Conseil du 11 décembre 2013. L'objectif général de l'AMF (que nous appelons aussi objectif principal dans le cadre de cette évaluation) était «de soutenir le rétablissement d'une situation de financement extérieur durable pour la Jordanie, appuyant ainsi son développement économique et social». Les objectifs spécifiques (ou secondaires) de l'AMF étaient de «renforcer l'efficacité, la transparence et la responsabilité des systèmes de gestion des finances publiques en Jordanie et de promouvoir des réformes structurelles visant à soutenir une croissance durable et inclusive, la création d'emplois et la consolidations budgétaire».

Les conditions de la politique d'ajustement macroéconomique et structurel liées à l'AMF étaient fondées sur le programme de stabilisation et de réforme économique approuvé par les autorités jordaniennes et étaient conformes aux accords conclus par le pays avec le FMI. Le décaissement de la première tranche de 100 millions d'euros était conditionnel à ce que le SBA soit sur la bonne voie ainsi qu'à la réalisation des conditions préalables de politique générale et a été effectué en février 2015. La deuxième tranche était conditionnelle à la réalisation d'un ensemble de neuf conditions de réforme structurelle spécifiées dans le protocole d'accord:

Domaines de réforme	Condition de réforme structurelle
Gestion des finances publiques et réforme fiscale	1. Mise en œuvre d'une nouvelle loi sur le Bureau d'audit
	2. Augmentation de le nombre d'unités de contrôle interne
	3. Présentation au Parlement d'une nouvelle loi sur l'impôt sur le revenu
Sécurité sociale et réforme du marché du travail	4. Établissement d'un registre national unifié
	5. Établissement des fonds de chômage et de maternité permanents
Cadre d'investissement et commerce	6. Présentation au Parlement d'une nouvelle loi sur le partenariat public-privé
	7. Amélioration du cadre réglementaire pour l'investissement
	8. Mise en œuvre de la loi sur la normalisation et la métrologie modifiée
Réforme du secteur énergétique	9. Adoption d'un plan d'action national sur l'efficacité énergétique

En juin 2015, la CE a conclu que les autorités jordaniennes avaient accompli des progrès substantiels dans huit des neuf conditions structurelles – seules les conditions de la mise en œuvre de la loi sur le Bureau d'audit n'étant pas remplies. Le FMI a également confirmé une évolution positive des réformes de la Jordanie à la mi-2015. Par conséquent, en août 2015, la Commission a décidé d'accorder une dérogation à la condition liée au bureau d´audit et a décaissé la deuxième tranche en octobre 2015.

Résultats et conclusions de l'évaluation

PERTINENCE

Pertinence des objectives: Les objectifs de l'AMF étaient très pertinents par rapport aux défis économiques auxquels la Jordanie est confrontée en 2013. L´appui financier était justifié afin d´aider la Jordanie à poursuivre la consolidation budgétaire et à appuyer les efforts d'ajustement externe dans le cadre du programme du FMI. Seuls certains domaines de la réforme structurelle étaient directement pertinents pour résoudre les défis économiques actuels (par exemple, la réforme du secteur de l'énergie), mais tous étaient néanmoins importants pour renforcer la viabilité budgétaire à moyen terme, pour soulager les tensions sociales, ainsi que pour promouvoir une croissance durable.

Pertinence de l'enveloppe de financement et de la forme de l'aide: Le montant total de 180 millions d'EUR a été décaissé sous la forme d'un emprunt concessionnel à moyen terme dont les conditions financières (faible taux d'intérêt, longue échéance et délai de grâce significatif) étaient plutôt généreuses par rapport aux conditions du marché ou par rapport au SBA du FMI au moment du décaissement, générant des économies budgétaires substantielles pour le gouvernement de la Jordanie. De plus, l'AMF faisait partie d'un ensemble d´appui de la CE plus large qui comprenait également plusieurs opérations d'appui budgétaire sous la forme de subventions.

Pertinence des conditions structurelles: Seules quelques-unes des conditions étaient directement liées aux principaux défis économiques de l'économie jordanienne au début de l'opération. À cet égard, les conditions liées au plan d'action national pour l'efficacité énergétique et à la loi sur l'impôt sur le revenu ont été peut-être les plus pertinentes tandis que celles liées au bureau d´audit et aux unités de contrôle interne ont été les moins pertinentes. Parmi les neuf conditions d´AMF incluses dans le protocole d´accord, quatre peuvent être jugées pertinentes ou très pertinentes au moment de la préparation de l'AMF en 2013 par rapport aux objectifs économiques primaires, tandis que les cinq autres étaient pertinentes par rapport et en cohérence avec les objectifs de réforme structurelle.

EFFICACITÉ

Efficacité dans l'amélioration des conditions financières externes: L'aide financière combinée du FMI et de l'UE a contribué de manière substantielle à la stabilisation effective de la position financière extérieure de la Jordanie. Compte tenu de l'ampleur de l'aide du SBA, la plupart de cet effet bénéfique provient du programme SBA du FMI. Une part importante de l'effet positif est basée sur un « canal de confiance » : les accords avec le FMI et l'UE ont réduit la prime de risque pour les investisseurs, améliorant ainsi les conditions de financement de la dette jordanienne. La situation financière extérieure de la Jordanie devrait rester sur une trajectoire soutenable avec des ratios de la dette extérieure au PIB qui diminuent progressivement.

Efficacité dans la consolidation fiscale: La situation budgétaire jordanienne s'est normalisée en trois ans après l'accord avec les Institutions Financières Internationales. Etant donné que l'aide provenant de l'AMF n'est pas ciblée, elle pourrait réduire de manière efficace et flexible les pressions budgétaires à court terme et contribuer à la consolidation budgétaire définie dans le programme SBA du FMI. Cependant, comme la consolidation était principalement axée sur les dépenses, en particulier sur la diminution des subventions, la politique budgétaire continue d'être caractérisée par d'importants défis structurels, surtout dans le volet des recettes du budget. L'impôt sur le revenu, en particulier, reste un problème majeur non résolu.

Efficacité dans les réformes structurelles: Les conditions convenues pour l'AMF semblent avoir été réalisées de manière satisfaisante avant le décaissement de la deuxième tranche en 2015 et sans déficit majeure dans la mise en œuvre. La seule exception réelle est la mise en œuvre de la loi sur le Bureau d'audit (condition 1), pour laquelle une dérogation a été accordée. Les effets directs de la plupart des conditions de l'AMF sur la mise en œuvre du programme de réformes structurelles ont été limités, principalement parce que les conditions étaient également couvertes dans d'autres interventions et manquaient d'appui technique sur le terrain pour aider les autorités à mettre en œuvre les réformes. Néanmoins, il y a eu des canaux indirects à travers lesquels les conditions de l'AMF ont contribué à la mise en œuvre des réformes structurelles, par exemple en renforçant les efforts de réforme des Institutions Financières Internationales ou d'autres donateurs.

EFFICIENCE

Efficience de la conception de l'opération AMF: L'opération AMF était étroitement coordonnée avec le FMI et certaines conditions étaient également liées aux interventions de la Banque mondiale. Par conséquent, la CE a fait appel à l'expertise de ces institutions et a pu maintenir le coût de préparation de l'AMF relativement bas. La conditionnalité croisée avec d'autres interventions a également contribué à l'efficacité de l'opération, car les autorités pouvaient se concentrer sur un nombre limité de conditions.

Efficience de la mise en œuvre de l'opération AMF: Au cours de la première moitié de 2013, la Commission a souligné la nécessité d'une action rapide, compte tenu de la situation grave de la balance des paiements en Jordanie, et avait l'intention de décaisser la première tranche de l'AMF avant la fin 2013. Au second semestre de 2013, la pression pour décaisser a rapidement diminué, en raison de certaines améliorations de l'équilibre extérieur et budgétaire. Principalement en raison du manque de familiarité des autorités jordaniennes avec l'instrument de l'AMF, les discussions avec le gouvernement sur trois de ses conditions se sont poursuivies jusqu'au début de 2014 et ont donc causé des retards. Apres la signature du protocole d´accord, le décaissement de l'AMF a encore été retardé de six mois en raison de la nécessité pour la Jordanie de modifier certains aspects de sa législation sur la dette publique. La première tranche a finalement été décaissée le 10 février 2015 et la deuxième tranche le 15 octobre 2015. Tandis que les facteurs susmentionnés ont tous contribué aux retards, le processus de mise en œuvre de l'AMF en Jordanie est jugé comme étant long.

VALEUR AJOUTÉE DE L'UE

Valeur ajoutée du financement de l'UE: La taille de l'opération AMF (180 millions d'euros) correspondait à 0,5% du PIB de la Jordanie en 2015. Le principal atout de l'AMF par rapport à des sources alternatives de financement a été son degré de concessionalité particulièrement favorable, qui a permis au gouvernement jordanien de réaliser d'importantes économies budgétaires, augmentant ainsi la valeur ajoutée financière de l'instrument. La perspective d'AMF future a fourni au gouvernement un répit important, alors qu'il était clair qu'une consolidation budgétaire substantielle était nécessaire et que les tensions sociales et politiques n'étaient pas propices à un processus de stabilisation très rapide. L'AMF et son caractère non ciblé ont permis une trajectoire d'ajustement budgétaire plus graduelle.

L'accent sur l'impact social: Alors qu'un certain nombre des donateurs internationaux se concentrent sur différents domaines de développement social en Jordanie, les aspects sociaux à court et à moyen terme de l'AMF sont relativement uniques avec une forte valeur ajoutée parmi les instruments d'appui à la balance des paiements et d'appui budgétaire général.

COHÉRENCE

Cohérence de l'opération: Depuis 2011, l'UE a augmenté son soutien financier à la Jordanie en réponse au conflit en Syrie et à l'afflux de réfugiés. L'AMF faisait partie d'un ensemble compréhensif d'appui de l'UE à la Jordanie. La coordination au sein de la Commission et avec le Service européen pour l'action extérieure était étroite, en particulier entre ECFIN et la délégation de l'UE à Amman lors de la conception de l'AMF. Par conséquence, un certain nombre de conditions de l'AMF se fondaient sur ce qui avait été convenu et réalisé lors des précédentes opérations d'appui budgétaire de l'UE. Les conditions structurelles de l'AMF étaient également étroitement alignées aux domaines de réforme prioritaires de l'UE: i) renforcement de l'état de droit pour accroitre la responsabilité et l'équité dans la prestation des services publics; ii) l'emploi et le développement du secteur privé; et iii) l'énergie renouvelable et l'efficacité énergétique.

IMPACT SOCIAL

Impact social de l'opération: L'instrument de l'AMF, bien que ne ciblant pas spécifiquement certains domaines du développement social, comportait certains éléments destinés à aider les autorités jordaniennes à relever certains défis sociaux et des défis du marché du travail face à la crise des réfugiés et à la consolidation budgétaire. Ces défis consistaient notamment à maintenir la croissance des salaires et de la sécurité sociale à court terme et à réduire le taux de chômage élevé, à stimuler l'égalité, l'inclusion et la protection sur le marché du travail et à réduire le taux de pauvreté à moyen terme. L'accent mis sur les aspects sociaux à court et à moyen terme est une caractéristique relativement unique de l'AMF avec une valeur ajoutée significative.

Impact social à court terme: A court terme, l'aide a contribué à soutenir la croissance des salaires et de l'emploi, atténuant ainsi les conflits sociaux résultant de la crise des réfugiés et de la consolidation budgétaire en cours. L'effet bénéfique à court terme provient principalement du caractère non ciblé de l'aide, à travers l'assouplissement de la contrainte budgétaire globale.

Impact social à moyen terme: L'assistance n'a eu à ce jour qu'un impact marginal sur les indicateurs sociaux à moyen terme les plus pertinents. Cependant, les effets les plus prometteurs de l'AMF pourraient venir du Fonds de Chômage et du Fonds de Maternité permanents. Le Fonds de la maternité, en particulier, est une initiative unique et spécifique au programme à long terme de l'UE en Jordanie, et peut apporter une contribution importante à la croissance inclusive. Dans l'ensemble, les réformes du marché du travail ainsi que les mesures visant à améliorer la sécurité sociale nécessitent plus de temps pour avoir un effet.

DURABILITÉ DE LA DETTE PUBLIQUE

L'aide financière combinée du FMI et de l'UE a contribué de manière significative à ramener l'endettement budgétaire de la Jordanie à un niveau gérable. Les effets positifs de l'aide conjointe ont été ressentis à la fois par le biais du « canal de confiance » (réduction de la prime de risque) et du canal de croissance réel (révision à la hausse des perspectives de croissance due à l'allègement des pressions immédiates, et croissance structurelle plus élevée grâce aux réformes structurelles). Combiné au SBA du FMI, l´AMF a contribué à une stabilisation de la dette publique jordanienne en à peine quatre ans. Les conditions de financement de l'AMF ont été très favorables et ont contribué à des économies budgétaires significatives (s'élevant à 101 millions d'euros, soit 0,3 pour cent du PIB cumulé) par rapport aux alternatives du marché. Les perspectives à long terme de la dette publique jordanienne demeurent optimistes, en supposant que les paiements d'intérêts réels ne progressent que modérément et que l'orientation budgétaire reste restrictive.

DEVELOPPEMENTS RÉCENTS

L'AMF de l'UE combinée au SBA du FMI a permis à la Jordanie de réaliser des progrès substantiels dans le renforcement de sa situation budgétaire et extérieure malgré un environnement régional très difficile. L'aggravation du déficit du compte courant a été inversée et les réserves de change ont été réapprovisionnées. Cependant, de nouveaux chocs externes sont apparus après le décaissement de l'AMF. La fermeture de la route commerciale iraquienne en juillet 2015 et le coût croissant de l'accueil des réfugiés syriens ont exercé une pression renouvelée sur les finances extérieures et publiques et ont retardé la consolidation budgétaire nécessaire pour assurer la viabilité de la dette publique jordanienne. En réponse, le pays a demandé une Facilité élargie de financement (FEF) pour la période 2016-2019 du FMI et une deuxième AMF de l'UE en mars 2016 pour couvrir ses besoins de financement extérieur à moyen terme. En août 2016, le Conseil d'administration du FMI a approuvé un accord prolongé de trois ans dans le cadre du FEF pour la Jordanie pour un montant équivalent à 515 millions de SDR (723 millions USD) pour soutenir le programme de réforme économique et financière du pays. Le 29 juin 2016, la CE a proposé une décision sur un nouveau programme pour la Jordanie (AMF-II). Le Parlement européen et le Conseil ont adopté le 14 décembre 2016 la MFA-II pour la Jordanie et, à la suite de négociations entre ECFIN et les autorités jordaniennes, le protocole d'accord et l´accord sur la facilité d´emprunt de la nouvelle opération ont été signés le 19 septembre 2017.

Table of contents

List of figures

List of tables

Preface

This Final Report is the last document to be submitted under the current assignment of the ex-post evaluation of the macro-financial assistance (MFA) operation to Jordan. Its main objective is to present the final results of the assignment. It contains a complete analysis of the data and information and gives a list of conclusions. It also presents a complete overview of the observed effects of the MFA operation in Jordan and answers the evaluation questions.

The first document, the so-called Inception Report was submitted on 23 February 2017 and presented to the Inter-Service Steering Group (ISG) on 13 March 2017. Based on the comments provided during this meeting, and the additional written comments on the consultation strategy sent to the Evaluation Team on 14 March 2017, the Team submitted a revised version of the Inception Report on 30 March 2017. That revised version addressed the main issues raised during the presentation of the Inception Report and presented an updated consultation strategy. Written comments on the revised Inception Report were received on 12 April. The revised Inception report was approved on 21 April.

The second document, the so-called Intermediate Report was submitted on 31 May and presented to the ISG on 14 June. The Team submitted a revised version of the Intermediate Report on 7 August in which they clarified how they have broadened the participation in the Delphi questionnaire and provided more details regarding the next steps in the consultation strategy. The Intermediate Report was approved on August 9, 2017.

The third document, the Draft Final Report was submitted on 31 August and presented to the ISG on 13 September. It followed the same structure as the two previous reports, and provided further analysis and triangulation, as well as a dedicated chapter to conclusions.

This Final Report is the fourth and last document. It is based on the Draft Final Report and takes into account all the comments and amendments made by the ISG.

1 Introduction

1.1 Objectives of the Evaluation

Under its Financial Regulation (article 30 point 4), the European Commission (EC) is legally obliged to evaluate its main programmes, including macro-financial assistance (MFA) operations. More specifically, Decision No 1351/2013/EU (OJ L 341, 18.12.2013, p. 4) says that: *"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."*

The Terms of Reference (TOR, ECFIN 2016 019/D) for this evaluation further specifies that the objective of the exercise is two-fold:

- to analyse the impact of MFA-I[3] on the economy of the beneficiary country, and in particular on the sustainability of its external position;
- to assess the added value of the European Union's (EU) intervention. In general terms, the evaluation should aim to draw lessons with respect to the EU's financial assistance:
  - whether the ex-ante considerations determining the design and terms of the operation were appropriate, taking due account of the economic, political and institutional context;
  - and whether the outcome of the programme met the objectives.

1.2 Scope of the evaluation

Our overall methodological approach for evaluating the MFA-I operation in Jordan is guided by the Commission's Better Regulation Guidelines.[4] The 'MFA Guidelines' from 2015[5] provide the specific methodological framework that shapes our approach for this evaluation. While the Guidelines include a number of indicative questions and sub-questions to be answered in each evaluation, the evaluation mandate for this specific assignment is set out in the TOR (ECFIN 2016 019/D). Hence the generic questions as presented by the Guidelines are adjusted to be fully in line with the TOR.

Based on the TOR and our takeaways from the kick-off meeting with EC stakeholders in Brussels, the evaluation largely cover three main areas of analysis:

Economic impact of the MFA assistance operation on the economy of Jordan; with and without the involvement of the International Monetary Fund (IMF). This concerns macroeconomic, fiscal and structural policy developments and achievements that can be linked to the provision of MFA (in conjunction to IMF assistance). The analysis should take into account both endogenous (design appropriateness, rationale and implicit objectives, efficiency in implementation etc.) and exogenous factors (e.g. political and global economic developments, dialogue of the recipient country with the IMF). Besides economic impact, we also assess the related social impact to specific programme conditions. It is important to bear in mind that the overall purpose of the MFA is to cover the external financing gaps arising from temporary and acute difficulties in the balance of payments. Through this function the MFA

[3] MFA-I refers to the first MFA package for Jordan that is the subject of this evaluation. The second MFA package, approved in December 2016 is not covered by this assignment.

[4] See: http://ec.europa.eu/smart-regulation/guidelines/toc_guide_en.htm.

[5] See: http://ec.europa.eu/dgs/economy_finance/procurement_grants/calls_for_tender/2015/015d/annex4-methodological_orientations_en.pdf.

helps the country to restore at more gradual pace its external and fiscal balance mitigating, in this way, the social impact of the economic adjustment.

Value added of EU intervention (stand-alone, and/or in combination with IMF intervention) provided through the operation. A second important aspect of the evaluation is to look at the net additional effects and benefits beyond what could have been achieved with other interventions by other international donors. The scope of the analysis then goes beyond the pure economic impact analysed in the first area, as issues related to complementarity and political support also play a role here. As Jordan also benefits from other EU financial assistance instruments, the coherence and alignment of the MFA-I support operation with these and the value added of introducing this additional instrument shall also be assessed.

Sustainability of the country's external position as a result of the assistance. The third focus of this evaluation is to see how the programme contributed to covering the external financing needs of Jordan in the context of a significant deterioration of the country's external accounts brought about by the negative shocks to the energy sector, the economic and political developments and conflicts.

These three areas of analysis have been assessed along the lines of the following key evaluation criteria: relevance, effectiveness, efficiency, EU added-value, and EU coherence. In following the TOR, we have added two additional topics: the impact of the MFA-I on the social sector and on public debt sustainability.

1.3 Structure of the Report

The remainder of this report is structured according to the Better Regulation Guidelines.[6]

- **Chapter 2** provides a background to the MFA-I operation in Jordan. It briefly outlines the political and economic context, the relationship between Jordan and the EU and the involvement of EU and other donors in providing support to Jordan;
- **Chapter 3** presents the main evaluation questions as proposed by the TOR;
- **Chapter 4** provides an overview on the methodology, describes the evaluation methods that were employed throughout the evaluation and the risks and assumptions behind the conclusions;
- **Chapter 5** discusses the situation in the core areas of interest (macroeconomic situation, fiscal policy, structural reforms and social policy);
- **Chapter 6** presents answers to the questions (and sub-questions) set up in the evaluation mandate and presented in Chapter 3 above;
- **Chapter 7** provides the conclusions of this MFA evaluation.

Additional to the main body text, we included several annexes to provide further details. Annexed to this Intermediate Report are the updated Consultation Strategy (Annex 1) and the list of interviewees from the field missions to Amman and Washington, D.C. (Annex 2). Annex 3 contains an overview of the cross-conditionality and complementarities between the MFA and other operations. Moreover, we include the feedback to the Delphi questionnaire (Annex 4), along with the list of invitees to participate in it (Annex 5). In Annex 6 we provide a more thorough description of the methodology to carry out the debt sustainability analysis (DSA). Annex 7 is dedicated to the two case studies. One case study is on investment framework and trade, and the other one is on energy reform. Finally, Annex 8 provides an overview of the MFA-I operation's timeline and milestones.

[6] Tool #47: The SWD for Evaluation, see: http://ec.europa.eu/smart-regulation/guidelines/tool_47_en.htm.

2 Background to the MFA operation to Jordan

Since early 2011, Jordan has been severely affected by the ongoing regional unrest induced by the Arab Spring, especially by the developments in Egypt, and the Syrian crisis. Furthermore, external conditions were unfavourable at the time with an intensifying number of refugees flowing into the country. All of this has put a serious toll on the external receipts of the country, and has weakened its financial position. In particular, tourism and foreign direct investment (FDI) inflows have fallen, while energy prices have risen at the time. In addition to these circumstances, the repeated disruptions to the flow of natural gas from Egypt have forced Jordan to replace its gas imports with more expensive fuels, which further deteriorated the country's balance of payments and fiscal position.

In view of the worsening economic and financial situation, the Government of Jordan (GoJ) requested MFA from the European Union (EU) in the amount of EUR 200 million in December 2012. The European Commission (EC) responded in April 2013 with proposing financial assistance of EUR 180 million in medium-term MFA loans for Jordan with a maximum maturity of 15 years, and the European Parliament and the Council approved it in December 2013.[7] A Memorandum of Understanding (MoU) and a Loan Facility Agreement (LFA) were signed in March 2014. The disbursement of the first instalment of EUR 100 million only took place in February 2015,[8] almost one year after the signature of the MoU due to delays of the Jordanian authorities in amending the Public Debt legislation, while the second tranche of EUR 80 million was disbursed in October 2015.[9]

This chapter briefly sets out the political and economic context to the MFA-I operation, provides an overview of the EU support instruments for Jordan, as well as the outline of the simultaneous IMF programme, and summarizes other creditors' and donors' involvement. Finally, it discusses the timeline and milestones of the MFA-I operation itself.

2.1 Political and economic context

2.1.1 Political situation in Jordan

Given that Jordan is a country covered by the European Neighbourhood Policy (ENP), it is eligible for MFA in accordance with Principle 2 of the Joint Declaration of the European Parliament and the Council on MFA of 2013 (OJ L 218, 14.8.2013, p. 18). Jordan is considered by the EU to respect democratic mechanisms, the rule of law and human rights, and therefore the country fulfils the political pre-conditions for the MFA. Due to its geographical position, the EU has long considered Jordan as a strategic country.[10]

As a small country of 9.5 million people with a rather fragmented population, Jordan has managed to preserve its sovereignty and its unique stabilizing role in the region.[11] At the same time, Jordan cannot isolate itself from the regional developments. Beginning in 2010, political and social tensions combined with the impact of the global economic recession has led to the so-called Arab Spring. Since the beginning of 2011, Jordan has been severely affected by the region's political and economic turbulences, notably by the conflict in Syria and Iraq, which resulted in an intense influx of refugees,[12] and disruptions of natural gas imports from Egypt. In conjunction with the regional tensions and their consequences, as well as the internal social and political strains, Jordan has experienced many – mostly peaceful – protests in 2011 and

[7] See http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D1351&from=EN.
[8] See http://europa.eu/rapid/press-release_IP-15-4321_en.htm.
[9] See http://europa.eu/rapid/press-release_IP-15-5475_en.htm.
[10] See http://trade.ec.europa.eu/doclib/docs/2007/october/tradoc_136445.pdf.
[11] See https://www.cia.gov/library/publications/the-world-factbook/geos/jo.html.
[12] The refugee population increased by around 400,000 between 2011 and 2014 according to the World Bank's data.

2012.[13] This period was accompanied by increased political instability. King Abdullah appointed new governments in quick succession: in the two years after the unrest began, there were five prime ministers in a row. Following the protests for political change, some constitutional reforms were implemented (including the introduction of an Independent Election Committee), but many considered the changes marginal and some political parties boycotted the 2013 election. In 2015, the GoJ announced election reforms, replacing the one-man one-vote system with a list-based system, which is seen as an important step towards a further deepening of the democracy.

2.1.2 Economic situation in Jordan prior to the request for MFA

The regional and internal political tensions and their economic consequences hit heavily the Jordanian economy as of 2010. The repeated sabotage[14] of the Arab Gas Pipeline caused severe disruption in the natural gas flows from Egypt, pushing Jordan to import fuel products at a time when oil prices were high. At the same time, regional tensions affected tourism, remittances and FDI negatively in the country. The above mentioned factors, together with the global crisis had a marked effect on Jordan's economic growth performance and fiscal balance. After a period of stable and dynamic growth (2004-2008), the real Gross Domestic Product (GDP) growth rate fell from 7.2 percent in 2008 to 2.3 percent in 2010 and remained sluggish in subsequent years. The real growth rate of GDP per capita suffered even more: by 2010 it turned negative, to -1.6 percent.[15]

At the same time, the government deficit increased from the pre-crisis (2000-2007) average of 3.8 percent to an average of 7 percent between 2008-2012. It peaked in 2013 at 11.5 percent, making fiscal consolidation inevitable. The external position of the country also deteriorated simultaneously with the increasingly heavier economic challenges that the country faced from 2011 onwards. The current account deficit of Jordan widened from 5 percent in 2009 to 15 percent by 2012, indicating severe external imbalances, and the foreign exchange reserves (FX reserves) of the country fell swiftly. In late 2012, FX reserves hardly covered 3 months of imports, forcing the government to act.

In May 2012, the authorities took several measures in order to stabilise the economy. With the purpose of containing revenue losses, the authorities raised taxes on luxury goods, broadened the tax base, removed several tax exemptions, and increased some non-tax fees. These consolidation efforts amounted to 0.4 percent of GDP. On the expenditure side, focusing mainly on current spending to safeguard investments, the authorities reduced subsidies on gasoline and electricity, cut military spending and subsidies to public institutions as well as capital spending on non-priority projects. These consolidation efforts amounted to 2.9 percent of GDP. Furthermore, foreign grant inflows helped to decrease the fiscal deficit.[16] While Jordan's deficit still remained high until 2015, the economy has shown significant resilience.

Besides the urgent need for a fiscal consolidation, the economic consequences of the Arab Spring further emphasised several structural weaknesses, such as:

- High unemployment, with an unemployment ratio above 12 percent in the period of 2008-2012, and very low participation rates, particularly among young people and women;[17]
- The need for a better targeted social safety net and a subsidy system allowing for more equitable and inclusive economic policies;
- The financing difficulties in the SME sector, unfavourable investment climate and low investment level;
- Lack of transparent and sustainable pricing and low level of diversification in the energy sector, as well as water scarcity and dependency on energy-intensive water infrastructure.

---

13 See Freedom house (2012): Countries at crossroads, Jordan.

14 There were 26 attacks from the start of the Egyptian revolution of 2011 up to October 2014, which was perpetrated by unknown saboteurs. For more, see: https://goo.gl/MTQBLt.

15 See http://www.imf.org/external/pubs/ft/weo/2016/02/weodata/index.aspx.

16 See https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Jordan-Request-for-a-Stand-By-Arrangement-Staff-Report-Staff-Supplement-Request-for-40191.

17 See https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Jordan-Request-for-a-Stand-By-Arrangement-Staff-Report-Staff-Supplement-Request-for-40191.

2.1.3 EU and Jordan relations

Acknowledging the economic links and Jordan's important stabilising role in the region, the EU has an enduring interest to engage with Jordan. The contractual relations between the EU and Jordan date back to 2002, when the Association Agreement came into force. The agreement aimed at fostering the economic and political dialogue. It also established a Free Trade Area (FTA) between the EU and Jordan over a transitional period of 12 years. The EU is an important trading partner of Jordan accounting for 5 percent of its exports and 22 percent of its imports in 2015.[18] In 2011, the Council of the European Union adopted negotiating directives for a Deep and Comprehensive Free Trade Area (DCFTA) with Jordan. This would build on the existing FTA and cover issues such as trade in services and investment.

The relations between the two parties were further reinforced under the EU's ENP, when a five-year ENP Action Plan was adopted in 2005. Upon its expiry, it was replaced by a new five-year Action Plan in 2010, which identified key economic and political reform measures and promoted Jordan's regulatory convergence with the EU. This partnership meant a closer cooperation in a large number of areas, and specific commitments on both sides.[19] Furthermore, Jordan became the first Mediterranean partner country for which the EU granted an “Advanced Status”.[20] In 2016 the relationship was deepened by adopting partnership priorities in the EU-Jordan relations for the coming years and a Compact, which covers the commitments of EU and Jordan in relation to the London Conference on supporting Syria and the region in February 2016.

Since the beginning of the Arab spring, the EU has declared on various occasions its commitment to support Jordan in its economic and political reform process and to help alleviating the impact of the refugee inflow. Jordan has been severely affected by the Syrian crisis since its outbreak in 2011, with hundreds of thousands of Syrian refugees living in Jordanian territory (estimates vary on the exact number).[21] In response to the Syrian conflict the EU provided significant humanitarian and longer-term development assistance to provide for the most pressing needs.

2.2 EU support instruments for Jordan

Jordan has long benefited from various support instruments from the EU, as the two parties share common interests in promoting stability and socio-economic development in the region. For many years, the main channel for providing financial assistance to Jordan was the European Neighbourhood and Partnership Instrument (ENPI). In this regard, the strategic framework for bilateral cooperation was laid out in the EU-Jordan Country Strategy Paper, which covered the period of 2007-2013.

In the period of 2007-2013, the EU first allocated EUR 488 million to Jordan in various forms of assistance. However, to further support the implementation of social and economic reforms, this assistance was supplemented by a EUR 91 million package during the 2012-2013 period. This additional support through the SPRING instrument (Support for Partnership, Reform and Inclusive Growth) was primarily aimed at improving the governance of Jordan, as well as achieving high and inclusive growth in the country. In these years, the overall magnitude of EU financial assistance to Jordan increased even further, as we discuss below. Table 2.1 provides an overview of the EU’s allocations to Jordan.

---

18 See http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113404.pdf and https://www.cia.gov/library/publications/the-world-factbook/geos/jo.html.

19 See https://eeas.europa.eu/delegations/jordan/1357/jordan-and-the-eu_en.

20 For more background, see: http://europa.eu/rapid/press-release_IP-10-1388_en.htm.

21 The latest figures for registered refugees can be found here: http://data.unhcr.org/syrianrefugees/country.php?id=107.

Table 2.1 Details of the EU's bilateral allocations to Jordan

Name of EU support instrument	Date	Nominal amount of support (EUR million)	Support in GDP%**
European Neighbourhood and Partnership Instrument (ENPI)	2007-2013	488	2.6%
EU's thematic programmes***	2011-	214	0.8%
EU's yearly Budget Support	2011-	100	0.4%
SPRING (Support for Partnership, Reform and Inclusive Growth)	2012-2013	91	0.4%
MFA-I (Macro-financial Assistance)	2015	180	0.5%
MFA-II (Macro-financial Assistance)	2016-2017	200	0.6%
European Neighbourhood Instrument (ENI)	2014-2020	587-693*	1.6%-1.9%**

*The exact amount will depend on Jordan's progress made in the fields of democratic and socio economic reform.
**Calculated as averages for the respective periods, and using our own assumptions as per Section 6.7 for the years ahead.
***Instruments such as the Neighbourhood Regional Programmes or the Partnership Instrument.
Source: EC.

The MFA-I was not the only form of assistance Jordan received from the EU after 2014. In fact, the entire allocation under the ENI (which replaced ENPI) for 2014-2020 is almost three times as large as the MFA-I, with a nominal amount ranging from EUR 587 to 693 million, depending on how the EU rates the pace of future progress made in the fields of democratic, social and economic reforms. This allocation can be further divided into two parts: the first part covering 2014-2017, in which the EU's assistance to Jordan was planned to range between EUR 312 and 382 million,[22] while the second between EUR 275 and 311 million respectively. The support for this period focuses on three priority sectors: (i) reinforcing the rule of law for enhanced accountability and equity in public service delivery; (ii) employment and private sector development; and (iii) renewable energy and energy efficiency. Complementary support for capacity development and civil society can also be provided outside of these priority sectors.

In addition to the programmed bilateral allocations, Jordan is eligible for additional funds under the EU's thematic programmes and instruments such as the Neighbourhood Regional Programmes, the Partnership Instrument, the European Instrument for Democracy and Human Rights, the Non-State Actors and Local Authorities programme, and the Instrument Contributing to Stability and Peace – all this totalling EUR 214 million since 2011. Jordan also benefits from several internal programmes of the EU, such as the Erasmus+ programme, which enhances student mobility and cooperation in the field of higher education.

Along with the EU, the European Investment Bank (EIB) has also provided financial assistance to Jordan in the form of a loan of EUR 265 million in 2011. The main objective of this loan was to support SME financing and infrastructural investments in the energy and water sectors of Jordan.[23] Another EU-linked donor was the European Bank for Reconstruction and Development (EBRD), who has invested EUR 484 million in Jordan since 2011. The EBRD's investment package had the following key priorities in relation to Jordan's development: [24]

1) supporting sustainable energy;
2) providing direct and indirect financing of private enterprises;
3) promoting infrastructure reform;
4) facilitating non-sovereign financing.

As it is clearly visible, Jordan received increasingly more overall support from the EU and its related institutions since 2011. The main reason for this tendency is the serious escalation of the Syrian crisis. The

[22] See https://ec.europa.eu/neighbourhood-enlargement/node/151_et.
[23] See: http://www.eib.org/projects/loan/list/?region=5&country=JO.
[24] See: http://www.ebrd.com/jordan-data.html.

EU is the leading donor in the joint international response to the Syrian conflict and humanitarian crisis, and has mobilised, along with its member states, around EUR 10 billion since 2011.[25] This amount of support goes to both Syrians who remained in their home country, as well as to refugees, and the countries who host them, like Jordan.

To sum up, the total EU assistance committed to Jordan was over EUR 1.6 billion since 2011, which is around 1 percent per year of average GDP between 2011 and 2017. This amount of committed support by the EU can be broken down into the following main categories:[26]

- EUR 306 million in humanitarian assistance;
- EUR 380 million to bolster Jordan's macro-financial stability (MFA-I and MFA-II; note that MFA-II was not disbursed as of this evaluation);
- EUR 38 million to boost security and stability;
- EUR 370 million in assistance such as education support, including EUR 141 million from the EU Regional Trust Fund in Response to the Syrian crisis (the so-called Madad fund[27]) to support resilience;
- EUR 100 million, on average per year in the form of various budget support operations.[28]

Note, that the aforementioned sum of EUR 380 million MFA is the item, which contains the MFA-I, our focus of interest, which was disbursed in 2015. The other part of this sum, EUR 200 million, refers to the MFA-II operation, which was proposed by the Commission on 29 June 2016 and was approved by the European Parliament and the Council on 14 December 2016. The Memorandum of Understanding between the EU and Jordan for the MFA-II operation was signed on 19 September 2017.

2.3 Support by the International Monetary Fund (IMF)

The Jordanian authorities were facing severe challenges coming up to 2012, as the current account and the level of the FX reserves came under severe pressure. It became clear that the country must ask for international support to avoid a full-blown crisis. In such situations, the primary option is to ask for support from the IMF, which if reached, can serve as a basis for additional support from other creditors and donors. In this section, we will first summarize the IMF's Stand-By Agreement (SBA) with Jordan, then in Section 2.4 we provide an overview of other relevant donors.

The Jordanian authorities started negotiations on an SBA with the IMF in the first half of 2012. The negotiations went smoothly, and significant progress was already made in the same year. In August 2012, the IMF's Board approved a USD 2 billion (800 percent of quota) SBA for Jordan for a period of three years.[29] The approved level of support was 'exceptional' in the sense that it was significantly above Jordan's allowed quota. The primary reason for this was that Jordan faced exceptional external financing pressures. The approval made SDR 255.75 million (USD 385 million) immediately available for Jordan to deal with imminent issues, while the rest was disbursed later on, after satisfactory quarterly reviews.

The IMF's primary aim was to help the country address its fiscal and external challenges, while supporting the real economy and fostering high and inclusive growth. In more detail, we can outline three main objectives of the IMF's SBA:

- First, to maintain macroeconomic stability, the programme sought to implement appropriate fiscal, monetary, and structural policies that would reduce external vulnerabilities. As part of this effort, it

---

25 See: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eu-support-to-jordan-factsheet.pdf.

26 See: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/eu-support-to-jordan-factsheet.pdf.

27 The meaning of the word "madad" is providing aid.

28 See Annex 3 for more details.

29 Jordan had several relatively small scaled IMF arrangements (Stand-by and Extended Fund Facility Arrangements) since the late 1980s. The last arrangement before 2012, a Stand-By Agreement (SBA) was approved in 2002 for SDR 85 million (50 percent of quota); and expired in 2004.

aimed at establishing transparent and sustainable energy prices, including by bringing the National Electric Power Company (NEPCO) and other utilities back to cost recovery;
- Second, to make Jordan's policies more equitable and inclusive, providing targeted subsidies and better opportunities for the vulnerable parts of the population while eliminating subsidies for those with a higher ability to pay;
- Third, to support growth and the medium-term external position by improving the investment climate through targeted structural reforms.

Table 2.2 Conditions of the IMF's Stand-By Arrangement with Jordan in 2012

Prior Actions	Quantitative Programme Targets	Structural Benchmarks
• Reduction of the central government's primary fiscal deficit and public companies' losses, in particular those of NEPCO; • Monetary policy continues to safeguard the peg; • Review of tax incentives, restore the standard sales tax rates for hotels, luxury goods, and building materials, special tax on fuel products; • Further improvement in tax administration; • Strengthening of public financial management; • Central Bank of Jordan (CBJ) continues to further strengthen the supervisory framework; • Support long-term growth and increase employment by improving the business environment, strengthening Jordan's trade promotion programmes, improving the transparency and accountability framework of industrial policies by implementing and enforcing anti-trust and monopoly legislation; developing a national strategy for innovation.	*Quantitative and Continuous Performance Criteria:* • Floor on net international reserves; • Ceiling on primary fiscal deficit of central government (excluding grants); • Ceiling on borrowing of NEPCO; • Zero ceiling on accumulation of external arrears (CBJ). *Quantitative Indicative Targets:* • Ceiling on accounts payable of central government; • Ceiling on accumulation of domestic payment arrears of NEPCO; • Ceiling on net domestic assets (NDA) of the CBJ.	• Submit to parliament an income tax reform law, which includes changes on mining sector taxation; • Announce a medium-term electricity/energy strategy incorporating the inputs provided by the World Bank, including a time table and measures for bringing NEPCO back to cost; • Implement a step increase in the price of diesel; • Introduce a commitment control system through the Government Financial Management Information System (GFMIS) to register, report and account for expenditure commitments against cash allocations issued by the Ministry of Finance; • Introduce targeted transfers, which would protect the poor from higher oil prices should they increase beyond $100 per barrel.

All seven IMF Executive Board reviews during the 3-year period concluded that the SBA programme was broadly on track. The economy continued its gradual recovery and Jordan met the quantitative performance criteria and the indicative targets with minor exceptions. The authorities implemented a wide range of measures to safeguard macroeconomic and financial stability, while also strengthening the fiscal position. The last SBA review of the IMF published in August 2015[30] emphasized that the programme helped the country endure severe external shocks and contributed to a more balanced macroeconomic environment with narrowing current account deficit, an adequate level of FX reserves and low inflation.

30 IMF, Seventh and Final Review under the Stand-By Arrangement and Proposal for Post-Program Monitoring—Press Release; Staff Report; and Statement by the Executive Director For Jordan, IMF Country Report No. 15/225, August 2015.

IMF reviews noted that fiscal structural reforms were moving forward, and the government's policies were appropriately focused on improving the resilience of the country. At the time of the final review, the IMF believed that public debt would already start stabilizing that year. However, they also saw that significant challenges remain, which call for continued effort from the authorities. In particular, high public debt calls for further fiscal consolidation, and as part of these efforts, reforms targeting the indebted energy sector need to continue. Another key area mentioned by the IMF was the labour market, noting that it needs additional structural reforms to foster job creation, as high unemployment and low participation rates persisted in the country.

2.4 Other creditors and donors involved

World Bank

The World Bank has supported Jordan's capacity and performance in governance, fiscal management, public sector efficiency and private sector-led growth, through two general reform driven medium term budget supporting Development Policy Loans (DPL) of USD 250 million each, approved in January 2012 and in March 2014. In addition, the World Bank committed USD 150 million in July 2013 through direct financial assistance to help Jordan maintain access to essential healthcare services and basic household needs for the population affected by the impact of the Syrian crisis. A complementary Emergency Services and Social Resilience Grant of USD 65.9 million was approved in October 2013 (leveraged grants from the United Kingdom, Canada, Denmark, Sweden and Switzerland), for helping municipalities strengthen their service capacity, supporting local economic development, and fostering social cohesion.[31]

In September 2015, the Bank approved also a DPL in order to improve the sustainability and efficiency of the energy and water sectors for the amount of USD 250 million. In December 2016, another DPL with the same objectives was approved by the Board of Executive Directors.[32]

The two first-mentioned general DPLs were later evaluated to have yielded mixed results due to implementation problems. It was noted, that the programme was highly ambitious, especially considering that it was a time of economic and fiscal stress in Jordan. The evaluation notes that the expectations were optimistic about the time needed for deep legal and institutional reforms to be fully implemented and to achieve their impact.[33] The WB saw the authorities as reform-minded and committed to the objectives, however the executive could not fully control the implementation process because near-term priorities shifted with economic and political developments. As a response to these problems, the second DPL included several prior actions aimed at strengthening the de facto development capacity.

Other donors

Besides the EC and the international financial institutions, other bilateral donors have also supported Jordan financially, especially the Gulf Cooperation Council (GCC) and the United States (US). The GCC committed in November 2011 a USD 5 billion grant package to be disbursed over five years starting in 2012. In 2013, the US signed a USD 1.25 billion sovereign loan guarantee agreement with Jordan to support reform efforts during a time of regional instability and to allow accessing to affordable financing from international capital markets. In 2013 and 2014, the United States provided Jordan USD 2.25 billion in loan guarantees.[34,35] In June 2015, Jordan issued two Eurobonds guaranteed by the US Treasury for a

---

31 See http://www.worldbank.org/en/news/press-release/2014/03/13/world-bank-approves-us250-million-to-promote-transparency-accountability-and-job-creation-in-jordan.

32 See World Bank (2016): "Second Programmatic Energy and Water Sector Reforms Development Policy Loan Project has been approved" http://www.worldbank.org/en/news/loans-credits/2016/12/01/jordan-second-programmatic-energy-and-water-sector-reforms-development-policy-loan.

33 See World Bank (2017): Implementation Completion and Results Report on a series of two loans in the amount of US$ 500 million to the Hashemite Kingdom of Jordan for Development Policy Loans I-II.

34 See http://www.state.gov/r/pa/ei/bgn/3464.htm.

35 See http://beta.foreignassistance.gov/explore/country/Jordan.

total of USD 1.5 billion (a 7-year USD 1 billion bond with a 2.578 percent coupon and a 10-year USD 500 million bond with a 3 percent coupon).[36]

2.5 Timeline and milestones of the MFA-I operation

After having the IMF SBA approved in August 2012, the request for the first MFA was made in December 2012. The GoJ asked for financial assistance in the amount of EUR 200 million from the EU, which would supplement the assistance of the IMF. As a response, the EC, having reviewed the situation, made its proposal in April 2013 for a medium-term loan of EUR 180 million. The European Parliament and the Council approved this operation in December 2013.[37]

The Loan Facility Agreement (LFA) and the Memorandum of Understanding (MoU) specifying the conditions of the agreement were signed in March 2014. The MoU specified two disbursement tranches (see Table 2.3).

Table 2.3 Main characteristics of the operation: key dates, amounts, conditions and objectives

Date of Council Decision	Date of Release	Loan amount (EUR)	Conditions	Objectives
December 2013 (MoU signed in March 2014)	1st instalment: 10 February 2015	EUR 100 million	• Satisfactory track record in the implementation of the SBA between Jordan and the IMF.	• General objective: To support the restoration of a sustainable external financing situation for Jordan, thereby supporting its economic and social development. • Specific objectives: To strengthen the efficiency, transparency and accountability of the public finance management systems in Jordan and promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation.
	2nd instalment: October 2015	EUR 80 million	• Satisfactory track record in the implementation of the SBA between Jordan and the IMF. Structural conditions: • Implementation of new Audit Bureau Law; • Increase the performance of Internal Control Units; • Submission of new income tax law; • Better targeting of social safety net; • Operation of the Unemployment and Maternity funds on a permanent basis; • New law on PPPs; • New investment law;	

[36] To assess the material importance of the US guarantee: in November 2015 Jordan issued a non-guaranteed Eurobond of USD 500 million with a 10-year maturity and an annual coupon of 6.1 percent. In October 2016, Jordan issued in the international markets a 10-year Eurobond of USD 1 billion (without guarantees) with a 5.75 percent coupon.

[37] See http://ec.europa.eu/smart-regulation/roadmaps/docs/plan_2016_200_evaluation_jordan_en.pdf.

Date of Council Decision	Date of Release	Loan amount (EUR)	Conditions	Objectives
			• Amend standards and metrology law; • Adoption of a National Energy Efficiency Plan NEEAP).	

In April 2014, the IMF stated that the SBA programme was broadly on track, which was confirmed also in November 2014. All the macroeconomic performance criteria were met with the exception of the combined public sector deficit. The EC, following the IMF's findings and making a positive assessment of fulfilment of the EU general political pre-condition, advanced preparations for the first disbursement, which was made in February 2015. The relatively large observed time delay in the disbursement of the funds can be primarily attributed to two factors. Our sources at the EC cited the unpreparedness of Jordan's public debt legislation, which required modification on the authorities' side. This required modification was related to the public debt threshold, and it caused a delay of 6 months, since the Jordanian Government only made the necessary steps by October 2014. The second factor explaining the time delay was merely procedural. The Commission needed almost a month to explore the market during a period which included a holiday, then the European Parliament's procedure in relation to adopting the required decision also naturally contributed to lengthening the process.

The second instalment, of EUR 80 million, was subject to the fulfilment of a set of policy conditions specified in the MoU. In May 2015, the EC concluded that Jordan's authorities achieved substantial progress in seven out of the nine conditions.[38] In June 2015, Jordan also complied with the outstanding condition of adopting an amended law on Standardization and Metrology. However, the condition of the Audit Bureau law adoption was not met. The IMF also confirmed positive development in Jordan's reforms in mid-2015. Therefore in August 2015, the Commission decided to grant a waiver on the last condition of the Audit Bureau law and disbursed the second tranche in October 2015.

For an overview of the exact timeline and the milestones with the corresponding documents from the EC, please refer to Annex 8.

[38] See main conclusions on the MFA review mission from the document referred to in Table A.8.1.

3 Evaluation questions

The ex-post evaluation of MFA-I to Jordan has addressed the following main evaluation questions (EQs):

Table 3.1 Main evaluation questions matched to the evaluation criteria

Evaluation questions	Evaluation criteria
EQ1. To what extent was the overall MFA operation design and outcomes (including adequateness of financing envelope, focus of conditionality) appropriate in relation to the outputs to be produced and the objectives to be achieved?	Relevance
EQ2. To what extent have the objectives of the MFA operation (in terms of macroeconomic developments, fiscal policy and structural reforms) been achieved?	Effectiveness
EQ3. To what extent did the MFA operation design and implementation allow to carry out the intervention efficiently?	Efficiency
EQ4. What was the rationale for an intervention at EU level? To what extent did the MFA operation add value compared to other interventions by other international donors?	EU added value
EQ5. Were the measures of the MFA operation in line with key principles, objectives and measures taken in other EU external actions towards Jordan?	Coherence
EQ6. What was the social impact of the MFA operation?	Social policy
EQ7. What was the impact of the MFA operation on public debt sustainability?	Debt sustainability

Please note that in addition to the main generic evaluation questions on relevance, effectiveness, efficiency, added-value and coherence, the TOR requires two further aspects:

- An analysis of the social impact of the MFA operation, in combination with the IMF programme measures; and
- An analysis of the impact of the MFA operation on the public debt sustainability of the country, also in combination with the IMF programme.

We included the analysis of both issues in EQ6 and EQ7. The sub-questions related to the questions above and all the answers are presented in Chapter 6.

4 Evaluation methods

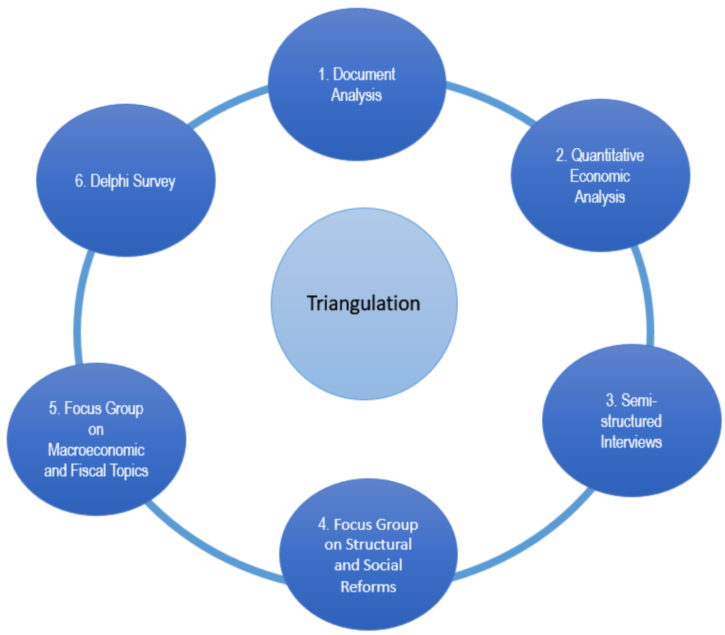
This chapter presents the selected evaluation methods used in throughout the analysis. The evaluation consisted of four phases as stated in the Terms of Reference: the inception phase, the data collection phase, the analysis phase and a finalization phase. The work commenced in January 2017, including a desk research segment. Data collection was completed during the inception phase, and it covered the period from 2012 to 2016, however in some cases the timeframe of the exercise was broadened further to include the most recent data from 2017.[39]

4.1 Methods used

The following graph presents the techniques that are used in carrying out this evaluation. The parallel use of several tools and the use of different information sources will allow the findings of the evaluation to be systematically triangulated.

Figure 4.1 Evaluation techniques

Evaluation approach – Triangulation



Triangulation of findings from different evaluation methods:

a) Desk research:
- Document analysis;
- Quantitative economic analysis.

b) Semi-structured interviews;

c) Two Focus Groups:
- Macroeconomic and Fiscal Topics;
- Structural and Social Reforms.

d) Delphi survey to key experts (e.g. key EC staff, IMF, World Bank stakeholders, Jordanian officials).

The application of these tools is closely linked to the Consultation Strategy which is shown in Annex 1. In this strategy, the objectives, the stakeholders and the methods and tools for this evaluation are presented.

Desk research: Data collection, literature review, and document analysis

The main data sources we use are the MoU, the decision of the European Parliament and the Council on MFA-I, the SWD from DG ECFIN, the reports on the implementation of MFA and internal files of DG ECFIN. Furthermore we use documentation on the IMF SBA, World Bank DPLs and other World Bank documents, as well as Financing Agreements of the Sector Reform Contracts (SRCs) and the Good Governance and Development Contracts (GGDC) from the EU and documents of the EIB and EBRD.

[39] For an overview of the various phases, and their completion dates, please refer to the Preface.

The quality, coverage and reliability of economic data available for Jordan is acceptable to support the evaluation analysis and conclusions. We collected statistical data from the IMF, the World Bank, the Central Bank of Jordan (CBJ), the MoF and other relevant ministries, and the Statistical Office of Jordan.

Quantitative economic analysis

In addition to the use of descriptive quantitative analysis ('stylised facts analysis') and in line with the orientation of the kick-off meeting with the ISG, we use a structured macroeconomic tool developed by the IMF, in particular with regards to the external and fiscal sustainability analysis.[40] External and public debt sustainability are two interrelated concepts, where we need to analyse the trajectory of the external and public debt-to-GDP ratios, both under a baseline scenario and alternative scenarios exploring the hypothetical cases of no intervention from IMF, EU or both. Lastly, we also need to assess the realism of the underlying assumptions.

To assess medium to longer term macroeconomic and fiscal vulnerabilities, the IMF has developed a framework for external and public debt sustainability analysis (DSA) for emerging market economies such as Jordan. The assessment of external debt sustainability continues to be anchored by the IMF's framework introduced in June 2002,[41] while the guidance on the implementation of the public debt framework was introduced in May 2013.[42]

No counterfactual macroeconomic modelling is used to determine the path of the external or the public debt under the alternative scenarios. The use of a small-scale macroeconomic model is confined to providing consistent macro inputs to the debt sustainability analysis. The methodological description of the DSA analysis is presented in Annex 6. In addition to this analysis, we also made calculations on the savings related to the favourable conditions of the MFA compared to market-based alternatives, which is presented in Section 6.7.

Semi-structured interviews

Our objective with the semi-structured interviews is to extract information on the following: MFA design and implementation, the results of MFA on the macroeconomic and fiscal situation, the results in the fields of the structural reform conditions, the social impact and debt sustainability. We carried out interviews with those stakeholders in particular, who are well-aware of the MFA instrument and its implementation:

1. Jordanian authorities: the officials who were involved in preparing and implementing the MoU;
2. International Financial Institutions: the IMF and the World Bank. They are key stakeholders since they were to some extent involved in the preparation and implementation of the MFA.

We targeted other donors to get an outside opinion on the coherence of the MFA operation. During the two field visits to Jordan, we met with USAID, one of the largest donors in Jordan, two of the largest EU donors to Jordan, the United Kingdom and France, and also one smaller EU donor, the Netherlands.

We have conducted a mission to Washington D.C. to interview relevant IMF and World Bank representatives. The interviews in Washington D.C. took place in March 2017 during the data collection phase of the evaluation. During the first field visit to Jordan, also in March 2017, we carried out 17 interviews with 39 interviewees in total. During the second field visit in July 2017, 13 follow-up interviews with 24 interviewees took place. Whereas the first field visit focused on collecting information, the second field visit concentrated on verifying preliminary findings, and collecting additional information. Interviews are treated confidential and anonymously reported to achieve the best result.

---

40 See for example IMF (2011): "Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis". The DSA templates can be accessed here: https://www.imf.org/external/pubs/ft/dsa/mac.htm.

41 See IMF (2002): "Assessing Sustainability". This framework was subsequently refined in June 2003 and July 2005, and we shall rely on the latest framework and the newest DSA template in our analysis of Jordan's case. See https://www.imf.org/external/np/pdr/sus/2002/eng/052802.pdf.

42 See IMF (2013): "Staff Guidance Note for Public Debt Sustainability Analysis in Market-Access Countries" (https://www.imf.org/external/np/pp/eng/2013/050913.pdf).

The Delphi technique

We have applied a light version of the Delphi method with the objective of gaining insight into the value added of the MFA operation. Our structured questions relate to the following topics: to what extent has the MFA operation contributed to certain developments, macroeconomic, fiscal and in the field of structural reform, by considering what would have happened if the MFA loan would not have been granted. For more information on our target audience in this regard, please refer to the updated Consultation Strategy (Annex 1). The feedback on the questionnaire is included in Annex 4 of this report. Annex 5 includes a list of the 26 invited respondents.

Focus groups

Two focus group sessions were organized with a distinct focus. The first session covered structural and social reforms in Jordan, and focused on the relevance of the MFA conditions, the reforms in social and labour policy, investment climate and energy. The participants were Parliamentarians, academics and non-governmental organisations (NGOs) (see Table A.1.4 in Annex 1).

The second session focused on macroeconomic and fiscal developments, including topics like Jordan's financing needs and debt sustainability. The participants were a former central banker and a senior official from a financial institution (see Table A.1.4 in Annex 1).

Risks and assumptions

In the case of Jordan, access to reliable data (in the necessary frequency and breakdown) on international grants and data related to the refugee inflow and its economic impact is limited. Social indicators are also scarce, or available with long lags.

Furthermore, the fact that the MFA decision-making process was launched in early 2013 while the MFA was only disbursed in 2015 provided additional challenges in terms of impact measurement. As a result of this, we had to deal with a short time series in our evaluation, and we had to make certain assumptions to be able to analyse various scenarios in our evaluation. This made our work more complicated and required relying on estimates provided by external sources, in particular those of the IMF. Moreover, the rapidly changing external environment during the timeframe of this MFA (e.g. the sudden fall in the price of oil in end-2014 or the closure of the Iraqi market) has led to significant disturbances that made the disentanglement of the different factors (the discrimination between good/bad luck and good/bad policies) highly difficult. Finally, the MFA objectives in the legislative Decision were phrased in general terms with limited attention to specific social objectives, and the MoU does not contain enough specific guidance on the relevant social indicators either. To address this, we looked at its general aims, and chose social targets to analyse. Consequently, both our list of the intended social effects (the targets) and of the social indicators used in the analysis remained necessarily somewhat arbitrary.

With regards to the reliability of the information obtained from the different evaluation approaches, we have to first note that the necessary broadening of the Delphi panel might resulted in the inclusion of a number of participants with a less detailed knowledge of the MFA operation. Secondly, the number of participants at the second Amman based Focus Group was less than anticipated.

In our assessment, the identified data limitations, the use of assumptions in the different scenarios and the related risks have not drawn into question the overall reliability of our analysis. Accordingly, the conclusions made on the aforementioned challenging fields can be considered valid.

5 State of play in the core areas of interest

This section describes and summarises main developments up to the most recent phases in the core areas of interest: external financial situation, fiscal policy, structural conditions and social developments.

5.1 The external financial situation in Jordan

One of the key aspects of Jordan's financial assistance programmes was to restore the sustainability of its external position. The country was hit by a series of severe shocks between 2009 and 2013, which exerted heavy pressure on the country's external balances. These troubling conditions were in fact of key importance to receiving an MFA from the EU and an SBA from the IMF. In order to have a better understanding of the country's background, the first part of this section describes the developments in Jordan's external financial position.

It is an area which showcases how the strong headwinds impacted the country's current account, essentially putting it on an unsustainable path and leading to a depletion of FX reserves and elevated sovereign risk. To best showcase the performance of the country in this respect, we first describe the circumstances which led to a build-up of external imbalances, in the form of severe current account deficits. Secondly, we discuss how this situation led to a marked decrease of FX reserves, and the measures introduced to counter this trend. We also elaborate on how these developments have impacted the country's risk premium.

1. Deterioration of the current account

Jordan's economy was struggling to regain momentum after the global financial crisis. Real growth was 2.3 percent in 2010, which meant a very marked deceleration of 5 percentage points (pp) from the pre-crisis (2000-07) average of 7 percent per year. This slowdown did not prove to be transitory, as there was no returning to the pre-crisis mean in later years: the 2.6 percent growth in 2011 was hardly better than 2010, and 2012 brought no relief either, as growth remained meagre. The key reason for this was that Jordan found itself in a very difficult environment, with a list of issues regarding internal politics[43], regional instability[44], and most importantly: energy price shocks.

In total, we can identify three key drivers of the deteriorating external financial situation. First, the export performance of the country has remained weak after the financial crisis, as a result of both the slowdown in external demand (related mostly to regional turbulences) and lower potash prices, which constitute a key export good of the country. Export growth practically halted by 2012 after the marked 4pp slowdown from the pre-crisis growth of 5 percent. Secondly, the massive inflow of refugees – from Syria in particular[45] – have led to an increase in imports[46], which further deteriorated the trade balance of the country. The third driver was rising energy prices at the time, as crude oil prices soared above 100 USD per barrel. To further exacerbate the issues, there were disruptions to the flow of natural gas due to the Egyptian crisis, and producing electricity with fuel costed almost triple to that of gas from Egypt. These three main drivers have resulted in a serious widening of the current account deficit from 5 percent of GDP in 2009 to as high as 15 percent in 2012. It is worth mentioning, that this level of deterioration happened despite the fact that the economy went through a severe slowdown, which reduced consumer spending on

[43] They implemented a new election law, which led to parliamentary elections in January 2013. Though no major atrocities happened, it was boycotted by the Muslim Brotherhood, and some protests were held as well, creating some level of political uncertainty at the time.

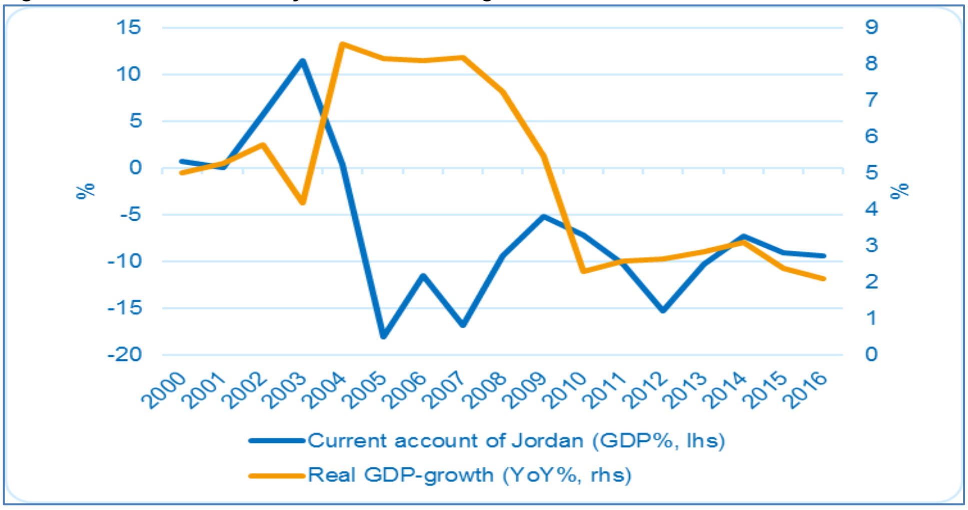
[44] Egypt and Syria, two important partner countries were in crisis at the time, and Jordan had to deal with a massive inflow of refugees.

[45] Their national census of 2015 put their total number at above 1 million, however the UNHCR and the World Bank cites lower figures.

[46] For example, non-energy imports have increased by over 10 percent in 2013.

imported goods, and thus gave support to the current account. In 2016, yearly real growth has decelerated further, from 2.4 in 2015 to 2.0 percent, while the current account has remained broadly stable.

Figure 5.1 Current account dynamics and GDP-growth in Jordan



Source: IMF, CBJ.

In addition to the aforementioned three key drivers, there were other channels affecting the external position of Jordan as well. One is the fact that Syria and Iraq, as a trade partner and a trade route – which was important for cross-border trade in the region – was not accessible anymore. This situation has further deteriorated Jordan's export performance by limiting Jordan's ability to reach important regional markets.

In later years, the record-level current account deficit of 2012 did not widen further. In fact, an adjustment already became visible from 2013. This favourable turn-around was mainly due to external developments, namely lower energy prices but also, consistent with the National Energy Efficiency Action Plan, due to the substitution of the expensive oil fuel with Liquefied Natural Gas (LNG) since mid-2015. This measure not only decreased significantly the cost of electricity generation and brought NEPCO to cost recovery in the last months of 2015, but shielded electricity generation from future fluctuation of oil prices.[47] Limited by the blocked trade routes in Syria and Iraq as well as by the peg with the US Dollar the external adjustment was also helped by the fiscal consolidation achieved the from 2012 to 2016 both at central government level and in public companies.. What also helped with rebalancing the current account, was the increased current transfers (a subcomponent of the current account) from the Gulf Cooperation Council (GCC).

2. Pressure on the FX reserves and risk perceptions

External imbalances are usually accompanied by the depletion of FX reserves, and it is especially the case for countries with a pegged currency regime like Jordan,[48] where currency depreciation is not allowed. Accordingly, we can clearly observe how the unfavourable current account developments of 2012 have put pressure on the central bank's reserves.

In 2012, the central bank's FX reserves decreased by around 30 percent, and reached a low of 8 billion USD or 25 percent of GDP. The lowest amount was in 2012 November according to the CBJ's monthly data, when it reached 6.3 billion USD, and it hardly covered 3 months of imports (for the average of the year, the ratio was 4.4).[49] In an effort to counter the unfavourable dynamics and halt the currency outflows from the country, the CBJ hiked its policy rate three times that year. Though the more attractive interest rates for foreign capital may have stopped the imminent shrinkage of reserves, and countered the rate of

---

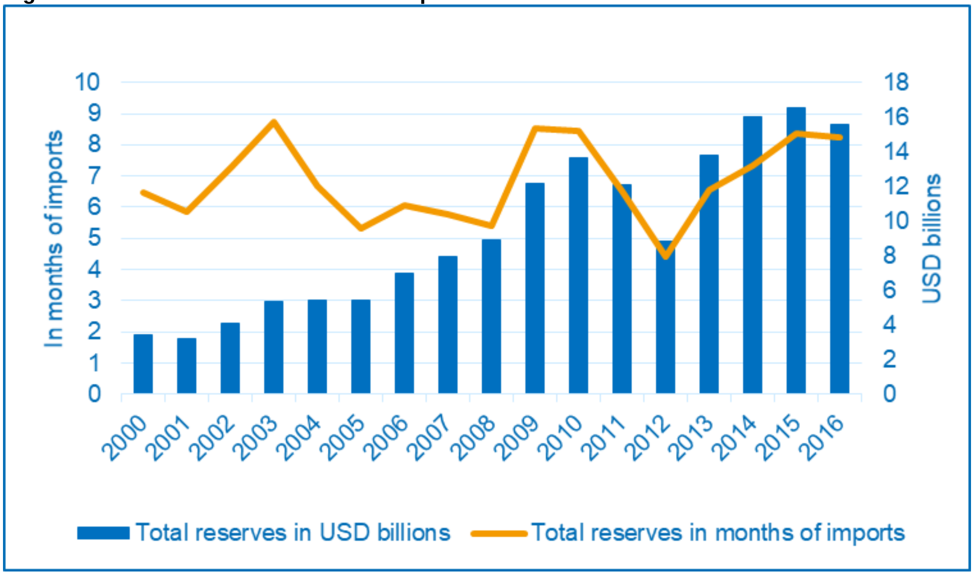
[47] See IMF Article IV and First Programme Review June 2017.

[48] The Jordanian dinar has been officially pegged to the IMF's SDRs since 1995, however in practice, it is fixed against the USD at a rate of 0.709 dinars per dollar.

[49] For statistics, refer to CBJ (2017) database at: http://statisticaldb.cbj.gov.jo/index?action=level3&cat_id=19&dbName=tab7075.

dollarization in the country, it would not have been enough to rebuild what was lost. However, the government took other measures as well. Most importantly, they asked for international support in 2012 (and received the IMF SBA), and they also issued USD denominated domestic debt, as well as a large Eurobond with U.S. legislature guarantees to accumulate FX reserves. In addition to these efforts, the receipt of further GCC grants also helped Jordan, and by as early as 2013, total reserves climbed to a high of 13.8 billion USD, or 41 percent of GDP and covered 6.5 months of imports. By 2015, total reserves climbed to as high as 8.3 months of imports, and it broadly stagnated in 2016.

Figure 5.2 Total reserves in months of imports and in USD billions

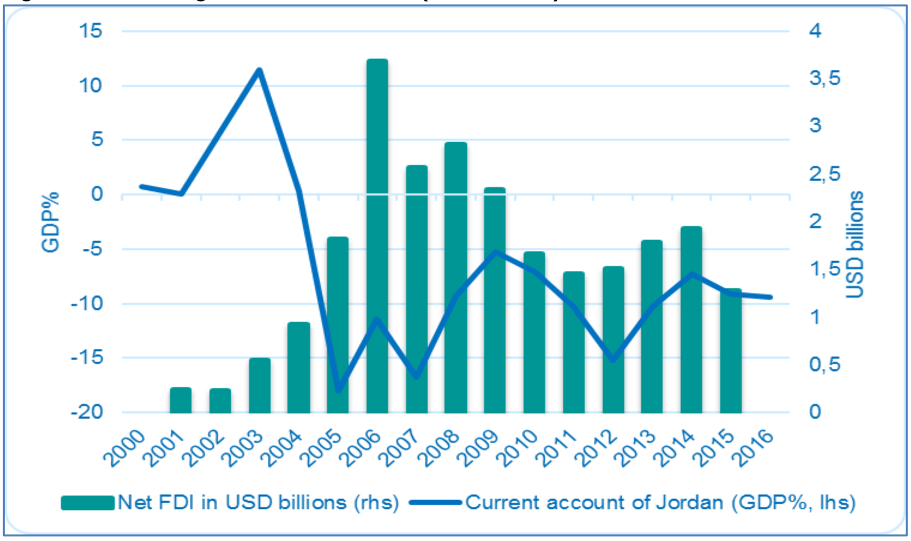


Source: CBJ.

Though the main instruments for rebuilding the reserves in the short-term were grants and loans, another important channel was the attraction of inward FDI.[50] The most important investors to Jordan were Saudi Arabia, Kuwait, the United States and the United Arab Emirates at the time (for more details please refer to the first case study in Section 7.1). This source of funds has been more important in the medium term sustainability of the external position, and could help in the future, when the country aims to reduce its reliance on external grants. Jordan was successful in attracting foreign capital from the early 2000s, however the financial crisis has negatively affected its ability, and the level of net FDI has not returned to its pre-crisis peak so far. Still, Jordan has managed to avoid a reduction of FDI inflows at the time of the aforementioned stress-period. This was another important factor in stabilizing the external financial position of Jordan, considering that FDI brought almost 2 billion USD in both 2013 and 2014.

50 FDI represents here an inbound flow, contributing to a surplus on Jordan's capital account.

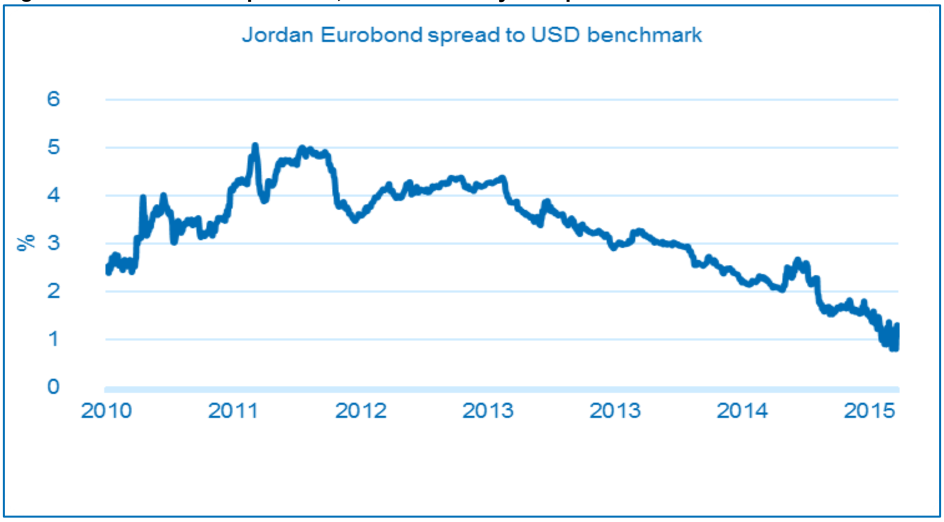
Figure 5.3 Net foreign direct investments (USD billions) and the current account[51]



Source: CBJ.

These aforementioned developments have significantly reduced the external vulnerability of Jordan during the analysed period. Financial market indicators of country risk[52] fell accordingly after this turn-around in the external financial situation of the country. The spread on Jordan's outstanding Eurobond has declined to around 300 basis points (bp) by 2013, after a peak of 500 bp in 2012. By 2015 – the year when the bond matured – the country spread was as low as 100 bp against the U.S. benchmark.

Figure 5.4 Jordan's risk premium, as measured by the spread on its Eurobond[53]



Source: Bloomberg.

Based on the historical developments presented above, we can conclude the following on the background of Jordan's external financial situation. First, the initial conditions of requesting financial assistance were characterized by deteriorating terms of trade and a rapidly increasing current account deficit (reaching 15 percent in 2012), which was accompanied by a depletion of FX reserves. Secondly, the key drivers behind this deterioration were a series of external factors, most importantly an energy price shock and the import-increasing effect of the refugee inflow.

Additionally, we can conclude that the short-term countermeasures of the Government – most importantly gaining international support and issuing FX debt – were effective in terms of replenishing the FX reserves.

51 Data on FDI was not available for 2016 at the time of the evaluation.

52 This conclusion was derived from analysing the country's Eurobond spreads, the EMBIG, and the Amman Stock Exchange Index.

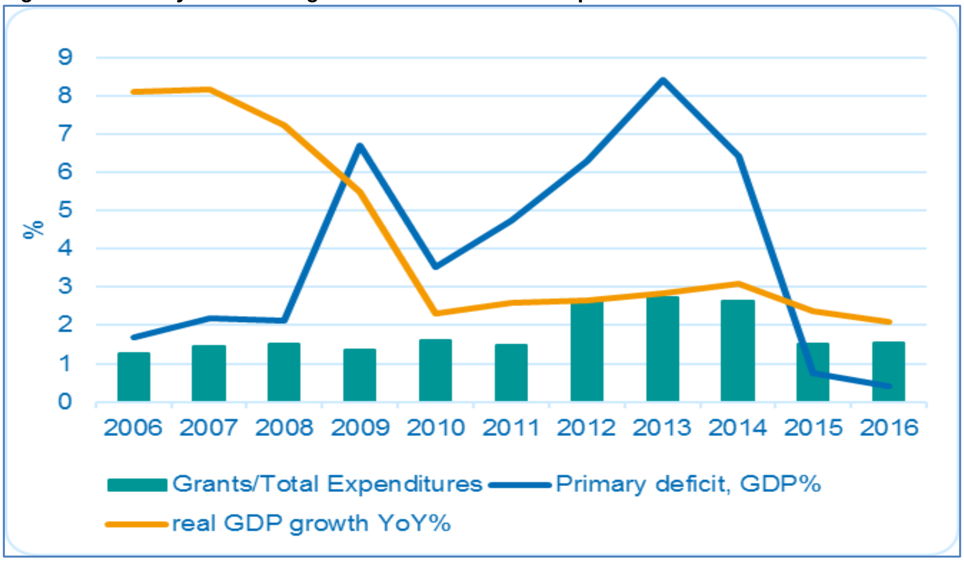
53 The bond on which the risk premium was measured matured in November 2015.

The IMF assessed that the reserve adequacy ratio[54] of the country has already been restored to comfortable levels (130 percent) by 2013. Although the steep fall of the oil prices from their hike (in mid-2014) wad a profound effect to the quick decline of the current account deficit, the external adjustment was also supported by policy measures with more extended horizon and more permanent effect. These policies were complemented by actions related to relevant MFA benchmarks such the introduction of LNG fuel which reduced substantially the cost of electricity generation in the context of the National Energy Efficiency Action Plan, the National Unified Registry which aimed at producing savings by better targeting of cash transfers and the new income tax law which was enacted in early 2015 and boosted tax revenues. The above helped Jordan to essentially sustain the external adjustment until 2016 (in particular excluding grants) in a challenging external environment characterised by lower grants, blocked trade routes in Syria and Iraq and low FDIs and external inflows. All in all, the turn-around in the external financial position of the country went remarkably fast, and this development has helped significantly in reducing the sovereign risk premium from 2013 onwards, and thus reduced the associated fiscal strain, which we will describe in the following section.

5.2 The fiscal situation in Jordan

The fiscal situation of Jordan leading up to the initiation of the MFA programme in 2014, as well as its later developments constitute a key area of interest in this evaluation. In fact, the deteriorating fiscal situation of the country (partly affected by the growing external financing needs), also linked to the refugee inflow, was among the key reasons why Jordan resorted to support from the IMF and the EU. To draw a correct picture of the country's fiscal situation, we will first look at the initial situation leading up to 2012 to understand how fiscal pressures culminated at the time. Subsequently, we will describe how the budget's expenditure and revenue side evolved in face of the mounting pressures due to the high level of subsidies, and increasing social expenses. These are also the areas where Jordan suffers from long-standing structural problems. In face of these developments, we will also give a descriptive overview of how public debt evolved during the years.

Figure 5.5 Primary deficit and grants as a ratio of total expenditures



Source: CBJ.

If we look at the broad historical background of fiscal policy in Jordan, we can identify two key features. First, fiscal policy tended to be pro-cyclical, and second, it was largely dependent on foreign grants. In line with these general characteristics, the financial crisis has brought about a strong swing in the fiscal stance,

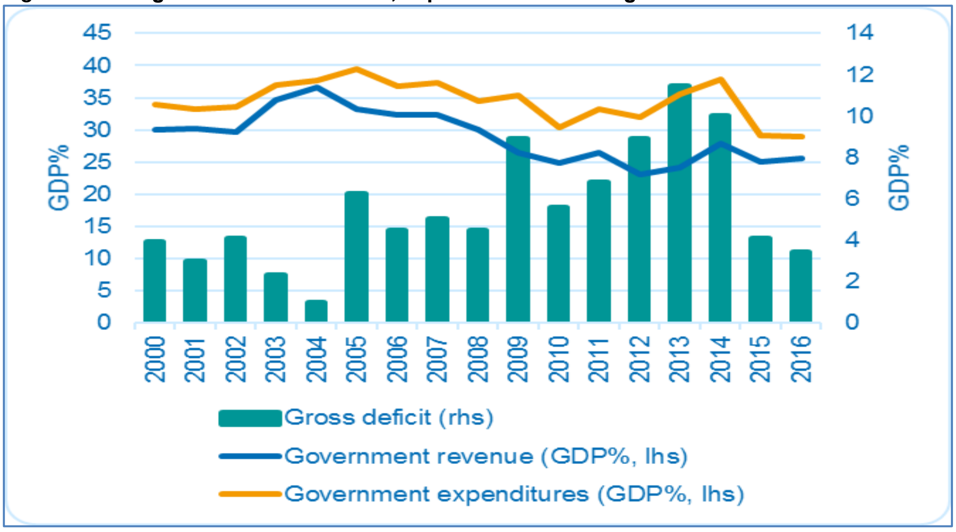
[54] For more information on this, see IMF (2013): Assessing Reserve Adequacy – Further Considerations.

as the expansionary policies of 2008 and 2009 were sharply reverted in 2010, when the country's growth decelerated sharply. However, as soon as 2011, the country returned to expansionary fiscal stance (the primary fiscal deficit started widening again) in fear of social tensions, which led to a further widening of the budget deficit.

At this time, there were multiple sources for this growing fiscal deficit. The first key source was fuel price subsidies and the electricity tariffs, which did not properly follow the energy market developments. These two areas were affected by a shock to gas supplies from Egypt, which heavily increased the burden of these subsidies on the budget due to the increasing energy bill paid by the government. The IMF estimated that fuel price subsidies would have amounted to 3.7 percent of GDP, if no actions were taken.[55] Electricity tariffs were also not adjusted in face of the more expensive fuel mix, and has led to mounting losses at NEPCO. The second key driver of growing budget deficit was the influx of the refugees from Syria, which elevated social expenditures, increased the demand for provision of public services and added to infrastructure costs.

The government, recognising these challenges, took steps to reduce the financing needs of the country by focusing on cuts in the expenditure side of the budget. To counter the unfavourable effects of subsidies on the budget, they reinstated the monthly fuel price adjustments for those fuel types, which are less socially sensitive. Despite their initial efforts, government expenditures, as a percentage of GDP, have risen by 3.5pp from 2012 to 2013, while the government's revenue only rose by 1pp, to 24 percent of GDP mainly due to foreign grants. The resulting general government deficit reached almost 9 percent in 2012, then climbed to a record high of 11.4 percent in 2013.

Figure 5.6 The government's revenues, expenditures and the gross deficit

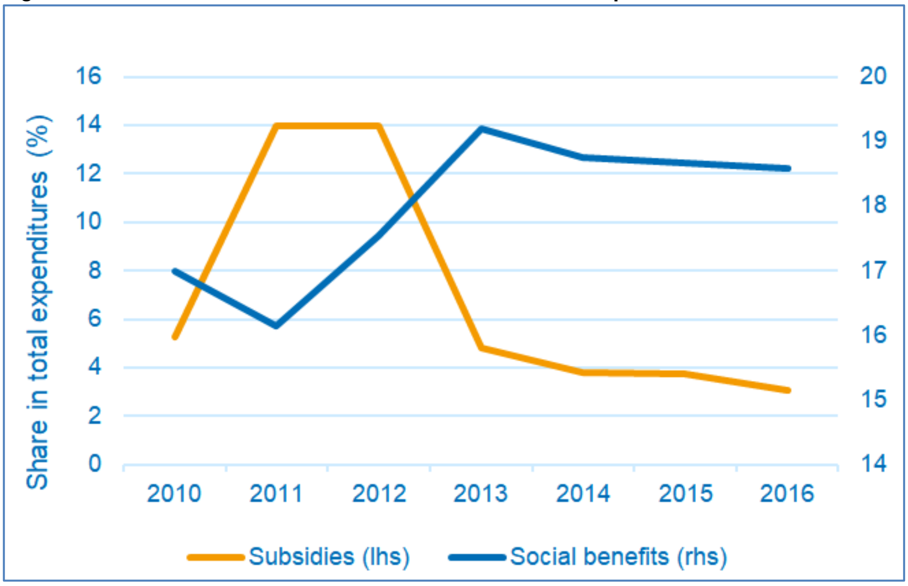


Source: MoF.

Exploring these underlying fiscal developments more deeply, we can see through the decomposition of the budget expenditures, how its social components and the energy-related subsidies have evolved through these critical years. If we look at Figure 5.7, the subsidies as a percentage of expenditures almost tripled in 2011 compared to the previous year, and stayed at this elevated level in 2012 as well. During this period, social benefits also rose from 16 percent of total expenditures to 17.5 percent in 2012. Relief in terms of subsidies was brought about in 2013, however the costs associated with social benefits remained very high at 19 percent of expenditures even in 2016.

55 IMF (2012): Jordan: Request for a Stand-By Arrangement. Country Report No. 12/343.

Figure 5.7 Subsidies and social benefits as a ratio of total expenditures



Source: MoF.

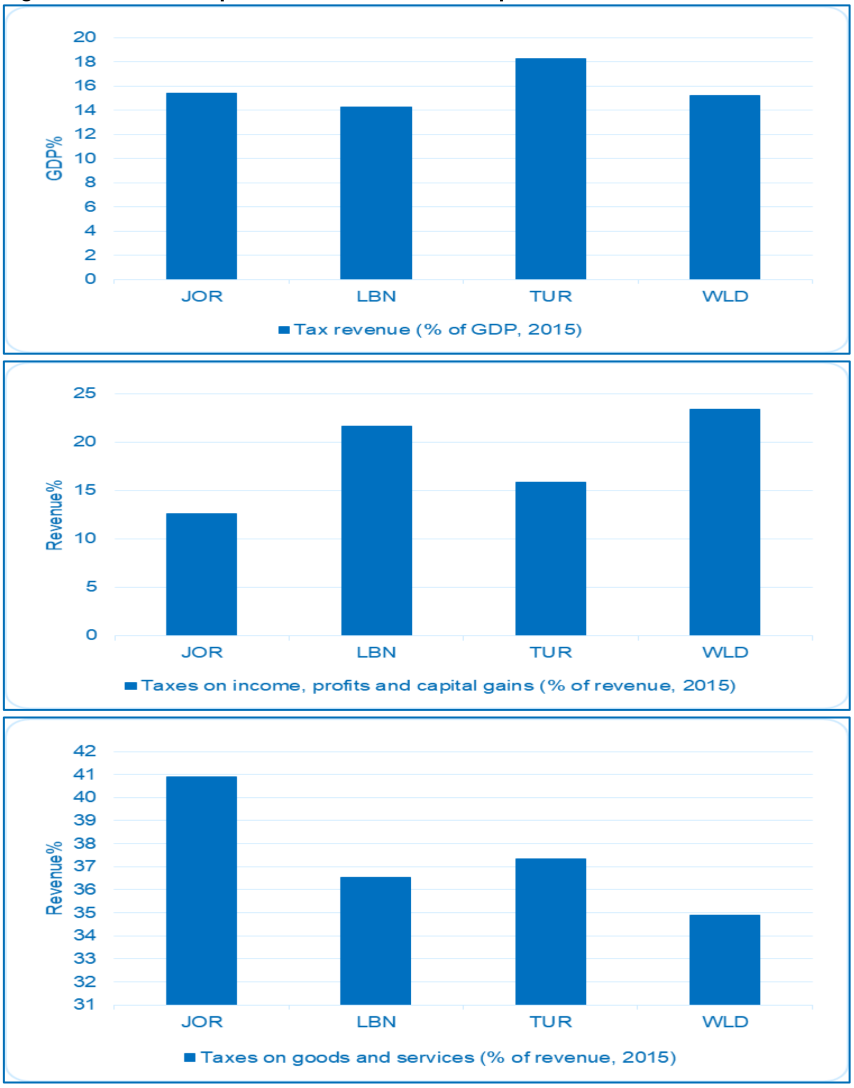
When analysing the evolution and structure of the revenue side of the budget, two structural problems become apparent. First, the government has long been struggling to raise taxes through direct means, such as an income tax. The category of indirect taxes dwarfs income taxes, such as taxes on employee incomes and corporate profits. This is a long-standing issue in the tax system in Jordan, which has not improved during the programme's years. In fact, we only observe an increase of indirect tax revenues, such as taxes on goods and services or financial transactions during the analysed period. These trends have made total tax revenues to have receded as a percentage of GDP from 20.4 in 2007 to 16.6 in 2016. These developments show how these deep rooted problems with raising government revenues have persisted during the analysed years. The concerns about the narrow tax base, the large tax evasion and the bias towards indirect taxes was also raised in the focus group meeting on structural conditions.

The total tax revenue in Jordan was equal to 16 percent of GDP in 2015, which is comparable to regional peers and the world average according to World Bank data. However, a key structural feature becomes apparent when comparing income and profit taxes in Jordan to it peers. While in 2015, taxes on income, profit and capital gains only constituted 13 percent of the total budget revenues in Jordan, it was over 20 percent in Lebanon, and 16 percent in Turkey. The difference is even larger in comparison to more advanced countries, as the average for OECD countries was 26 percent in the same year.[56]

This shows that even though the country is able to collect a similar amount of taxes relative to GDP to its regional peers, Jordan mostly achieves it through taxes on goods and services, as opposed to direct personal and corporate income taxes.

[56] See https://data.worldbank.org/indicator/GC.TAX.YPKG.RV.ZS?locations=OE.

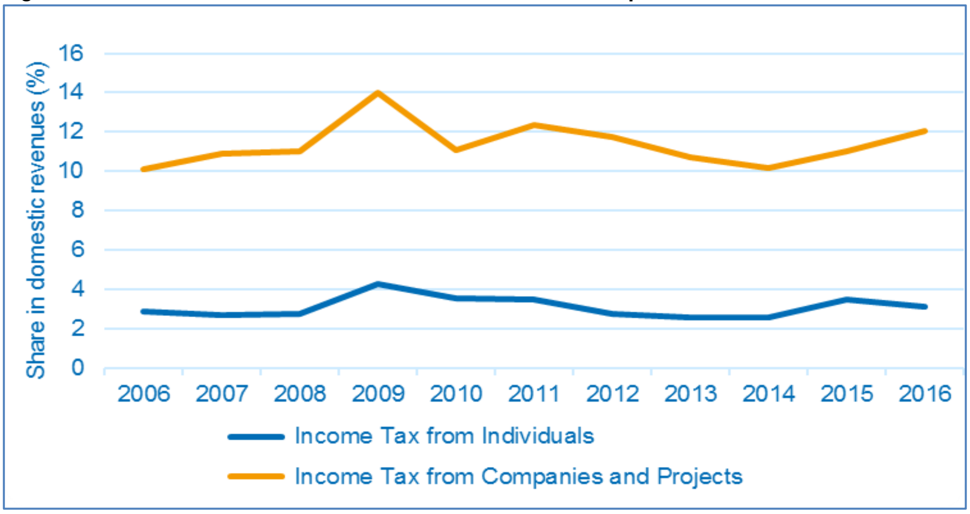
Figure 5.8 Cross-comparison* of tax revenues in percent of GDP



*Country codes: JOR: Jordan, LBN: Lebanon, TUR: Turkey, WLD: World.
Source: World Bank.

Second, in the area of direct taxation, we can identify another structural feature, namely that the government has long been struggling to collect income tax from individuals. This form of revenue only constitutes to around 3 percent of the total revenues, while income tax from companies add up to around 12 percent, and have been increasing from 2014 to 2016. Accordingly, we can state that the government was unsuccessful in finding a solution to this problem as well during the analysed years.

Figure 5.9 Share of income tax from individuals and from companies in domestic revenues



Source: MoF.

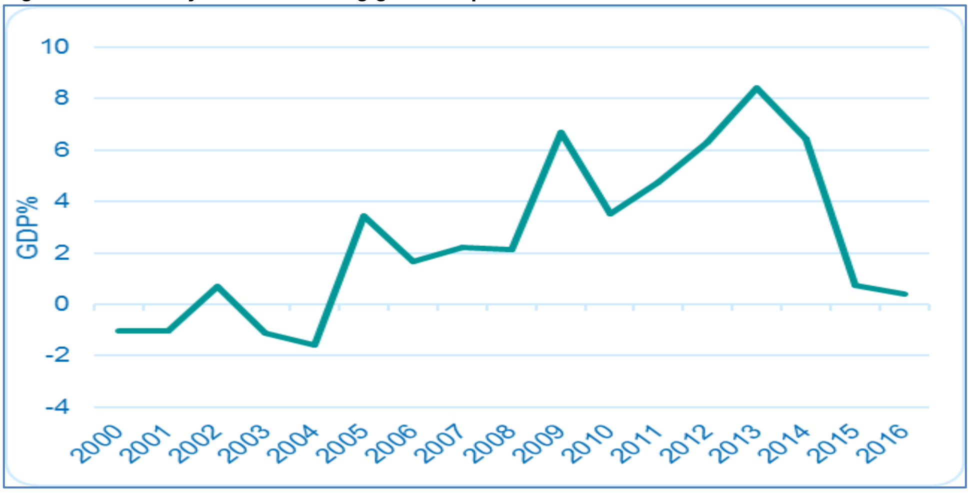
The aforementioned fiscal developments, coupled with the unsolved structural problems of the budget, have made a consolidation programme inevitable after 2012. Accordingly, mapping out and complying with a medium-term fiscal consolidation path has become one of the main themes of the IMF's SBA programme, which the Government honoured in subsequent years.

By 2015, when the Government completed its "national fiscal and economic reform programme" (2012-2015), the budget deficit reached a reasonable level of around 4 percent. Although this strong adjustment was very favourably influenced by the plunge in oil prices since mid-2014, it was also the result of a disciplined fiscal policy through which the current expenditures were reduced from 28.2 percent of GDP in 2012 to 25.2 percent of GDP in 2016. Additionally, since mid-2015 Jordan realised a significant diversification of its energy mix with the start of operations of the LNG terminal in Aqaba. As a result, around 90 percent of the electricity generated in Jordan relies on natural gas. This creates an annual saving of around 1.3 percent of GDP or USD 400 million at price levels of around USD 90 per barrel realised in 2014. Last, corporate tax revenues from the income tax law (an MFA policy measure) which was enacted in January 2015 performed relatively strongly: they rose 6.3 percent in 2015 and 15.2 percent in 2016 marking a 0.3 percent of GDP increase, and supporting fiscal revenues in the lowest-growth environment since 2010.[57] The primary deficit in 2015 – including grants – dipped below 1 percent of GDP, which is a major improvement compared to previous years. If we exclude grants, then the primary fiscal deficit dropped from 5.1 percent of GDP in 2015 to 3.2 percent of GDP in 2016 being however, still at high levels. When we examine the combined fiscal deficit[58], often used by the IMF to indicate a more comprehensive picture of Jordan's public finances, then this fiscal measure drops from 12.7 percent of GDP in 2012, to 7.1 percent of GDP in 2015 and to 3.8 percent of GDP in 2016.

[57] See IMF Article IV and First Programme Review June 2017 and General Government Fiscal Bulletin July 2017 – MoF Jordan.

[58] Defined by the IMF staff as the sum of the primary central government balance (excl. grants and transfers to NEPCO and WAJ), NEPCO operating balance, and WAJ overall balance.

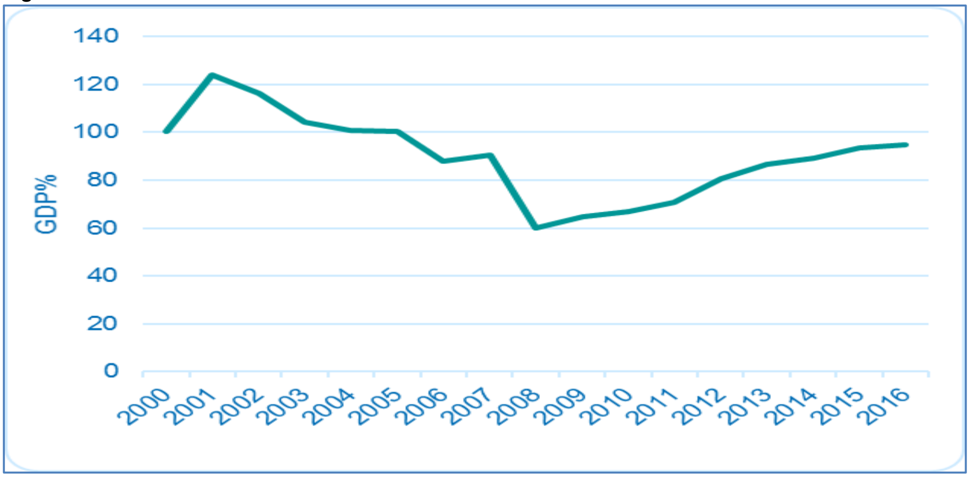
Figure 5.10 Primary deficit including grants in percent of GDP



Source: CBJ.

The rise of the deficit at the inception of the IMF/EU interventions have naturally led to an increasing level of public debt. The debt to GDP ratio has been on an increasing trend since 2008, and it further accelerated in 2012. From 2011 to 2012, it increased by as much as 10 percentage points of GDP, and by another 7 points in the following year due to the elevated general government deficit during this period and the reduced economic growth rate. The debt ratio's pace of expansion only slowed down in 2014. According to their latest country report, the IMF expects a turning point in the evolution of the public debt ratio in 2018.[59]

Figure 5.11 Public debt to GDP ratio



Source: IMF, CBJ.

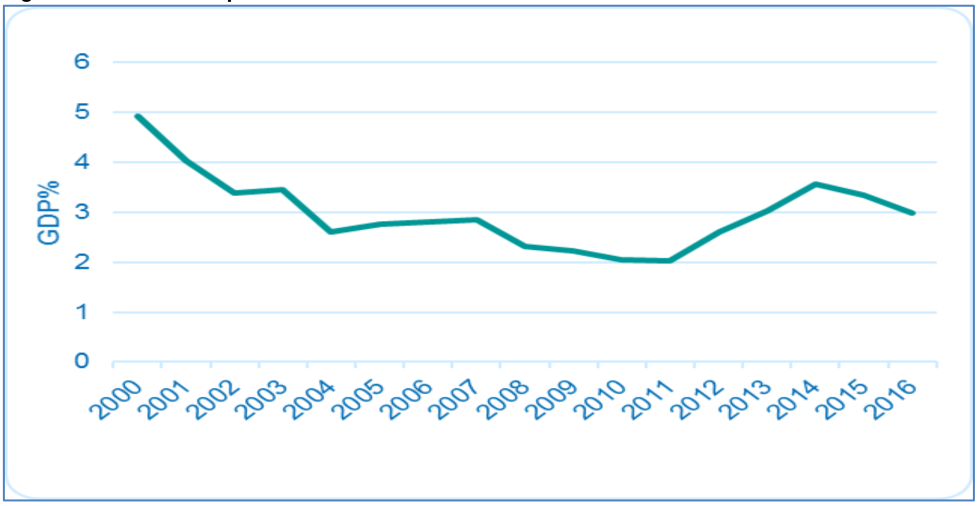
The rising debt levels also bear a feedback loop to the fiscal situation of the country in the form of interest expenditures. As net issuance of debt increased, so did the interest payments in the budget in the following years. This burden reached as high as 3.5 percent of GDP in 2014 – which is 1.5pp increase from 2011. Interest expenditures did not start to decline until 2015 as shown in Figure 5.12. MFA-I contributed to the sustainability of Jordan's public debt as the weighted average interest rate of the MFA-I operation was close to 1 percent when it was fully disbursed in 2015 while the average effective interest rate for Jordan's public debt was 4.6 percent in the same year according to the IMF's Debt Sustainability Analysis.[60] Furthermore, the MFA-I operation offered maturity period up to 15 years, while in 2016 the average maturity period for Jordan's external debt was 6.7 years.[61]

[59] See Section 6.7 for more on the future evolution of public debt.

[60] IMF (2016): „Request for an Extended Arrangement under the Extended Fund Facility" Staff Report.

[61] MoF (2017): „Quarterly Budget Performance Report Q1 of FY2017".

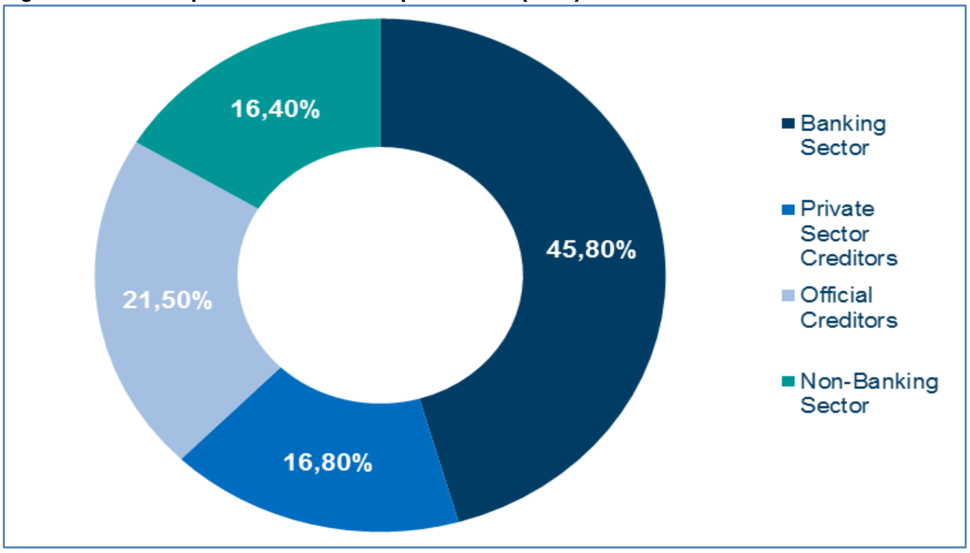
Figure 5.12 Interest expenditures to GDP



Source: IMF, CBJ.

It is also worth tracking the change in the structure of the increasing public debt during this period. However, we do not see any particularly noteworthy change in the average duration of outstanding debt during the analysed period. The short-term (below 1 year remaining maturity) segment constituted 26 percent of the total debt in 2015, while medium and long-term debt added up to 74 percent, indicating no increase in Jordan's rollover risk during this period. A decomposition of public debt shows, that roughly 22 percent of public debt is held by official creditors (governments and international organizations), and external debt constitutes around 38 percent in total (including foreign private sector creditors). The high share of official international creditors within the external debt contributes to a lower sovereign risk, since these assets are not sold during financial stress periods, unlike privately held bonds are in most cases. The total share of the domestic private sector within Jordan's public debt is merely 16 percent, while the largest chunk is held by the banking sector (46 percent), which can be considered a normal structure in this emerging market segment.

Figure 5.13 Decomposition of Jordan's public debt (2015)



Source: CBJ.

To sum up the developments concerning Jordan's fiscal situation, we have seen a clear turn-around in fiscal policy in response to the strong economic headwinds of 2012. A fiscal consolidation scheme was put in place despite the authorities' – and the new government's – known concerns with social tensions at the time. Starting in May 2012, the introduced measures – most notably the reform of general subsidies –

have started to take effect and adjusted the budget's expenditure side. This, combined with favourable energy price developments changes in the energy mix, certain tax increases and adjustments in electricity and water tariffs built on the containment of current expenditures and put the overall fiscal deficit under control: from 8.9 percent of GDP in 2012 and 10.3 percent of GDP in 2014 to 5.3 percent of GDP in 2015 and 3.2 percent of GDP in 2016. In addition, the national electricity provider achieved operational balance in 2016 for the first time since 2010. Even though the above resulted in a significant accumulation of public debt its structure and average maturity has not changed in a way that would lead to increased roll-over risks for Jordan.

5.3 Progress with structural reforms

As agreed in the MoU, the macroeconomic and structural adjustment policy conditions attached to the MFA were based on the economic stabilisation and reform programme endorsed by the Jordanian authorities and were consistent with the agreements reached by the country with the IMF. The first tranche of the MFA was conditional on the SBA being on track as well as on the fulfilment of the general political pre-conditions. The second tranche was, in addition, subject to the fulfilment of a set of nine conditions specified in the MoU. The authorities should accomplish these nine structural reform conditions in the following four policy fields before disbursement of this second tranche.

Public Financial Management (PFM) and Tax Reform
1. Implementation of a new Audit Bureau law;
2. Increasing the number of internal control units;
3. Submission of a new income tax law to Parliament.

Social Safety Net and Labour Market Reform
1. Establish a National Unified Registry (NUR);
2. Make Unemployment Fund and Maternity Fund permanent.

Investment Framework and Trade
1. Submit a new Public Private Partnership (PPP) law to Parliament;
2. Improve the regulatory framework for investment;
3. Implementation of the amended law on Standardization and Metrology.

Energy Sector Reform
1. Adopt a National Energy Efficiency Action Plan.

This section shows the intervention logic related to each of the conditions and describes their implementation. The analysis is based on the Review of Compliance of the EU, EU Progress Reports, IMF and World Bank reports and interviews with different stakeholders.

Condition 1: Audit Bureau law

Table 5.1 Intervention Logic – Condition 1

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
External Audit: a need for methodological and financial independence of	Adopting the new Audit Bureau law by Parliament	Ensure financial independence of Audit Bureau in line with INTOSAI standards	Strengthen the role of the Audit Bureau as a Supreme Audit Institution.

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
the Audit Bureau from the government			Ensure an appropriate separation between internal and external audit.

Condition 1: 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.

Implementation

The current Audit Bureau law in Jordan from 2007 does not provide sufficient independence of the Audit Bureau from the government. The Council of Ministers (CoM) adopted on January 25, 2013 a new draft law and submitted it to Parliament for approval on February 14, 2013. This law aimed at ensuring independence of the Audit Bureau and making its performance audit and ex-post control capacities consistent with International Standards for Supreme Audit Institutions (INTOSAI).

This amended draft law aimed to strengthen the Audit Bureau's financial and administrative independence, including a better definition of the rules for the appointment and dismissal of its President, and conferred legal immunity to both the President and the employees of the Audit Bureau. Its financial independence was meant to be reinforced by having the annual budget of the Audit Bureau approved by the Committee of Parliament.

This amended law was later withdrawn and therefore never adopted by Parliament. In the current year (2017), however, there seems to be some new momentum to improve this law. After studying best practices in other countries, the Audit Bureau prepared a proposal for a revised draft of its law and submitted it to the Council of Ministers under the letter of the AB no. 9/22/6934 dated 16/4/2017.

Condition 2: Internal control units

Table 5.2 Intervention Logic – Condition 2

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Internal Audit: a need to strengthen the internal financial control and audit function within the line ministries	Substantial progress with the establishment and performance of Internal Control Units (ICUs) in the 25 budgetary entities	Strengthen internal controls in line Ministries	Improve economic governance: greater transparency and accountability
	Two new Regulations introduced regarding internal financial control and audit	A phased withdrawal of the Audit Bureau from pre-audit activities	Reduced risk of fraud and corruption with public spending
	Increased ICU staffing and training of staff		

Condition 2: The number and performance of Internal Control Units (ICUs) will be substantially increased in 25 budgetary entities covered by the 2013 training plan (developed jointly by the MoF and the Audit Bureau).

Implementation

The provisions of the current law and deficiencies in the internal financial control and internal audit system resulted in the Audit Bureau being de facto involved in pre-audit (internal audit) activities.

With a view to strengthening internal financial control, the number and performance of Internal Control Units (ICUs) have been substantially increased through a combination of training and increased staffing.

The CoM approved draft Internal Control By-Laws on January 18, 2011 to enable the Audit Bureau to withdraw from ex-ante controls and reviews and to strengthen the internal controls in all 150 Ministries, Departments and Agencies (MDAs). Furthermore, the authorities introduced two new Regulations in December 2014 and March 2015 regarding internal financial control and audit. These regulations better defined the concept of internal control and audit, expanded the scope of internal audit and reinforced the follow up of internal control findings.

The MFA condition focused on the training plan for 2013. In practice, substantial training was provided to the staff of the ICUs: 17 workshops and training courses for a total of 346 ICU workers were organised in 2013 and 16 workshops and training courses for a total of 265 workers were organised in 2014, consistent with the training plans for those years. Moreover, staffing of ICUs increased considerably to 716 employees in 2015 from 663 employees in 2013. Progress was made with the certification of internal auditors. Based on this good progress, it was decided in April 2016 that the Audit Bureau should fully withdraw from pre-audit. By the middle of 2017, the Audit Bureau completed its withdrawal from the pre – audit from all MDAs except one University. In the next semi-annual assessment, the Audit Bureau will assess again whether this University fulfils the withdrawal requirements.

Condition 3: Income tax law

Table 5.3 Intervention Logic – Condition 3

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Income tax collection is low due to low tax rates for individuals and corporates	Submission to Parliament of an amended income tax law with a view to increase tax collection and the progressivity of personal income taxation	Widening the income tax base by lowering the exempted threshold	Higher government revenue and therefore improved fiscal sustainability and less donor dependency
To capture a larger share of the middle-class in the income tax base. Only 3 percent of the population is paying personal income tax.		Increase top tax rates for individuals and corporates	More fairness in the tax system

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.

Implementation

The government submitted to parliament a draft income tax law in line with condition 3. The law was adopted by Parliament in 2014 and entered into force in January 2015, implying a delay of more than two years compared to what the IMF programme had initially assumed. An earlier version of this amended law was already submitted to Parliament in September 2012 but was withdrawn to incorporate recommendations from the IMF and the World Bank.

This adopted law was a watered down version of the initial proposal submitted by the government. It increased progressivity and revenue collections, even though modestly, as it increased the tax rates and introduced new tax grids for individuals, but it failed to lower the exempted threshold regarding individuals. Both the IMF and ECFIN regarded this amended law as a step forward. The authorities also committed themselves to revisiting the law in the near future. In 2015, revenues from the income tax for individuals increased by 33 percent while in 2016, a year with very low growth, they fell by 6.3 percent compared to the previous year. Respectively, revenues from the corporate income tax increased by 6.3 percent in 2015 and by 15.2 percent in 2016 compared to the previous year supporting fiscal revenues.[62]

Condition 4: National Unified Registry

Table 5.4 Intervention Logic – Condition 4

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Protecting vulnerable groups in response to the reform of energy subsidies	Establish a National Unified Registry (NUR)	Poor households are receiving compensation for the liberalisation of energy prices, conditional on the price of oil exceeding USD 100 per barrel	Better targeting the social safety net, while supporting fiscal consolidation
	Establish an appropriately staffed technical unit at the ISTD to develop and manage the NUR		Poverty reduction

Condition 4: the government will make substantial progress towards establishing a NUR combining in a single database all potential beneficiaries of government social assistance programmes. The NUR will consolidate existing databases (e.g., for pensioners, National Aid Fund (NAF) beneficiaries, military, etc.) while developing a database for private and informal sector workers at the Income and Sales Tax Department (ISTD) of the MoF. In order to develop and manage the NUR, an appropriately staffed technical unit will be established at the ISTD.

Implementation

In order to compensate poor households for the liberalisation of energy prices and the removal of fuel subsidies, the authorities introduced a targeted cash transfer programme at the end of 2012. These cash transfers were conditional on the price of oil exceeding USD 100 per barrel. From 2012 onwards, the authorities achieved substantial progress regarding the establishment of a NUR, which aimed at using a more comprehensive and refined database for selecting the beneficiaries of the cash transfer programme. The NUR was most active in the period of high oil prices, when its quick establishment helped in monitoring those receiving oil-price subsidies and reorganizing the subsidy system. The cash transfer programme was interrupted during 2014 in response to the decline of oil prices and since then the NUR has been relatively idle. Although the programme was not fully targeted on the poor households, it helped to achieve substantial fiscal savings. Furthermore, the shift from subsidising petroleum to a means-tested cash transfers significantly improved the progressivity of public spending. In response to the interruption of the cash programme, the government decided in 2016 to move the NUR from the ISTD to the National Aid Fund (NAF, see Box 1).

Box 1 – National Aid Fund – Social Safety Net for the poor

The NAF is a government body that provides a social safety net for the poor. It is an administratively and financially independent organization, as mentioned in its establishment Law no. (36) for the year 1986. One of the NAF's objectives is 'protecting and supporting needy individuals and families through the extension of recurring or contingency financial aid to them'. Its establishment was a response to the elimination of food subsidies. It is providing assistance for families under the poverty line, reaching some 50 percent of them on either a recurring (monthly payments) or exceptional basis. The NAF is collecting information from several dozens of other government institutions and the integration of the NUR should therefore help in streamlining the monitoring of the social assistance. There are around 200,000 families below the poverty line in Jordan, and the NAF is providing

[62] See IMF Article IV and First Programme Review June 2017 and General Government Fiscal Bulletin July 2017 – MoF Jordan.

recurrent assistance to around 84,000 of these families. In the interviews during the field visit it was explained that most of these families are living outside Amman. Their number has been more or less stable in the last five years but its composition changes from one year to another. For each person, a family receives JD 68 per month, up to 4 individuals per family. Therefore a family with 4 or more members receives JD 272 per month. Emergency assistance is received by another 16,000 families per year. They receive one-time assistance ranging from JD 250 to JD 350, depending on the emergency need and the size of the family. Therefore, about 50 percent of the families below the poverty line are receiving financial assistance. For 2017, the authorities increased the budget allocation to NAF from JD 94 million to JD 107 million.

Condition 5: Unemployment Fund and Maternity Fund

Table 5.5 Intervention Logic – Condition 5

<table>
<tr><th>Rationale for the Reform</th><th>Output(s)</th><th>Short-term effects</th><th>Medium-term effects</th></tr>
<tr><td rowspan="3">Better protecting the unemployed and increasing women participation in the labour market</td><td rowspan="2">Make the unemployment fund and the maternity fund permanent through the adoption by the Parliament of the new social security law</td><td rowspan="3">Unemployed and women on maternity leave can rely on both funds on a permanent basis</td><td>More social and economic security for the unemployed and for women on maternity leave</td></tr>
<tr><td>A positive effect on Jordan's low rates of participation of women in the labour force</td></tr>
<tr><td>Ensure the continuous operation of these two Funds, in case of delay in the adoption of the social security law</td><td>Modernization of the social safety net in Jordan</td></tr>
</table>

Condition 5: Make the Unemployment Fund and Maternity Fund 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.

Implementation

With a view to protecting the unemployed and increasing women's participation in the labour market, an Unemployment Fund and a Maternity Fund were created in 2010 on a temporary basis.

Both these funds have received a permanent legal basis, being part of the Social Security Law which was adopted by Parliament on 29 January 2014.

The Unemployment Fund is financed by both employee's and employer's contributions amounting to respectively 0.5 and 1 percent of the worker’s monthly salary. The unemployment benefit, which amounts to up to JD 500 per month, is granted only to individuals who completed an employment period of at least three years. Pensioners have the right to get their contributions reimbursed in case they have not received unemployment benefit during their working life. The Maternity Fund pays the salaries of women during 70 days of their maternity leave. The fund is financed primarily by monthly contributions paid by the employer at the rate of 0.75 percent of the insured worker's salary. It is hoped that the fund will have a positive effect on Jordan's very low rate of participation of women in the labour force. The Social Security Corporation (SSC) is the implementing agency of the Social Security Law (see Box 2).

Box 2 – Social Security Corporation - Employment based social security

The SSC is the implementing agency of the Social Security Law. It is a semi-public entity established in accordance with the temporary Social Security Law of 1978. The SSC commenced business in 1980, applying the principle of a gradual implementation of the stipulations of the law and the various types of social security. The major duties of the SSC are based on the basic concept of social security, which is a comprehensive insurance system that includes a group of insurances aimed at protecting the worker (the insured) against some risks that he/she may suffer. Traditionally, the two major types of social security were the insurance against work injuries and work illnesses and the insurance against old age, disability and death. The temporary Security Law of 2010 added two new types of insurance, one to unemployment and one to maternity leave. These two types were made permanent in Social security Law no. 1, 2014. The current social security system is still employment based (no attention to non-workers).

Condition 6: Public Private Partnership (PPP) law

Table 5.6 Intervention Logic – Condition 6

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Support public and private investment, as well as job creation, in the context of fiscal consolidation	Submit to Parliament a new law on Public Private Partnerships (PPPs) in line with international best practices	PPP law adopted	Increased number of PPPs: additional private finance attracted to fund public provisions
Streamline the institutional setup related to PPP operations	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	Central PPP institution established	

Condition 6: 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.

Implementation

A new law on PPPs was adopted (no. 31 of 2014) and came into force on 4 November 2014. The law was pending parliamentary approval since October 2011 but was later withdrawn to incorporate comments from the World Bank. The new law governs the regulatory and institutional framework for PPP arrangements, including the creation of a PPP council and a PPP unit.[63] The PPP unit followed the recommendations from Public-Private Infrastructure Advisory Facility (PPIAF), which provided Technical Assistance.[64] The new law established an exclusive legal regime for the procurement of PPPs in Jordan. It stipulates a unified tender process, established the institutional framework with a PPP Commission to support line ministries during procurement stage, it laid down the objectives for PPP development (e.g. improve public infrastructure; mobilise private finance) and sets standards for PPP contracts.[65]

---

63 EC, Macro-financial assistance to the Hashemite Kingdom of Jordan: review of compliance with policy conditions disbursement of second tranche (information note to the European Parliament and to the Council), Ref. Ares(2015)3306137 - 07/08/2015.

64 PPIAF supports the institutional and policy environment for PPPs in Jordan, December 2014, http://documents.worldbank.org/curated/en/762281468329337061/pdf/938550WP0Box380rdan0PPP0ImpactStory.pdf.

65 OECD, Public-Private Partnerships in the Middle East and North Africa: a Handbook for Policy Makers, https://www.oecd.org/mena/competitiveness/PPP%20Handbook_EN_with_covers.pdf.

Since July 2016, two ministries, Energy & Mineral Resources and Water & Irrigation, have been exempted from this law for a period of two years. These exemptions were requested by these ministries to complete specific projects and approved by the Cabinet. These two ministries are rather active in the field of PPPs. It is not clear what will happen in 2018, at the end of this two-year period. The PPP unit is in favour of bringing these sectors back under the PPP law.

The PPP council is the main body to take decisions. It is headed by the Prime Minister and all relevant ministries (MOF, MOPIC, MIT, Ministry of Energy) are represented in the Council, as well as the representative of the Central Bank and the director of the PPP unit. The Council meets on average every 3-4 months, upon agenda. The PPP unit was established as well and has currently a staff of seven professionals. They are supported by the World Bank and IFC in the following areas: financial contingence liability guidelines, capacity building for line ministries, visibility studies and drafting a roadmap for the next three years.

PPP regulation, or the executive part of the law, was adopted by the Council of Ministers in 2015. With support from the World Bank, all PPP-related procedures were unified and moved towards best international practices. Currently, key aspects missing are some standard procurement documents, such as proposals and tender calls. Jordan receives Technical Assistance from USAID to work on this aspect.

Condition 7: Regulatory framework for investment

Table 5.7 Intervention Logic – Condition 7

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Contribute to a better institutional and regulatory framework for investment, which would have a positive effect on foreign and domestic investment as well as job creation	A new Investment Law will be implemented	Unify the regulatory framework for investment, streamline the system of investment incentives and ease statutory restrictions to foreign ownership	Increased number of investments in Jordan
Provide follow up to the OECD recommendations in the context of Jordan's application for adherence to the OECD Declaration on International Investment and Multinational Enterprises	Substantial progress will be made towards the adoption by Cabinet of the relevant by-laws	Establish the principle of one-stop shop to facilitate company registration and project licencing	

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.

Implementation

Jordan's new Investment Law (No. 30/2014) entered into force on 16 October 2014. The new law unified the regulatory framework for investments and merged the various bodies responsible for investments, namely the Jordan Investment Board (JIB), the Development and Free Zones Commission and the Jordan Enterprise Development Corporation, under the umbrella of the newly established Jordanian Investment Commission (JIC). JIC is a government entity which was formally established in 2015. It reports directly to the Prime Minister and has about 120 professional staff. An earlier version of this law was submitted to parliament in September 2012, but withdrawn, adjusted and resubmitted in June 2013.

In addition, two by-laws were approved by the authorities in April 2015. The first by-law refers to the set-up of a comprehensive framework for the granting of tax exemptions for investments under different economic activities. The second by-law refers to the creation and functioning of a one-stop-shop. The preparation and approval of these by-laws were part of the implementation of the new investment law. These steps were consistent with Jordan's commitment to adhere to OECD Declaration on Investments and Multinational Enterprises, undertaken at the end of 2013.[66]

Condition 8: Amended law on Standardization and Metrology

Table 5.8 Intervention Logic – Condition 8

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Strengthen consumer safety and increase market access to the EU and other markets	Implement the amended Standards and Metrology Law	Definition of, inter alia, new obligations of economic operators regarding product safety and establishment of a new conformity assessment and market surveillance regime in Jordan consistent with EU practices	Conclusion of ACAA of industrial products between Jordan and the EU
Prepare for the launch of the negotiations on the Agreement on Conformity Assessment and Acceptance (ACAA)	Adoption by the Board of Directors of the JSMO of 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	Advance preparation for the launching of the ACAA negotiations	increased export to the EU in three priority sectors

Condition 8: 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 Agreement on Conformity Assessment and Acceptance (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).

Implementation

On 3 June 2015 the Lower House of Parliament endorsed during an extraordinary session the amended Standards and Metrology law. This law replaced the earlier version of the law from 2008. The amendments met EU and WTO requirements: importers can return goods that do not meet national standards to any country, not just to the country of origin.[67] An earlier version of this Law was initially not adopted: the

[66] Macro-Financial Assistance to the Hashemite Kingdom of Jordan: Review of the Compliance with Policy Conditions for Disbursement of Second Tranche (Information Note to the European Parliament and to the Council), Brussels, ECFIN.D2/SD/lg Ares(2015) 369512, 7 August 2015.

[67] EC, Macro-financial assistance to the Hashemite Kingdom of Jordan: review of compliance with policy conditions disbursement of second tranche (information note to the European Parliament and to the Council), Ref. Ares (2015) 3306137 - 07/08/2015.

Jordan Senate sent the draft law back to the Lower House for further consideration because some of the amendments were not in line with WTO legislation.

By mid-2015, 26 out of the 41 of the horizontal instructions and vertical regulations on toys, electrical equipment and gas appliances were adopted by the JSMO Board. The preparation of these instructions and regulations were supported by an EU Twinning project. Of these 26, 23 are related to eco-design and labelling and the other three are related to packaging (plastic materials related to food). Five of these 26 are horizontal instructions (accreditation, general product safety, etc.) and the other 21 are vertical regulations (related to the three selected sectors, electrical products, gas appliances and toys). In addition to the 26 regulations and instructions described above, the other 15 instructions and regulations were still in draft and need further work. These further preparations will be supported by another new EU Twinning project.[68]

Condition 9: National Energy Efficiency Action Plan

Table 5.9 Intervention Logic – Condition 9

Rationale for the Reform	Output(s)	Short-term effects	Medium-term effects
Ensure the sustainability of the energy sector, while improving energy efficiency.	Implement the goals and objectives of the first NEEAP.	Addressed short-term budget pressures related to fuel subsidies and associated losses at NEPCO.	Reduced reliance on oil imports and improved security of the energy output by utilizing indigenous resources and renewable energy.

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 (NEEAP) for 2012-2014. These measures should help reduce energy dependency and diversify energy sources.

Implementation

The first NEEAP in Jordan was approved by the Council of Ministers in June 2013 for a programme period of three years. This NEEAP was formulated in connection to the Arab Electrical Energy Efficiency Guideline approved by the Arab Ministerial Council of Electricity in November 2010.[69] The implementation of the NEEAP depends on the assessment of key indicators for electricity consumption, and it set a quantitative target for energy savings, which were to be achieved by 2014. The first NEEAP aimed at reducing energy consumption by 7.1 percent, which equals to around 806 GWh. For more on the implementation and the results of the first NEEAP, please refer to the second case study in Section 7.2.

5.4 Social developments

In the past decade, the main challenges for social development in Jordan have resulted from (i) an on-going demographic change of a fast rising proportion of youth in the population, and (ii) the influx of refugees from the neighbouring countries, especially Syria. Jordan's national census of 2015[70] have put the number of Syrians residing in the country to over 1.2 million.[71] These developments have resulted in the decline of Jordan's income per capita measures, which led to the downgrading of the country to lower middle-income status by the World Bank in 2017.[72] This decline in the broad measures of the country's

68 Interview with the JSMO.

69 See http://www.rcreee.org/sites/default/files/plans_jordanian_neeap_summery_2013.pdf.

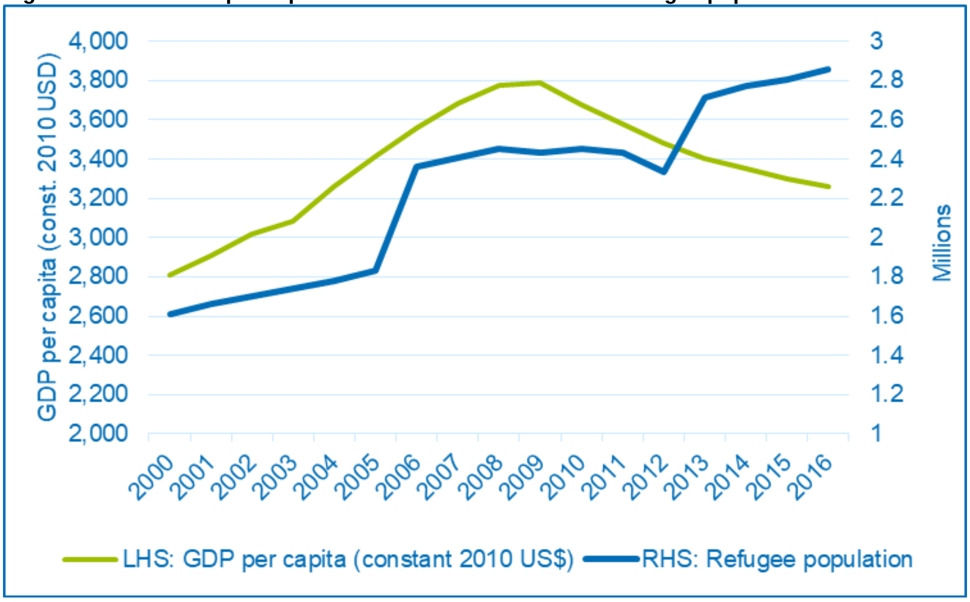
70 See https://www.unicef.org/jordan/media_10894.html.

71 Note, that estimates for the exact number vary greatly.

72 See: https://blogs.worldbank.org/opendata/new-country-classifications-income-level-2017-2018. On July 1, 2017, Jordan has been downgraded from upper ($3,956 to $12,235) to lower middle income country ($1,006 to $3,955), Classifications are based on the previous year's GNI per capita estimates.

welfare, such as the real GDP per capita, has been visible since 2010, as the peaks in the influx of Iraqi and Syrian migrants observed in 2005-2006 and 2012-2013 have reduced the per capita GDP, as illustrated in Figure 5.14.

Figure 5.14 Real GDP per capita in Jordan and the rise of the refugee population



Source: World Bank.

The aforementioned demographic challenges have exacerbated the long-standing social problems of high unemployment and poverty.[73] Combined, these social phenomena represent a significant threat for the macroeconomic, social and political stability of Jordan, which has long been recognized by both the authorities and the international donor community and which underscores a need for an effective social policy response.

To better understand these social issues, we will first look at the structural issues in the labour market of Jordan, which will help put light on the long-standing problems of the country. In this respect, we will look at how the country compares to its peers in terms of key labour market indicators. Afterwards, we will give an overview of how the labour and social aspects of the country have changed in the past several years.

Looking at the main structural features of Jordan, we can note its special demographic properties, namely that it has the youngest population among the middle-income countries. Even before the Syrian crisis, its population was rising much faster than the regional average, in 2015 the young people aged 15-24 constituted almost 20 percent of the population.[74]

The rising proportion of the young generation – both due to natural growth and migration – in the Jordanian society has long been putting pressure on the labour market. Furthermore, Jordan's labour market has problematic features to begin with. There is a lack of high skilled jobs, for which the competition among fresh graduates is fierce. Only 40 percent of those exiting the education system are absorbed into the labour market.[75] At the same time, lower skilled Jordanians are likely to experience competition with the ever increasing number of refugees. These main characteristics of the country has led

[73] For instance, the World Bank (2014) and IMF (2014) report that in 2010, 33 percent of the population experienced transient poverty, while 14 percent were below the poverty line on a permanent basis. Both agencies also point to a chronic income inequality as one of long-term social challenges.

[74] See World Bank population data at: http://data.worldbank.org/country/jordan.

[75] See ILO (2015): The Jordanian Labour Market: Multiple segmentations of labour by nationality, gender, education and occupational classes.

to a historically poor performance in most aspects of the labour market. The unemployment rate has been persistently high[76], and the labour market participation rate severely low.

Jordan’s chronic issues in this respect become clearly visible in a regional perspective: the country is trailing its peers in terms of key labour market indicators (see Figure 5.15). Its employment and the labour force participation of the youth and the women are at especially low levels in comparison. For instance, the employment and the labour force participation of the youth is by far the lowest in the region, falling behind both Iraq and Lebanon. The labour market participation rate of women, whose employment and empowerment is a key social challenge, is also among the lowest in the region (though marginally higher than those in Iraq). The low participation rate among these groups is despite the fact that both the youth and women in general enjoy good (though uneven) access to education and are generally well-qualified.

We can identify several reasons behind the structurally low level of the participation rate in Jordan, namely the challenging situation of the young population and the women. Looking at youth, an important phenomenon influencing and distorting their labour market participation is the important role of governmental jobs in the labour market. The government sector is the largest employer, accounting for around a quarter of the employed population.[77] Only small fractions of the population are classified as own-account workers or self-employed with employers. Furthermore, they are mostly male. The government sector thus functions as an important standard and expectations setter in the labour market. As a consequence, the Jordanians expect stable, secured and salaried job positions, which affects their labour market activity and disproportionately impacts the youth who are outside the close-rank governmental job system. The insufficient number of kindergartens (or any early childhood care), and the different cultural norms (e.g. a preference for raising children over choosing a career) are important factors in explaining the low labour market participation rate of women. Furthermore, the impaired transportation infrastructure is a serious constraint to labour mobility, and hence an important determinant of the low overall participation rate.

[76] It was continuously above 10 percent in the past decade.

[77] Our documents obtained from MoL (2016) report a stable ratio of around 26 percent for public sector employment in the past five years, however it is somewhat lower than the roughly 35 percent ratio we find in ILO (2012): Jordan's National Employment Strategy 2011-2020.

Figure 5.15 Regional comparison of labour market performance (2014)

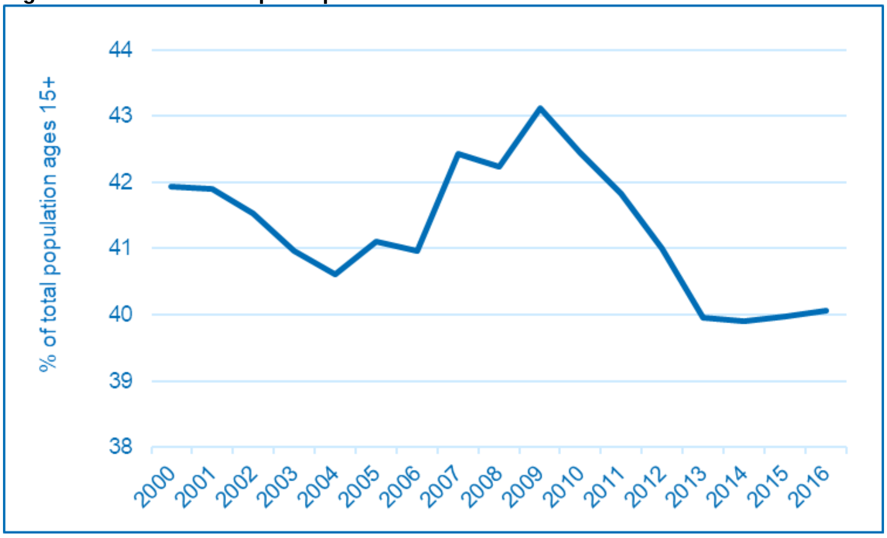
Source: MoL, World Bank.

Another long-standing issue in Jordan is related to poverty levels. In 2010, an estimated 14.4 percent of the population were below the poverty line. While in regional comparison it is not strikingly high, as Iraq, Lebanon and Egypt all have higher rates according to the World Bank (19, 27 and 25 percent respectively in the most recent observations), it can still be considered high compared to more stable countries like Turkey, where this ratio was merely 3.7 percent in 2010, the comparable year. Furthermore, about 33 percent of Jordanian households experienced transient poverty[78] in the same year.

Next, we will look at how the country has performed in its social aspects in the past several years to see if the aforementioned structural challenges have abated or not. First looking at the overall labour force, we see a participation rate of 40 percent in the past four years, which is below the regional average. After the Global Financial crisis, the increasing trend of 2004-2009 has reverted, and the last couple of years have only brought about a stagnation in the ratio (2013-2016).

78 Transient poverty ratio lists those who were poor during at least one quarter of the observed year, even though their annual average per capita consumption puts them above the poverty line.

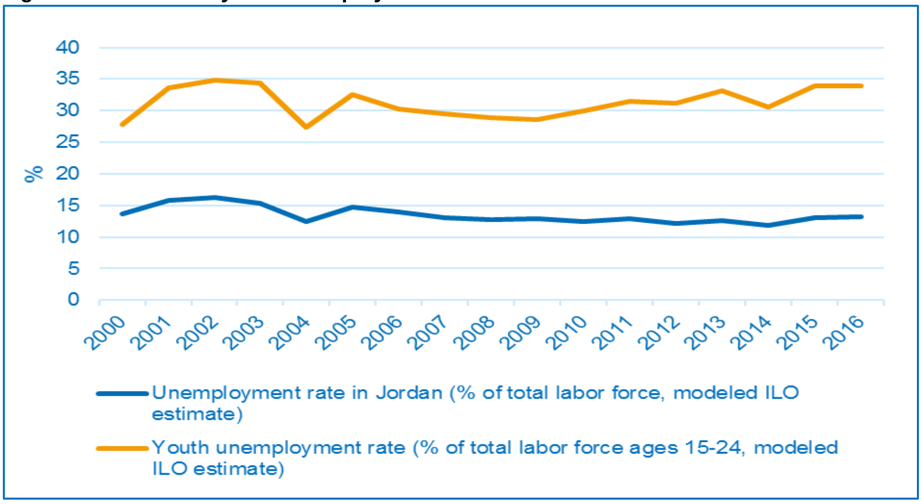
Figure 5.16 Labour force participation rate in Jordan



Source: World Bank.

The high unemployment ratio shows no positive developments in the past 10-15 years either. Between 2013 and 2016, the period most relevant to our evaluation, it averaged 12.7 percent. It is worth stating that the young population (aged 15 to 24) accounts for almost half of the unemployed. With a youth unemployment rate of 33 percent (the average of the past five years) Jordan counts among the worst in the world.

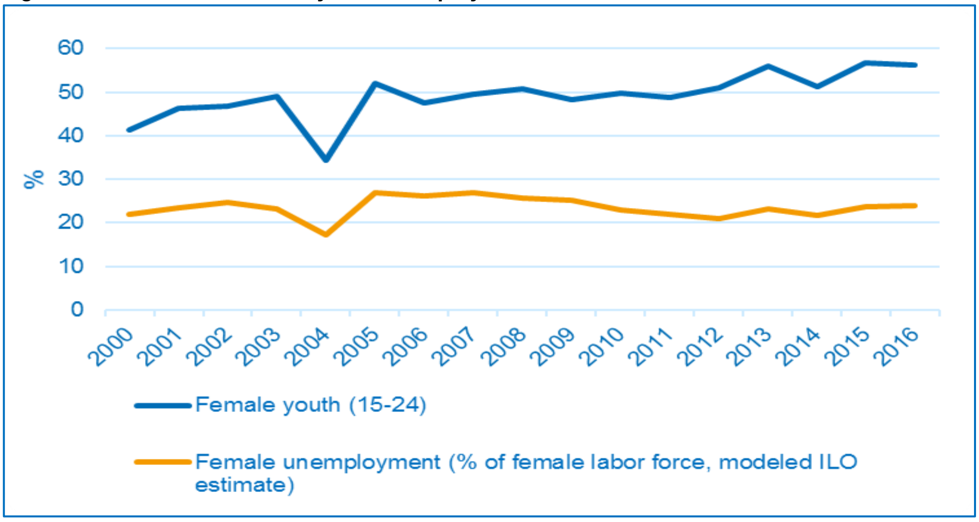
Figure 5.17 Total and youth unemployment rate in Jordan



Source: World Bank.

Among the general population, women fall very much behind men in terms of their situation on the labour market activity, and this is particularly true for young women. The female participation rate of the country is below 15 percent compared to 64 percent for men. Their unemployment rate is roughly double to that of men, and female youth unemployment is strikingly high (above 50 percent), and showed no improvement until 2016.

Figure 5.18 Female and female youth unemployment rate in Jordan



Source: World Bank.

Exacerbating the challenge of the young generation inclusivity has been the high number of refugees from various neighbouring countries. Particularly severe has been the impact of the Syrian crisis since its outbreak in 2011, with hundreds of thousands of Syrian refugees[79] living in the Jordanian territory (the UNHCR estimate puts their number at approximately 10 percent of the population) today. The majority of these refugees have already been relatively successfully integrated within local communities outside the refugee camps.

The process of integrating the refugees in the Jordanian society has had large demands on the public budget and has brought additional pressure on the housing and labour markets, social and cultural cohesion, and social and physical infrastructure. The total fiscal costs of the refugee crisis have been estimated between USD 617 million and USD 2.5 billion or 2 to 6 percent of GDP[80] annually, out of which about 60 percent are direct budget costs. According to these estimates, the total monetary costs of handling the refugee crisis could represent as much as 25 percent of the entire annual general government budget.[81]

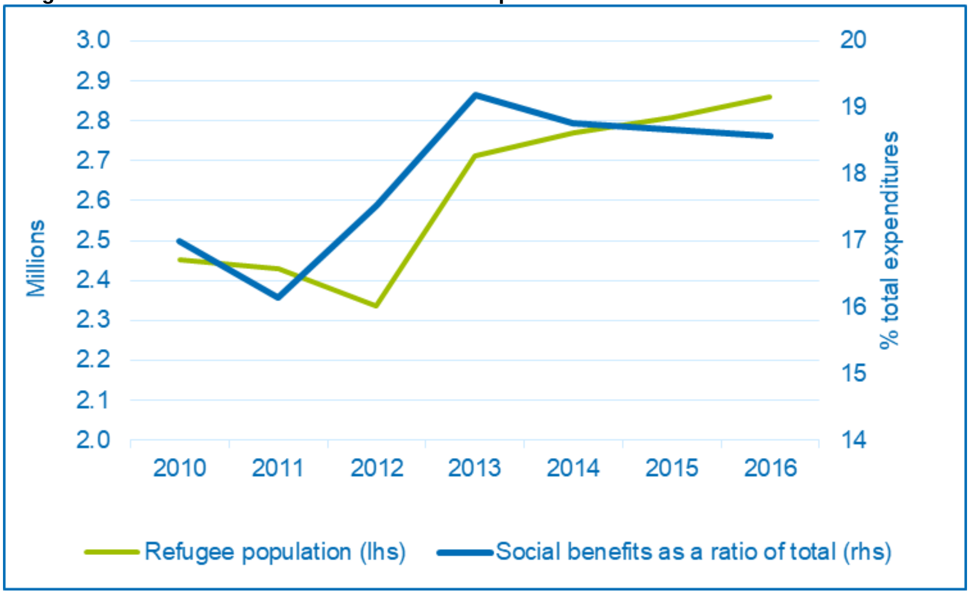
We can also look at this impact in terms of the expenditure dynamics in the budget, and observe how the ratio of social benefits has changed in relation to the total expenditures. Social benefits rose to around 19 percent and stayed at that elevated level in later years (for more on budget developments, please refer to Section 5.2).

79 Official figure, see: http://data.unhcr.org/syrianrefugees/country.php?id=107. The Government of Jordan puts the estimate at a much higher level of 1.2 million, based on the national census of 2015.

80 See USAID, 2014: https://www.usaid.gov/sites/default/files/documents/1883/Amended-Jordan-Country-Development-Strategy-March-015.pdf.

81 See http://www.jordantimes.com/news/local/25-jordans-budget-goes-refugee-related-costs.

Figure 5.19 Social benefits as a ratio of total expenditures



Source: MoF, World Bank.

The non-monetary costs of integrating the refugees are also large. The competition on the labour market has increased significantly as well as the demand for resources. The water sector, which is particularly vulnerable as Jordan is a water-scarce country, has been affected by the influx of refugees, which increased consumption. In addition, refugees need access to the education system and health services, putting additional pressure on these sectors. Another effect is the scarcity of housing and the subsequent rising level of house rents.[82] The emergence of a large informal sector[83] is a particularly dangerous phenomenon, calling into question the achievements in strengthening the social safety net. This large and increasing informal sector, the lack of formal employment and the dominant role of the government as employer in the formal sector were also flagged in the first focus group meeting on structural conditions.

Corresponding to these shifts is an on-going cultural change. For instance, the crime tolerance has reportedly risen markedly, as the local communities have become more apathetic.[84] The dire situation with housing and employment for the youth is feeding the growing incidence of child labour and marriages. For instance, in 2014, the Ministry of Labour and the USAID estimated that one in ten refugee children was working, amounting to some 30,000 Syrian refugee boys and girls engaged in labour activities.[85]

The response of the Jordanian authorities to these trends has varied over time. The original strategy of alleviating the social burden through broad-based energy price subsidies and wage increases backfired, when their budgetary implications were recognized as unsustainable, putting the internal and external macroeconomic balance in jeopardy.[86] This experience underscored the need for a well-targeted and also a well-balanced social reform.

With the help of the international community, Jordan has been implementing measures targeting specific social phenomena with budget-sensitive measures and reforms since 2012. Central in this process was the introduction of targeted cash subsidies to compensate the poor for the abolishment of the landslide energy price subsidies. This measure as well as the adjustment of electricity tariffs and the introduction of LNG as fuel for electricity

82 https://www.usaid.gov/news-information/fact-sheets/addressing-impact-syria-crisis-jordan.

83 This informal sector has historically grown after times of economic shocks, such as the Gulf Wars, and times when the influx of refugees was high. For more on this, see: http://www.undp.org/content/dam/jordan/docs/Publications/Gov/The%20Informal%20Sector%20in%20the%20Jordanian%20Economy-jo.pdf.

84 We obtained this information from our interview with the Jordanian Ministry of Social Development on March 28, 2017.

85 For more background on these numbers, see for example UNHCR (2014): Joint Assessment Review of the Syrian Refugee Response in Jordan.

86 For more on this, see the IMF SBA staff report of 2012.

generation helped to put NEPCO back to cost-recovery[87] in 2016. Other measures aimed at enhancing labour and social protection mechanisms, for example through the Unemployment and Maternity Funds.

In 2014, the country introduced a new Social Security Law, which covered self-employed workers in the pension system, as well as introduced the aforementioned unemployment insurance benefits and the maternity insurance. This way, Jordan was the first country in the Middle East to provide a maternity insurance system, which provides cash benefits.[88] This was a unique and important step to providing economic security for women on maternity leave. Furthermore, since the Maternity Fund was designed to pay the salaries of women during 70 days of their maternity leave, it also protected pregnant women in the labour force, who were many times fired in the previous system, as their private employers were unwilling to bear the financial burden themselves.

Finally, a very specific category of assistance targeted the social impact of the refugee crisis. The EU has played a very important role in this assistance, addressing the needs of both the refugees and the host communities with the humanitarian aid and development assistance. Additional response to the refugee crisis came through the EU Regional Trust Fund ('Madad fund'), targeting Syria and its affected neighbouring countries.[89] The Jordanian authorities have addressed the remaining social challenges by a number of reforms combining the measures targeting a higher labour force participation rate, and those protecting the most vulnerable groups and strengthening social inclusion. Creating new job opportunities, especially for the youth, has been among the top priorities for a number of different agencies, because labour creation helps to address many of the socio-pathological trends, while being budget friendly at the same time. For instance, the Ministry of Social Development runs a programme providing small loans to families, and grants to communities and small businesses in the most vulnerable sectors and areas. One of the newest programmes provide small scale, revolving loans to the youth, to help combat crime and extremism, and strengthen their social inclusion.[90] The Development and Employment Fund is supporting the self-employment and small business creation in socially challenged groups and areas through micro-finance loans and training.[91] These programmes are also seeking to strengthen employment within the non-government sector through self-employment and self-empowerment of disadvantaged groups.

A number of other social programmes seek to strengthen the social safety net and increase the awareness among the most socially vulnerable groups through growing their network of social centres. Many donor-financed projects also aim at strengthening the resilience of the Jordanian educational system, and the enrolment ratios of the refugee children.[92] This area also came under pressure with the onset of the Syrian crisis. Though official secondary school enrolment ratios were flat at around 83 percent from 2013 onwards, and educational attainment levels have not changed significantly in the last five years, there are still clear signs of stress. We see a marked increase of out-of-school adolescents in 2013, which could also be a sign of deteriorating child care in recent years.

Table 5.10 Ratio of adolescents out of school in Jordan

Period	Adolescents out of school (% of lower secondary school age)
Avg. 2006-08	2.9%
Avg. 2013-14	15.3%

Source: World Bank.

Besides trying to reinforce the schooling system, other projects also aimed at addressing the labour market skill mismatches, labour force participation and the labour migration. For instance, the GIZ

87 See our assessment of condition 4 in Section 5.3.
88 See http://www.ilo.org/wcmsp5/groups/public/---arabstates/---ro-beirut/documents/publication/wcms_542358.pdf.
89 For the details of and the amounts covered by the related EU support instruments, see Section 2.2.
90 Interview with the Ministry of Social Development in Amman on March 28, 2017.
91 Interview with the Development and Employment Fund in Amman on March 27, 2017.
92 See for example, USAID (2015): Country Development Cooperation Strategy, 2013-2017.

(Deutsche Gesellschaft für Internationale Zusammenarbeit) has calculated that at least JD 140 million worth of donor-financed projects are aimed at improving the various aspects of the labour market. More than 10 donors are involved in projects with 20 different labour market objectives. While this points at a remarkable importance that the international community continues to pay to the social and labour market issues in Jordan, it also underscores the difficulties both the Jordanian authorities and the donor agencies face in coordinating their efforts in an efficient and effective manner.

6 Answers to the evaluation questions

This chapter presents the detailed evaluation questions structured around the evaluation criteria. For a general overview of the structure of questions and sub-questions, please refer to the table below, which not only shows the ordering of our questions, but also their connections to the questions found in the Terms of Reference ECFIN (2016 019/D) and the questions found in the Guidelines for the Ex-Post Evaluation of Macro-Financial Assistance Operations (June 2015).

Table 6.1 Evaluation question and sub-questions matched to TOR and MFA Guidelines

Evaluation Question	Evaluation criteria and themes	TOR Question	MFA Guidelines Question
EQ1	Relevance	Q1	Q1
EQ1.1	Relevance of the objectives		Q1.1 – Q1.2
EQ1.2	Relevance of the financial envelope		Q2.1 – Q2.2
EQ1.3	Relevance of the conditions		Q3.1 – Q3.3
EQ2	Effectiveness	Q2	Q4
EQ2.1	Effectiveness – macroeconomic conditions		Q5.1.2 – Q5.1.5
EQ2.2	Effectiveness – fiscal policy		Q5.2.3 – Q5.2.4
EQ2.3	Effectiveness – structural reforms		Q5.3
EQ3	Efficiency	Q3	Q1.2
EQ4	EU added-value	Q4	Q6
EQ5	Coherence	Q5	Q7
EQ6	Social impact	Q6	NA
EQ7	Impact on debt sustainability	Q7	Q5.2.1

6.1 EQ1: Relevance of the operation

In this section, the overall appropriateness of the MFA's design, including the definition of objectives, the adequateness of the financial envelope and of the conditions are addressed. The main evaluation question on relevance (as presented in Chapter 3 above) is broken down in three sub-questions, looking at the relevance of the objectives, the financial envelope and the conditionality. These sub-questions are further specified below. The analysis is based on the first three questions of the MFA guidelines. The analysis is both qualitative and quantitative, relies in particular on data analysis, and interviews with key stakeholders.

Table 6.2 Evaluation Question and sub-questions on the relevance of the MFA operation design

Evaluation question and sub-questions	Evaluation criteria and themes
EQ1. To what extent was the MFA operation design and outcomes appropriate in relation to the outputs to be produced and the objectives to be achieved?	**Relevance**
EQ1.1 To what extent can the MFA design and outcomes considered to have been appropriate?	Relevance of the objectives
EQ1.2 Were the amounts and terms of the financial assistance provided to Jordan adequate?	Relevance of the financing envelope
EQ1.3 Was the conditionality of the MFA operation appropriate in relation to the objectives to be achieved?	Relevance of the conditionality

6.1.1 EQ1.1: Relevance of the objectives

The first sub-question (EQ1.1) focuses on the overall relevance of the operation and its design.

Table 6.3 Sub-question on the relevance of the objectives of the MFA operation design

EQ1.1 To what extent can the MFA design and outcomes considered to have been appropriate?
EQ1.1.1 Were the objectives of the MFA operations relevant in relation to the economic challenges of Jordan?
EQ1.1.2 In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its objectives?

EQ1.1.1 Were the objectives of the MFA operation relevant in relation to the economic challenges of Jordan?

The objectives of the MFA are stated in the legislative Decision of the European Parliament and the Council of 11 December 2013, and can be categorized into overall and specific parts. The document cites the following, as the general objective of the MFA: *"to support the restoration of a sustainable external financing situation for Jordan, thereby supporting its economic and social development"*. In addition to this, the following specific objectives are mentioned: *"to strengthen the efficiency, transparency and accountability of the public finance management systems in Jordan and promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation."* To address these, the MFA also set list of structural criteria to achieve these objectives, which is further elaborated on in Section 6.2.3.

The Commission's SWD "Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan" explains the objectives of the MFA operation in more detail:[93]

- Contribute to covering the external financing needs of Jordan in the context of a significant deterioration of the country's external accounts brought about by the negative shocks to the energy sector and the economic and political developments in the region;
- Alleviating Jordan's budgetary financing needs, also in the context of the Syrian refugee crisis;
- Support the fiscal consolidation effort and external stabilisation in the context of the IMF programme;
- Facilitate and encourage efforts of the authorities of Jordan to implement measures identified under the EU-Jordan Action Plan, while reinforcing the EU's economic policy dialogue with the authorities; and
- Support structural reform efforts aimed at improving the overall macroeconomic management, strengthening economic governance and transparency, and improving conditions for sustainable growth.

In terms of the impact envisaged, the MFA Proposal noted "the MFA 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, as agreed with the IMF." Specifically, it lists that the support will help to:

- Improve the efficiency and transparency of public finance management;
- Promote fiscal reforms to increase tax collections and improve the progressivity of the tax system;
- Support existing efforts to strengthen the social safety net; promote labour market reforms (to reduce unemployment and raise participation rates, notably among women); and
- Facilitate the adoption of measures to improve the regulatory framework for trade and investment.

While no specific statement is made to the social impact of the MFA in the core text of the Proposal and its accompanying SWD, the legislative financial statement summarizes:

---

93 Commission SWD Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan, Accompanying the document Proposal for a Decision Of The European Parliament And Of The Council providing macro-financial assistance to the Hashemite Kingdom of Jordan {COM(2013) 242 final}, 29 April 2013.

> *"The proposed assistance consists of an EU loan of EUR 180 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 overcome the economic and social hardships endured as a result of the domestic and regional unrest. It will also promote structural reforms aimed at raising sustainable economic growth and improving public finance management."*

Based on the economic challenges in Jordan in 2013, also described in Chapter 2 and 5, it can be concluded that the objectives of the MFA operation were very relevant. The most relevant objectives were those related to the external and budgetary financing needs. As discussed in Section 5.2, in response to the Syrian refugee crisis and the fear of intensifying social and political tensions in the society, the authorities increased social spending, wages and commodity subsidies in 2011. The repeated and extensive disruptions to the flow of natural gas from Egypt, together with high and rising oil prices, also required more imports of expensive fuel products for electricity generation. Furthermore, Jordan was in need of financing in the context of a significant deterioration of the country's external accounts (see Section 5.1). Financial support was justified to help Jordan pursuing its fiscal consolidation effort and external stabilisation in the context of the IMF programme.

EQ1.1.2 In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its objectives?

The overall design of the MFA programme was relevant with respect to the objectives. The disbursement criteria of the two instalments were linked to the indicators for assessing fulfilment of the objectives. The criteria for the release of the first tranche allowed for quick disbursement, as it relied on a satisfactory track record in the implementation of the SBA. Therefore, this was in line with the MFA's objective to provide short-term BoP support, making quick disbursement possible. The conditions formulated for the second instalment were in line with the areas identified in the MFA I Proposal for envisaged impact. For the authorities, the MFA was one of the few sources of un-earmarked donor support to the budget, which was really important.

An ample majority of 11 out of 16 respondents of the Delphi questionnaire also agree with the statement in question 9 that the current design of MFA "with the first tranche linked to the IMF SBA progress in general and the second tranche lined to specific structural conditions, with some links to SBA benchmarks was the most optimal choice."

6.1.2 EQ1.2: Relevance of the financial envelope

The second sub-question (EQ1.2) focuses on the adequacy of the amounts and terms of the financial assistance. These questions aim to scope both initial and continued relevance.

Table 6.4 Sub-question on the relevance of the financial envelope of the MFA operation

EQ1.2 Were the amounts and terms of the financial assistance provided to Jordan adequate?
EQ1.2.1 Identify the main differences and reasons between the country's actual financing requirements and those foreseen at the inception of the programme (IMF & MFA).
EQ1.2.2 Has the decision to provide only loans (no grants) been appropriate in relation to the prevailing economic and financial conditions in Jordan?

EQ1.2.1 Identify the main differences and reasons between the country's actual financing requirements and those foreseen at the inception of the programme (IMF & MFA)?

In the decision-making process, the appropriateness of the financial support was discussed. The Report from the Financial Counsellors Working Party meeting of 16 July 2013[94] noted that the Member States asked for an update on the macro-economic situation in Jordan. In the Meeting with the Financial

[94] ECFIN, Report: Financial Counsellors Working Party (WP) of 16 July 2013 on the MFA Jordan, ECFIN/D2/NL/dl Ares(2013)2870727, 18 July 2013.

Counsellors, the Commission emphasised the need for quick action, as they pointed out the severe balance of payments situation in Jordan in the first half of 2013.

In the MFA proposal, adopted in April 2013, the external financing gap for the IMF programme period (2013-2015) was estimated to be USD 5.9 billion. Taking the SBA and the World Bank DPL into account, the gap would still be USD 4.1 billion. It was expected that USD 3.737 billion would be funded mainly by the GCC countries (USD 3 billion), the United States (USD 563 million), France (USD 64 million) and Japan (USD 110 million). With the MFA, USD 3.917 billion would thus be covered. The MFA made up 4.4 percent of the residual gap, which would not be entirely closed.[95]

The MFA Proposal stated that the amount of MFA was in compliance 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."[96] Covering 4.4 percent of the residual finance gap for 2013-2015 was seen to be an appropriate level of burden-sharing for the EU, given the pledges made by other donors and creditors.

In a 'Non-Paper', an update on the balance of payments of Jordan, as well as on the status of the programme agreed under the SBA approved by the IMF in August 2012, was provided to the Financial Counsellors WP.[97] It noted amongst others that:

- The current account deficit excluding grants further increased in 2012 to 22.9 percent, compared to the 20.6 percent of the GDP proportional deficit estimated in February 2013 and to 18.9 percent of GDP projected at the time of the approval of the SBA;
- New estimates for the current account deficit include 18.6 percent of GDP in 2013 (4.4 percentage points higher than originally forecasted) and 15.1 percent of GDP in 2014 (3.6 percentage points higher than originally forecasted);
- Although more grants than expected flowed in from the GCC countries in 2012-13, this was not sufficient to offset a growth of the deficit including grants (projected at 11 percent and 9.9 percent of GDP for 2013 and 2014);
- Gross usable reserves recovered to USD 8.6 billion by 4 July 2013 and were projected to reach about USD 9 billion (or about 4.9 months of imports) by the end of the year. However, the EC notes this was due to front-loading of GCC countries' disbursements, which were already taken into account by the IMF and the EC in assessing Jordan's external financing needs.

Moreover, it was reiterated that the main underlying factors pressing on the balance of payments, which were the disruptions of gas supply from Egypt, high energy prices, and the impact of the Syrian crisis, were still present. These factors validated the MFA support to Jordan.

First instalment

The first instalment was eventually released on 10 February 2015, almost two years after decision-making within the EU on the MFA took place. This partly resulted from a six-month delay of the Jordanian authorities to amend Public Debt legislation. Although the identified underlying factors for fiscal distress were still persistent, the Jordanian economy had recovered in 2014: GDP had grown with 3.1 percent and inflation decreased to 2.9 percent (from 4.8 percent in 2013). The fiscal deficit remained high, although it decreased from 11.4 percent (2013) to 9.9 percent (2014) because of inflows of foreign grants.

The current account deficit (including grants) was estimated to have decreased to 7.3 percent of GDP in 2014, compared to 10.3 percent of GDP in 2013. Excluding grants, the current account deficit has declined

[95] Commission SWD, Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan, April 2013.
[96] Proposal for MFA I Decision, April 2014.
[97] Non-Paper: Proposal for a Decision of the European Parliament and of the Council providing Macro-Financial Assistance to the Hashemite Kingdom Of Jordan - Update on Jordan´s balance of payments and status of IMF programme, ECFIN/D2/ALT/ Ares (2013)2881424, 19 July 2013.

from 17.1 percent of GDP in 2013 to 13.6 percent of GDP in 2014. These figures indicated a smaller current account deficit than predicted in July 2013 in the 'Non-Paper' to the Member States. Public debt had increased to 90 percent of GDP at the end of 2014 (compared to 80 percent of GDP at end-2012) but was expected to remain stable and eventually decline. FX reserves were at a comfortable level of USD 14 billion (6.2 months of import) and had thus increased since 2013.[98] At the time of the disbursement of the first tranche, the economic situation had thus improved as compared to the figures on which the MFA operation was approved in 2013.

Second instalment

The Information Note (7 August 2015) which was published upon the release of the second instalment confirmed the positive economic development. In 2015, the overall fiscal deficit was expected to decrease significantly to 2.9 percent of GDP, even though foreign grants were decreasing. However, it was noted that the current account deficit, especially excluding grants, was still quite high. Furthermore, the underlying factors were still present: the Syrian conflict was intensifying rather than de-escalating. Unrest in Iraq and a slowdown of economic activity in the GCC trading partners due to lower oil prices put further pressure on Jordan.[99]

In summary, at the time of the release of both instalments in 2015, the actual financing needs of Jordan were lower than at the time of decision-making.

EQ1.2.2 Has the decision to provide only loans (no grants) been appropriate in relation to the prevailing economic and financial conditions in Jordan?

Regarding the form of the assistance, the full amount of EUR 180 million was disbursed in the form of a medium-term loan. This was consistent with the methodology for determining the use of grants and loans in the EU MFA operations as endorsed by the Economic and Financial Committee in January 2011 and the Joint Declaration by the European Parliament and the Council adopted together with the decision providing further MFA to Georgia[100], which take into account the three following criteria:[101]

1) Jordan was an upper middle-income country with a too high per capita GNI to justify a grant;[102]
2) Jordan's external debt was relatively low, and this debt was expected to become sustainable in the medium term;
3) Jordan was not eligible for concessional financing from either the IDA or the IMF's Poverty Reduction and Growth Trust fund. The provision of the full MFA in the form of loans was also consistent with the treatment granted by the World Bank and the IMF to Jordan.

Furthermore, Jordan did have and still has access to the financial markets[103] and there is a substantial untapped potential for additional tax collection (see condition 3 on income tax law).

It is also worth mentioning that the MFA loan has been part of a broader package of EC support to Jordan in which all budget support operations (SRCs and GGDCs) are provided by DG NEAR in the form of grants.[104]

---

98 Macro-Financial Assistance to the Hashemite Kingdom Of Jordan: Disbursement of the First Tranche - Information Note to the European Parliament and to the Council, ECFIN.D2/SD/kp Ares(2015)631015, 12 February 2015.

99 Macro-Financial Assistance To The Hashemite Kingdom Of Jordan: Review Of Compliance With Policy Conditions Disbursement Of Second Tranche - (Information Note to the European Parliament and to the Council), ECFIN.D2/SD/lg Ares(2015) 3695120, August 2015.

100 Decision No 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia, OJ L 218, 14.8.2013, p. 18.

101 Criteria for determining the Use of Loans and Grants in EU Macro-Financial Assistance, January 2011, SEC(2011) 874 final.

102 On July 1, 2017, Jordan has been downgraded from upper to lower middle income country. See Section 5.4 for the development of GNI per capita in the last decade.

103 The credit rating for Jordan by S&P was BB with a negative outlook in the period in May 2013. It changed to BB- but with a stable outlook in October 2014 and to BB- with a negative outlook in April 2016. Since June 2013, the credit rating of Jordan by Moody's is B1 with a stable outlook.

104 See also EQ 2.3.4 and Annex 3 on complementarities and EQ5 on coherence.

Nevertheless, it can be questioned whether using only these indicators was overly strict for a refugee flooded country like Jordan and whether a country struggling to find affordable and sustainable means to cope with the additional costs associated with an influx of refugees should get more grant-based support.[105] This kind of feedback was received in a number interviews in Amman and became stronger after Jordan was downgraded from upper to lower middle income country.

In the Delphi questionnaire this issue of grants or loans was raised in question 10 (see Annex 4) for triangulation purposes. An ample majority of 13 out of 16 experts agrees or fully agrees with the statement that “the value added to support Jordan’s financing needs would have been larger if the MFA was provided in grants” (see sub-question 10.1). Also a small majority of the respondents supports the statement that grants would have given a stronger incentive than loans to meet the structural reforms (see question 10.3).

While the appropriate form of the support can be questioned, we need to emphasize that the financial terms of the MFA loan were more advantageous compared with the market terms or IMF's financing terms. Furthermore, the long maturity and extensive grace period means that the rollover risk is very low. Overall, the MFA is a pronouncedly favourable form of debt financing for Jordan.[106] To sum up, the form and the terms of financing are found to be relevant and appropriate.

6.1.3 EQ1.3: Relevance of the programme conditionality

EQ1.3 specifically looks at the design of the programme conditions, to assess whether they were appropriate. The response to the question builds on the assessment on structural reforms. It also looks at the pace, timing and flexibility of the conditions.

Table 6.5 Evaluation sub-question on the relevance of the conditionality of the MFA operation

EQ1.3. Was the conditionality of the MFA operation appropriate in relation to the objectives to be achieved?
EQ1.3.1 Were the measures of the MFA operation relevant in relation to the economic challenges of Jordan? On reflection, were other relevant measures missing from the programme?
EQ1.3.2 To what extent were the measures of the programme well-designed to address the objectives originally established? (pace, timing, flexibility)
EQ1.3.3 To what extent was the flexibility of conditionality both important and achievable in relation to exogenous factors and/or results falling short of goals?

EQ1.3.1 Were the measures of the MFA operation relevant in relation to the economic challenges of Jordan? On reflection, were other relevant measures missing from the programme?

The structural conditions of the MFA covered the four important reform areas: PFM, social safety and labour market, investment framework and trade and energy. These conditions were consistent Recital 17 of the legislative Decision of the MFA and with the last objective mentioned in the SWD (see EQ1 above). The wide scope of the conditions in different reform areas might also reflect a desire to avoid the risk of non-disbursement when reforms in specific areas are not moving. In the internal discussions between ECFIN and the EUD the number of conditions in this MFA was assessed as ‘reasonable’.[107] In the several interviews as well as in the first focus group meeting on structural reforms the general perception was that the reform areas were well covered in the conditions. One participant in the Focus Group also mentioned that the reform areas were highly interconnected: energy (through NEPCO’s permanent losses) is ultimately a fiscal issue, while improvements in investment climate should lead to more job creation and thus have social implications.

[105] Lately, the situation has changed to some extent with the launch of the Global Concessional Financing Facility (GCFF) for middle income countries, like Lebanon and Jordan. On an exceptional basis (e.g. high number of refugees per capita) the World Bank is able to provide more concessional financing to these countries. In these cases, the grant and loan components have been blended so that they overall come to the same terms as IDA facilities. The EU is also contributing to the GCFF.

[106] For an overview of the calculated savings in relation to the favourable conditions of the MFA, please refer to Section 6.7.3.

[107] Internal communication, May 31, 2013.

From the nine MFA conditions included in the MoU, four can be assessed as relevant or very relevant at the moment of preparation of the MFA in 2013[108] in relation to the primary economic objectives, while the other five are seen relevant in terms of and consistent with the structural reform objectives. Table 6.6 summarizes the relevance of each of the conditions while this is further elaborated in the text below the table.

Table 6.6 Relevance of MFA conditions in relation to economic challenges of Jordan

No.	Condition	Relevance
1	Audit Bureau law	Appropriate to improve economic governance, transparency and accountability (in line with the structural objectives), but not specifically relevant in relation to economic challenges.
2	Internal control units	
3	Income tax law	Very relevant to improve fiscal sustainability (in line with the primary economic objectives).
4	National Unified Registry	Very relevant for the structural objectives at the time the condition was agreed, not anymore when the second tranche was disbursed and only indirectly relevant to the economic challenges.
5	Unemployment Fund & Maternity Fund	Fairly relevant for the structural objectives, because the funds contributed to economic and social well-being of employees, but not as much for the economic challenges as such.
6	PPP law	Relevant to the structural objectives by attracting not only private funding, but also specific know-how and experience to manage infrastructural projects, but less relevant to the current economic challenges.
7	Regulatory framework for investment	Very relevant to increase the level of investment, employment and economic growth (in line with the primary economic objectives).
8	Law on Standardization and Metrology	High relevance in the light of getting the preparations for ACAA negotiations moving again. Also directly relevant to the structural objectives. However, low relevance from Jordan's perspective in relation to the economic challenges. It may only bring possible benefits in the long run in terms of increased exports to the EU and therefore the authorities gave it low priority.
9	National Energy Efficiency Action Plan	Very relevant to both the economic challenges (by reducing the fiscal burden of fuel subsidies and other energy policies) and the structural objectives (by decreasing long-term energy dependency).

Condition 1: Audit Bureau law

This first condition was not relevant in direct relation to the economic challenges in Jordan but it was relevant with regard to the objective set by the legislative decision with regard to improving public financing management in Jordan. It was also appropriate for reasons of separation of duties and responsibilities between the government and the Supreme Audit. There was and still is a need to achieve methodological and financial independence of the Audit Bureau from the government, in line with the INTOSAI standards.

The amendment of the Audit Bureau Law was on the agenda of the authorities, the EU and the World Bank (see also EQ 2.3.4) at least since 2012, but the new law still needs to be submitted to Parliament. There were several reasons for the delays in adoption of the amended law by Parliament. The new law was low on the priority list of the authorities and the politicians, especially after the Arab Spring and its adverse regional environment that continued to impact negatively on Jordan's economy. We also learnt during the interviews in Amman that the politicians were not very concerned about this issue because they felt the Audit Bureau was de facto independent. The institutional arrangements for carrying out the external

[108] The relevance might change over time and for some conditions it was different at the moment of preparation of the MFA compared to the moment of disbursement of MFA (2015).

audit function, in the form of the Audit Bureau, were generally considered to be reasonable. External audit practices broadly followed the international standards, and the Audit Bureau auditors undertook a wide and growing range of audits, including compliance, financial and performance audits. Furthermore, several ICUs were still too weak to fully take over the pre-audit role of the Audit Bureau (see condition 2). Given the large external challenges in Jordan, there was rightly some flexibility on the EU side regarding the fulfilment of this condition.

Condition 2: Internal control units

Clear separation of tasks and duties between the external audit on the one hand and the internal audit and control within the MDAs on the other hand are important features of a solid audit and control system. This condition was not relevant with respect to the short-term economic challenges, but helped to improve economic governance in the longer term by creating greater transparency and accountability and reducing the risk of fraud and corruption with public spending in line with the objectives set by the co-legislators in the legislative decision. In this context, the internal financial control needed to be strengthened first to ensure a phased withdrawal of the Audit Bureau from pre-audit activities. The Operational Assessment also called for the further strengthening of the structure of MDAs' ICUs to ensure that the structure of spending ministry/department Internal Control/Audit Units report directly and independently (i.e. not as a division or sub-division) to the Head of the Institution.[109] The Commission phrased this condition in rather general terms that "the number of ICUs will be substantially increased" and also continued its support efforts with institution building instrument.

Condition 3: Income tax law

Revenue collection in Jordan is performing below an appropriate level (see Section 5.2). The Arab Spring and the Syria crisis led to higher fiscal spending and put additional pressure on the fiscal sustainability. The amended income tax law was relevant to alleviate this pressure and to deal with these economic challenges, as it aimed to generate more income tax revenue and therefore also a lower fiscal deficit and less donor dependency. Higher government revenue was also very important for the fiscal and macroeconomic stability of the Jordanian economy.

The timing of the condition was right, given the fiscal pressure, but several stakeholders indicated in the interviews that the policymakers were not yet ready to fulfil all aspects of the condition because of the political sensitivity of personal income tax in the Arabic culture. In particular, the lowering of the exempted threshold was not covered in the amended law because it would mean that many people in the middle class would start to pay income tax for the first time ever. In one of the interviews, it was also indicated that broadening the income tax base would be a non-starter without improving on the tax collection first.

Condition 4: National Unified Registry

This condition was very relevant and important at the time it was discussed and agreed. This was confirmed in the interviews in Amman. There was a large need for a targeted system to compensate for the liberalisation of energy prices. However, due to the drop in the oil price in 2014, the need for compensation disappeared and the NUR became relatively idle. The EC concluded in its review of compliance in August 2015 that the condition was fulfilled. This was formally right, but the NUR was hardly relevant anymore and it was not located in the ISTD. The review of compliance in 2015 did not mention these facts. It was not considered during the negotiations to change this condition.

Condition 5: Unemployment Fund and Maternity Fund

The adoption of the Social Security Law in 2014 was a fairly relevant step towards strengthening and modernization of the social safety net in Jordan. The stakeholders assessed it as relevant but not very important step in relation to economic challenges of Jordan. The law has provided a permanent legal basis

[109] Operational Assessment of the financial processes and procedures in the Hashemite Kingdom of Jordan, Final Report, October 2013, FWC contract no ECFIN-012-2011: Specific Contract No. ECFIN-030-2013/SI2.647114.

to the Unemployment Fund and the Maternity Fund. The Maternity Fund helps to finance the cost of maternity leave, and should have a positive effect on Jordan's still very low rates of participation of women in the labour force. The law contributed to the economic and social well-being of citizens and therefore indirectly to the social and economic stability in the country.

Condition 6: Public Private Partnership (PPP) law

While it was generally accepted in 2013 that the PPP regulatory framework should be revised, the relevance to the economic challenges was not straight-forward at that time. First, incurring additional liabilities and risks associated with PPPs does not fully fit in the context of fiscal consolidation. Second, at the time of the MFA negotiations, the authorities had secured other financial support, especially from the GCC countries and therefore the need for PPPs seemed not extremely high (see Chapter 7 for more context). Though, our second mission to Amman learnt that PPPs are not only a tool to attract (private) capital but that they might also contribute to improving the quality of public investment. Through PPPs, the private sector should provide risk-sharing capital, knowhow and management experience, especially in technical areas where the GoJ has limited experience. In this context waste water treatment or broad band were mentioned as areas where the GoJ needs to invest but has limited know how and experience.[110] The importance of PPPs for the future economic development of Jordan was also underlined by stakeholders within and outside the GoJ.

Condition 7: Regulatory framework for investment

There is broad consensus among the stakeholders that the new investment law was very relevant as it formed a positive step towards a unified investment framework. The prior legal investment regime was described as ‘rather complex’ with overlapping and sometimes undisclosed legislation and regulation.[111] In addition, Jordan had a relatively high number of restrictions on foreign investment.[112] The authorities recognized the need for restructuring of the framework and announced the revision of the investment law.

The relevance to the economic objective of creating a better enabling environment seems straightforward, as a better framework with less restrictions would support the inflow of more investments in Jordan. However, some stakeholders expressed their concerns that the new investment law might focus too much on offering tax exemptions instead of creating a sound enabling environment for investment – which in the long run is not beneficial to Jordan’s domestic resource collection.[113]

The condition specified the ‘implementation’ of the law. This was rather demanding at the time of the MoU negotiations in 2013, as the law was not yet adopted.[114] If the Law was halted by Parliament, it would have been impossible to achieve this condition. This challenge was partly resolved by delinking the preparation of the by-laws from the adoption of the Investment Law, i.e. not making the preparation of by-laws conditional on the adopting of the law (see case study for more context).[115]

Condition 8: Amended law on Standardization and Metrology

The conclusion of an ACAA Agreement was a key component towards the creation of an EU-Jordan Free Trade Area which should contribute to increased exports to the EU in the priority sectors. The condition was relevant in the light of the pre-conditions Jordan had to meet before the negotiations of the ACAA could start, as the amended law was pending Parliamentary approval since 2008. The preparations of the

110 Explanation received in interview with PPP unit.

111 OECD Investment Policy Reviews: Jordan 2013, Executive Summary.

112 OECD Investment Policy Reviews: Jordan 2013, Executive Summary.

113 Rethinking investment in Jordan, UK Government, Adam Smith International, Identity Center, http://www.identity-center.org/sites/default/files/Rethink%20Investment%20in%20Jordan_English.pdf.

114 After its resubmission in June 2013, the World Bank, IFC and OECD provided further recommendations to improve the Law and it was discussed whether the law should be further modified before adoption. Ultimately it was decided not to make further changes (see email communication between World Bank and Commission).

115 In the focus group meeting on structural conditions the participants assessed the new investment law as a big step forward, but also expressed concerns regarding its implementation.

negotiations of the ACAA were jeopardised by the pending amendment to the Law on Standards and Metrology. Without these necessary amendments, most of the new standards may not be enforced.[116] It was a well-timed opportunity to revive the preparations of the ACAA negotiations.

This condition was not very relevant, as it will only bring possible benefits to Jordan in the long run. The ACAA process is considered heavy and complicated, and lighter options should be considered to improve access to EU markets.[117] The amendment of the law and approval of regulations is only part of the preparations. The authorities gave low priority to this reform because they did not expect it would lead to tangible benefits within reasonable time. The law was prepared seven years ago and was waiting approval in Parliament, it was only passed after a reminder of the EU on this outstanding requirement. Furthermore, the authorities were not fully in control of achieving this MFA condition, as it was the Parliament that had to adopt the law. This restricted to some extent the flexibility of this condition – which was purposely done, as the EC did not want to make the condition more lenient (see the case study in Section 7.1 for more context).

In the interviews the authorities expressed their concerns about the complicated ACAA process and explained that they have higher expectations of the agreed relaxation of the rules of origin between Jordan and the EU (see Section 7.1).

Condition 9: National Energy Efficiency Action Plan

The adoption of the first NEEAP was found to be relevant for both short and medium-term goals. First, energy reform was paramount to addressing the short-term budget pressures stemming from various forms of subsidies. For this reason, the structural conditions of the energy reform was primarily seen as a fiscal measure during our focus group discussion. Secondly, Jordan's heavy reliance on a limited source of energy made it particularly vulnerable to external shocks, which exacerbated the problems it faced in 2011 and 2012. Thus it is a relevant medium-term goal for the country to reduce its energy dependency and diversify its energy sources to make it more resilient to both energy price shocks and disruptions to the sources of its energy imports.

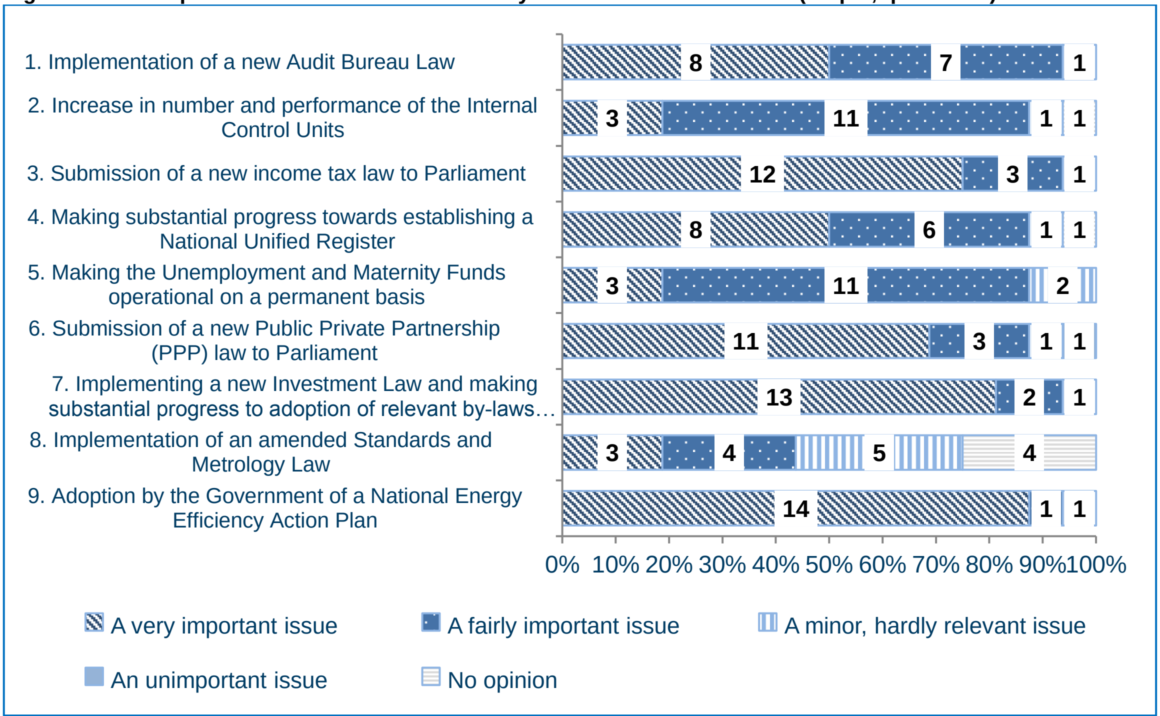
For all the nine conditions, we cross-checked our findings from the desk research and interviews with the feedback received on question 5 of the Delphi Questionnaire. On this question 5, experts were asked for feedback on the relative importance of the reforms at the time the conditions were agreed and included in the MoU in 2014 (see Annex 4). Respondents ranked the NEEAP (condition 9) the highest among all the structural conditions in terms of their importance as can be seen in Figure 6.1 below. We can further distinguish three different groups of conditions:

- an ample majority of at least 2/3 of all 16 respondents: condition 9, 7, 3 and 6 belong to this group, in this order;
- Conditions seen as very important by half of all 16 respondents: condition 1 and 4;
- Conditions seen as very important by only 3 respondents. The remaining three conditions belong to this group: condition 2, 5 and 8.

[116] Commission SWD, Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan, accompanying the document: Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL providing macro-financial assistance to the Hashemite Kingdom of Jordan {COM(2013) 242 final}, 29 April 2013.

[117] Interview with the JSMO and triangulated with other stakeholders in Amman.

Figure 6.1 The importance of the reforms when they were included in the MoU (Delphi, question 5)



EQ1.3.2 To what extent were the measures of the programme well-designed to address the objectives originally established? (Pace, timing, flexibility)

The objectives mentioned in the SWD with respect to the MFA operation have been discussed in EQ1.1.1 above. In the Table 6.7 below an assessment is made of the design of the conditions to address the relevant MFA objectives. In the assessment attention has been paid to the pace (e.g. achievable within the given time frame), timing (e.g. was there momentum and/or seen as a priority) and flexibility in the design phase of the conditions.

Table 6.7 Design of the conditions to address the MFA objectives

No.	Condition	Contributing to MFA objective:	Quality of design
1	Audit Bureau law	Strengthening economic governance and transparency.	In order to achieve full independence of the Audit Bureau, the *implementation* of the Audit Bureau Law was a logical condition after related benchmarks were included in the SRC in 2010 (see EQ 2.3.4). This could also help to cope with political resistance (not seen as a priority) to adopt and implement this law.
2	Internal control units		Challenging objectives requiring significant time and large investments to build capacity in MDAs. Condition focused on 2013 training plan only, which made sense at the time of negotiation. In the Review of Compliance in 2015 the organised trainings in both 2013 and 2014 were considered and assessed consistent with the training plans for those years.
3	Income tax law	Fiscal consolidation; and to improving the overall macroeconomic management.	The timing was right, given the fiscal pressure, but the policymakers were not yet ready to fulfil all aspects of the condition. They failed to lower the exempted threshold and therefore the increase in tax revenue was less than initially expected.
4	National Unified Registry	Encouraging the authorities to implement measures identified under	The condition was relevant and important at the time it was discussed and agreed, but not changed when it became outdated in 2014.

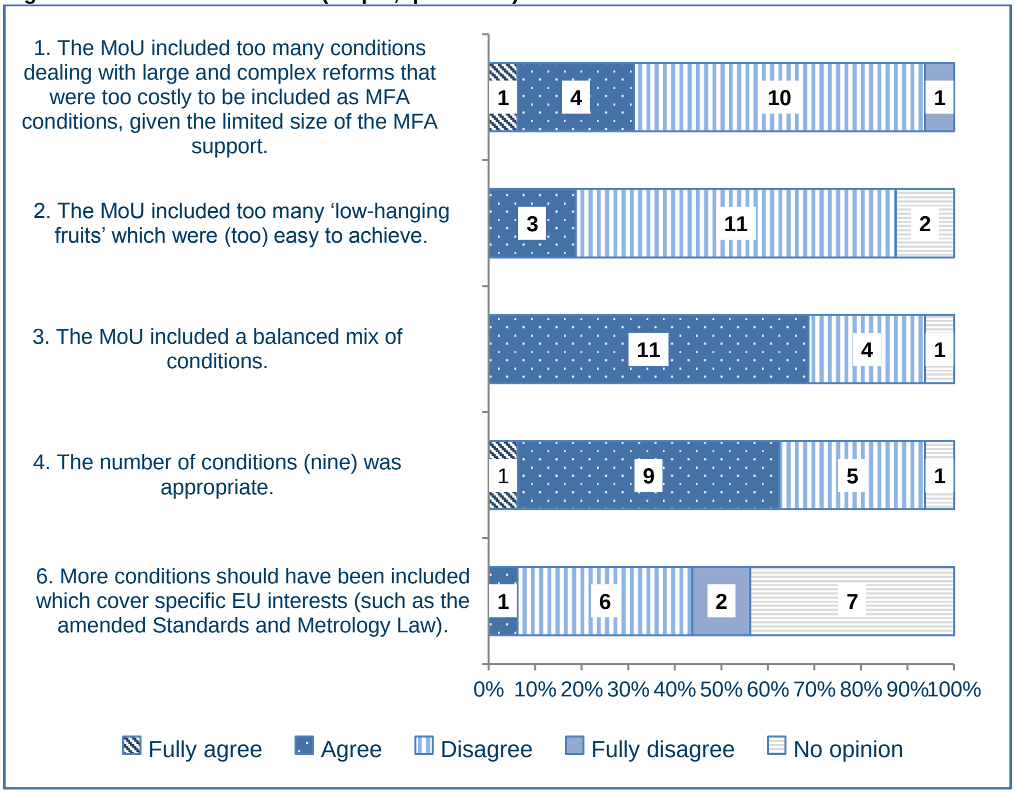
No.	Condition	Contributing to MFA objective:	Quality of design
5	Unemployment Fund & Maternity Fund	the EU-Jordan Action Plan.[118]	The adoption of the social security law, which was also a condition in the GGDC to be achieved in 2013, was pending parliamentary approval for quite some time and therefore it made sense to include this as condition in the MFA.
6	PPP law	Improving conditions for sustainable growth.	The design of the condition was sound but not very ambitious, also due to the delays in the implementation of the MFA. Only submission of the law was required, while the law was even adopted in 2014.
7	Regulatory framework for investment		The condition was rather demanding at the time of the MoU negotiations in 2013 as the law was not yet adopted. The condition was well designed in terms of timing and pace. The delinking of the preparation of by-laws from the adoption of the law was an important issue in this regard.
8	Law on Standardization and Metrology		The Law was prepared in 2008, but its adoption by Parliament did get low priority. The inclusion as MFA condition helped to get the law adopted and the process moving. It was a well-timed opportunity to revive the preparations of the ACAA negotiations.
9	National Energy Efficiency Action Plan		Timing was right at the inception of the programme, pace was appropriate as the condition was fulfilled already in 2013. No flexibility was needed in the design.

In general, the MFA conditions were well-designed and discussed extensively with the authorities during MFA preparation. There was quite some deviation in the size of the structural reforms requested in each condition. Some conditions were rather comprehensive 'big ticket items' (e.g. condition 2 and 7) while others were related to a much smaller reforms (e.g. conditions 6 and 8).

This solid design of the conditions was confirmed in the several interviews with stakeholders and also in the feedback received on the Delphi questionnaire (see Figure 6.2). In response to question 4, an ample majority of the respondents assessed the mix of structural conditions as balanced and the number of conditions as appropriate (see sub-question 4.3 and 4.4). However, no consensus was reached on this – which also became apparent from two other statements posed: 5 respondents agreed that the MoU included "too many conditions dealing with large and complex reforms" (10 respondents did not agree), while 3 respondents agreed with the statement that "the MoU included too many low-hanging fruits" (11 did not agree).

[118] The EU-Jordan Action Plan also dealt with the social aspects of the country (see also EQ6.6.1).

Figure 6.2 The MFA conditions (Delphi, question 4)



EQ1.3.3 To what extent was the flexibility of conditionality both important and achievable in relation to exogenous factors and/or results falling short of goals?

In the MFA negotiations, which mainly took place in 2013, the Commission showed some flexibility both in the design of the conditions, also considering the difficult economic, social and political situation in the country. As most of the conditions were fulfilled before the Review of Compliance in August 2015, there was limited need for further flexibility in the implementation of the conditions. For some conditions the Commission took a firm stand, because the adoption of the related laws were already pending for quite some time (e.g. condition 1 and 8).

The Audit Bureau law (condition 1) requires some specific attention in this regard. It appeared to be the most challenging condition, for which ultimately a waiver was provided. In the preparation of and during the ECFIN mission to Amman to conclude negotiations on the MoU for the MFA to Jordan (27-28 October 2013), the authorities (MOPIC) expressed uncertainty about the timing of the adoption of the draft Audit Bureau law by Parliament and argued that the Parliament's decision to pass the law was beyond the government's control. They therefore requested to soften the condition by replacing the government "will implement" with "will submit to Parliament". The Commission, however, at this stage insisted on maintaining the phrasing given that the draft law was already submitted to Parliament.

The level of flexibility with regard to the implementation of the conditions is shown in Table 6.8 .

Table 6.8 Condition flexibility in relation to exogenous factors and results falling short of goals

No.	Condition	Importance of flexibility
1	Audit Bureau law	Ultimately, a waiver was provided after concluding that the law was not adopted but that positive steps were made in attaining some of the objectives of the new law. At an earlier stage, a request of the authorities to soften the condition was rejected.
2	Internal control units	This challenging condition, in terms of time and cost involved, could be achieved also because of the Technical Assistance provided and due to delays in the MFA implementation.

No.	Condition	Importance of flexibility
3	Income tax law	Flexibility was provided in 2015 by accepting the fulfilment of this condition while the exempted threshold was not lowered and therefore the increase in annual revenue was less than expected.
4	National Unified Registry	This condition was outdated when the second tranche was disbursed due to the drop of the oil price in 2014. No need to provide any flexibility.
5	Unemployment Fund & Maternity Fund	The condition was already included in GGDC in 2013 and repeated in in the MFA. There was no need for flexibility as it was fulfilled early 2014.
6	PPP law	No flexibility needed, as the law was already adopted in 2014.
7	Regulatory framework for investment	Flexibility was offered with regard to the delinking of the adoption of the law from preparation of by-laws and to the addressing of the OECD recommendations in the law. Due to delays in the MFA implementation, no further flexibility was needed.
8	Law on Standardization and Metrology	Rightly no flexibility was provided with regard to the implementation of this condition, given that Parliamentary adoption was pending for quite some time. An extraordinary session of Parliament was required in 2015 to get the law adopted.
9	National Energy Efficiency Action Plan	No flexibility needed as the GoJ adopted the NEEAP already in 2013.

6.2 EQ2: Effectiveness of the operation

This section deals with questions on the effectiveness of the operation with regards to the area of macroeconomic stabilization, with a focus on the balance of payments and to the area of structural reforms.

Table 6.9 Evaluation questions and sub-questions on the effectiveness of the MFA operation

Evaluation question and sub-questions	Evaluation criteria and themes
EQ2. To what extent have the objectives of the MFA operation been achieved?	**Effectiveness**
EQ2.1 To what extent has the MFA operation been effective in improving macroeconomic conditions (with focus on the Balance of Payments (BOP))?	Effectiveness in improving macroeconomic conditions
EQ2.2 To what extent has the MFA operation been effective in terms of fiscal consolidation?	Effectiveness in fiscal consolidation
EQ2.3 To what extent have the short and medium-term expected structural effects of the assistance occurred as envisaged?	Effectiveness in promoting structural reforms

6.2.1 EQ2.1: Effectiveness in improving macroeconomic conditions

Table 6.10 Sub-questions on the effectiveness of improving macroeconomic conditions[119]

EQ2.1 To what extent has the MFA operation been effective in terms of improving macroeconomic conditions (with focus on the BOP)?
EQ2.1.1 To what extent has the MFA/IMF assistance contributed to returning the external financial situation of Jordan to a sustainable path over the medium to longer-term?
EQ2.1.2 Did the programme have a significant impact in alleviating market concerns about Jordan's solvency and restoring confidence in the economy?
EQ2.1.3. What are the main internal and external factors on which the current trend in Jordan's external financial situation and its prolongation into the future are conditional?

[119] With a focus on the Balance of Payments.

EQ2.1 To what extent has the MFA operation been effective in terms of improving macroeconomic conditions (with focus on the BOP)?
EQ2.1.4. How is the country's external financial situation likely to evolve in the 5 years following the final disbursement given the likelihood of changes to current conditions?

EQ2.1.1 To what extent has the MFA/IMF assistance contributed to returning the external financial situation of Jordan to a sustainable path over the medium to longer-term?

In line with the methodological orientation from DG ECFIN, this section uses the debt sustainability analysis (DSA) framework of the IMF[120] to quantify the effect of the SBA from the IMF and the MFA from the EC on external debt sustainability for the period of 2013-2018 (medium term) and beyond (longer term). To this end different macroeconomic scenarios are constructed and compared within the framework.

Overall we compute one baseline scenario (scenario A) and two alternative scenarios (Scenario B and C). The baseline scenario incorporates the effect of both the SBA of the IMF and the MFA of the EC. In this scenario we present the factual realization for the path of the external debt for the past years (2013-2016), and we use the forecasted path consistent with the latest IMF projection for the future (2017-2018).[121] Two alternative scenarios are constructed to measure the impact of the financial support programmes. The first alternative scenario (Scenario B) is calculated assuming that neither the IMF nor the MFA is available. In the next scenario (Scenario C) it is assumed that only the IMF loan was granted to Jordan without additional MFA assistance. In the alternative scenarios we assume different paths for the country risk premium, interest payments on external debt and economic activity.[122] By comparing these alternative scenarios to the baseline we can evaluate the effect of the aggregate level of financial assistance (SBA and MFA combined) and the effects of the two financial assistance programmes can also be disentangled (that is, the contribution of the SBA and the MFA separately).

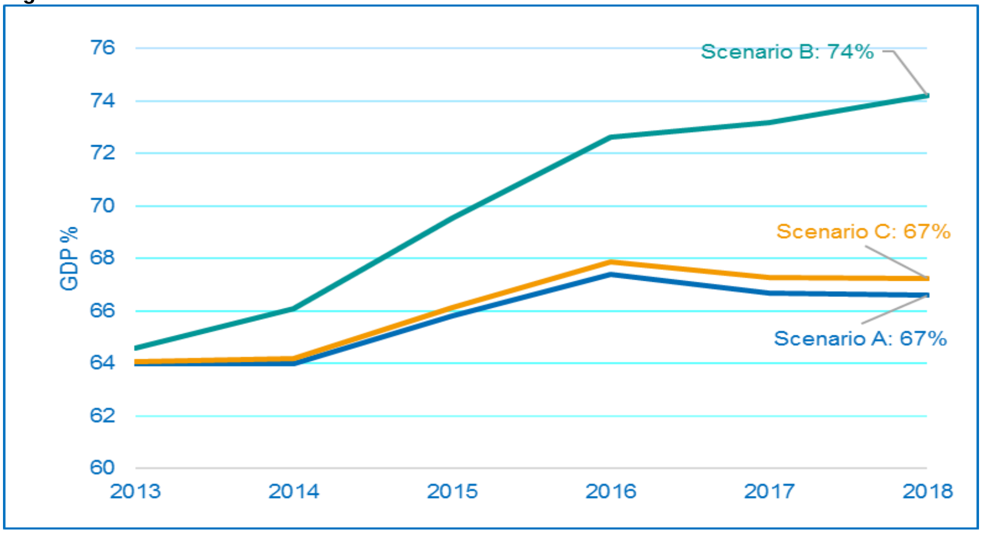
In the baseline scenario (Scenario A), the combined financial assistance of SBA and MFA helps to maintain the level of external debt to GDP close to the level at the inception of the programmes, at around 66 percent (Figure 6.3). This would not be the case, however, without this combined support from the IMF and the EC. In the absence of both sources (Scenario B) the external debt would have risen dramatically, and would continue rising also throughout the forecast horizon. The figure also shows that the MFA contributed only marginally to stabilizing external debt to GDP, the beneficial effect comes mostly through the IMF assistance. This is not surprising however, given the small magnitude of the MFA compared to the IMF loan.

[120] See: Staff Guidance Note for Debt Sustainability Analysis for Market-Access Countries (https://www.imf.org/external/np/pp/eng/2013/050913.pdf).

[121] See: https://www.imf.org/~/media/Websites/IMF/imported-full-text-pdf/external/pubs/ft/scr/2016/_cr16295.ashx.

[122] A more thorough explanation of the methodology and the different assumptions behind the alternative scenarios can be found in Annex 6.

Figure 6.3 External debt to GDP under the baseline and the alternative scenarios



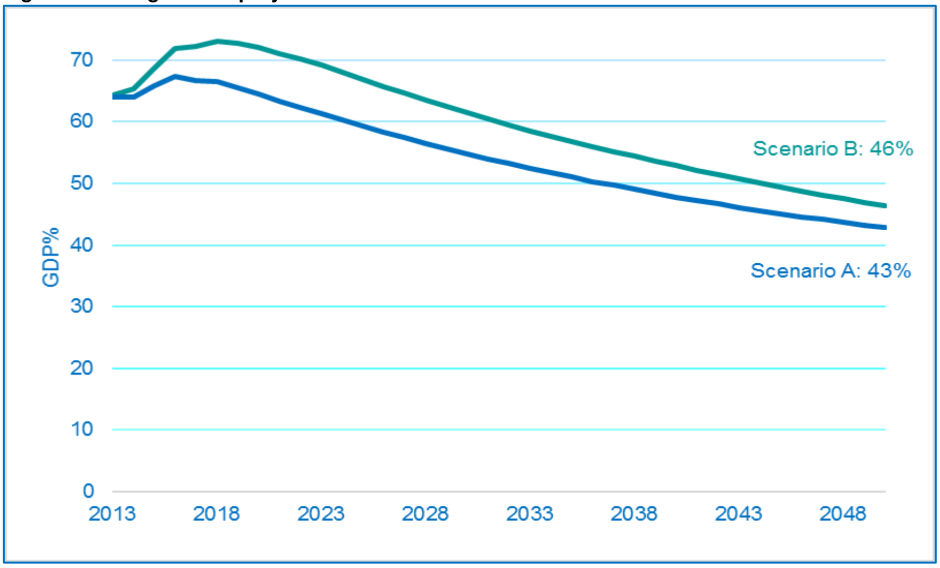
Source: IMF and own calculations.

We also analysed the longer term effects by prolonging the projection horizon to 2050. Our results indicate that with relatively optimistic assumptions about the long-term equilibrium values of its main determinants (see the table below[123]), Jordan's external financial position stays on an improving path in the long term. In fact, the external debt starts decreasing in the baseline scenario from as early as 2019, and converges to 40 percent over the long term. The positive effect of the combined SBA/MFA assistance remains significant, though declining, throughout the projected horizon.

Table 6.11 Underlying assumptions for the long-term projection of the external debt

Long-term assumptions	Real GDP-growth	Inflation (YoY%)	Current Account Deficit (GDP%)	FDI inflows (GDP%)	External Interest Rate
IMF assumption	3.0	2.5	6.0	5.0	2.0

Figure 6.4 Longer term projection of the external debt in Jordan



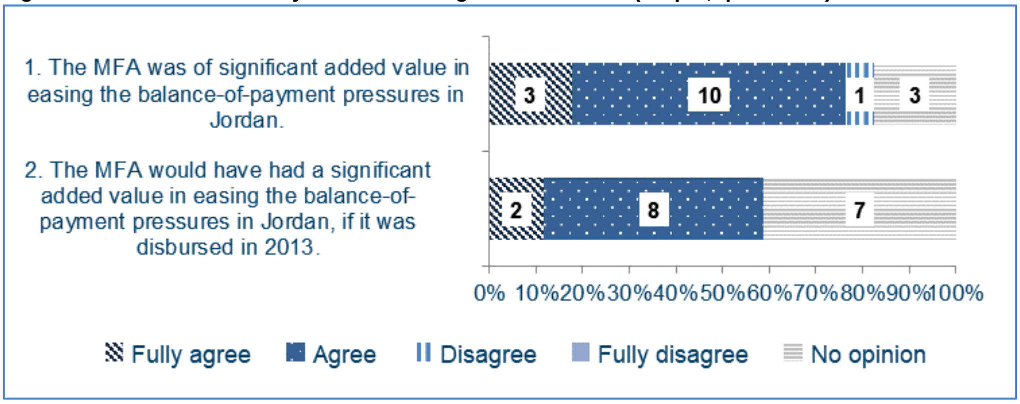
Source: IMF and own calculations.

[123] Note however, that these assumptions are consistent with the IMF's latest country projection, see: https://www.imf.org/en/Publications/CR/Issues/2017/07/24/Jordan-2017-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-45117. It is important to note that it implicitly assumes that the concessional character of Jordan's external borrowing will persist over the longer term as well, and external financing costs will remain very favourable.

Our quantitative analysis is also in line with the responses to the Delphi questionnaire. Questions 1 and 2 of this questionnaire confirm that in the absence of either the SBA or the MFA, Jordan would have resorted to attracting more domestic or external loans.[124] While 5 respondents (out of 16) were of the opinion Jordan could have depegged its currency in the absence of the SBA, only 1 respondent indicated this scenario in the absence of the MFA. Two persons indicated Jordan may have defaulted without the IMF's SBA in 2012, while nobody indicated this would have happened without the MFA in 2015. The questions thus also support the finding that the impact of the IMF SBA was larger compared to the MFA in improving macroeconomic conditions.

Question 3 of the Delphi questionnaire indicates that most experts (13) saw a significant contribution from the MFA to easing the balance-of-payments pressures in Jordan. One expert disagrees with this statement though. It is interesting to note that 10 respondents agree that the impact of the MFA would have been larger if it was disbursed in 2013 (nobody disagrees with this, although 7 people indicated that they have no opinion on this).

Figure 6.5 The Balance of Payments and budget effect of MFA (Delphi, question 3)



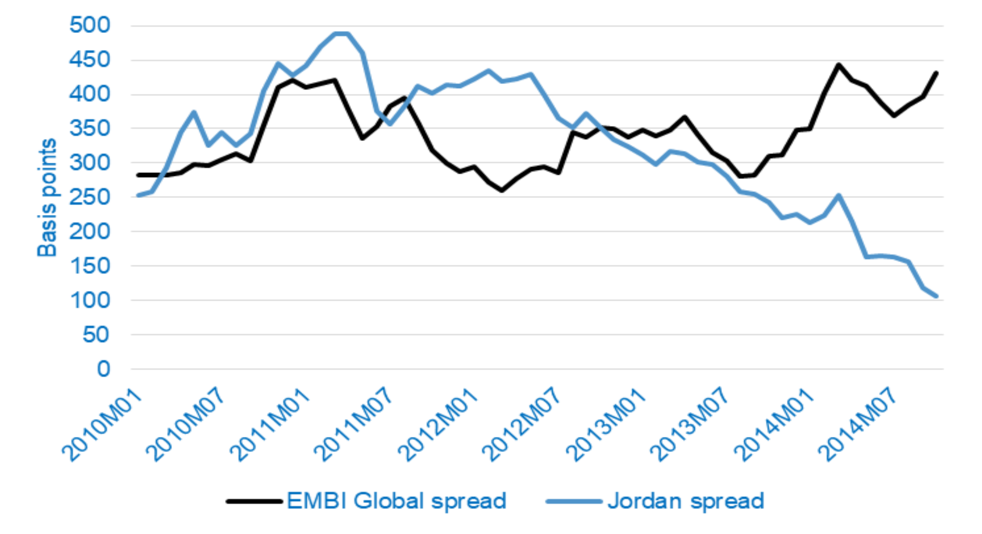
EQ 2.1.2 Did the programme have a significant impact in alleviating market concerns about Jordan's solvency and restoring confidence in the economy?

Changes in market concerns and confidence are revealed in the changes in financing costs. Using different categories of the JP Morgan Emerging Market Bond Index (EMBI) can yield valuable information in this respect, as it will allow us to control for the country-specific and more general (common to all emerging markets) changes in risk perception. This is a very important aspect of analysing the net impact of the programme, as interest rate spreads show very high correlation in this emerging market spectrum.

We analysed two components of the EMBI: global and Jordan. Figure 6.6 shows the evolution of the spreads in the two components. The figure reveals that the market risk perceptions about Jordan has indeed started to decrease sharply after the IMF agreement (end of 2012) and has continued to follow the declining trend throughout the programme years. This development is in sharp contrast with the evolution of the global emerging market spread component, which has increased somewhat in the analysed period, though with substantial swings in both directions.

[124] See Annex 4 for further details.

Figure 6.6 EMBI Global spread and Jordan's spread



Source: Bloomberg.

Besides this data-driven analysis, we can also make a qualitative assessment derived from our semi-structured interviews and focus-group discussions with interested parties and local officials. The CBJ assessed that the IMF SBA's effect on the country's risk premium was very significant, contributing to about 65 percent of the observed drop. This is despite the fact, that the IMF's monetary contribution was lower than that of the GCC at the time. The reason for this is that the IMF is regarded by the market as a key safeguard in situations like this, and thus it may have been more important than the other contributions.[125]

Our second Focus Group on economic and financial issues also covered the area of Jordan's market perception and the observed drop in the risk premium. In this session, the general consensus was that the decline in risk premium can be attributed 50-50 percent to the IMF's SBA and the large-scale GCC support. The participants particularly noted the build-up of the FX reserves as a key factor in this, as well as the expected discipline connected to the reform process.[126]

Since the two judgements for attributing the risk premium to either sides are close, we can settle for a 60-40 percent, IMF/EU versus GCC share in our own judgement. The local authorities note though, that it is very hard to fully disentangle the effects, and attribute the drop of the risk premium to separate factors.

EQ 2.1.3 What are the main internal and external factors on which the current trend in Jordan's external financial situation and its prolongation into the future are conditional?

From an accounting point of view the evolution of Jordan's external financial situation depends on the country's trade potential, on the evolution of current transfers (mostly grants) and FDI, as well as on the development of financial conditions on the outstanding debt. To fully explore the internal and external risks surrounding the future trend in Jordan's BOP situation, we need to discuss these factors and deeply understand the country's economic profile and its linkages to the rest of the world.

Jordan is an open economy, since its import of goods cover around half of its GDP. In terms of exports the country is mostly exposed to tourism receipts and remittances, each amounting to about 10 percent of GDP. The country's strongest export links are with the Arab countries (in particular the GCC and Iraq), which account for the largest share of exports[127], remittances and tourism receipts. Advanced economies,

---

[125] We obtained this information from our discussions with the Central Bank of Jordan during our second field visit in Amman, in July 2017.

[126] We obtained this information from the second Focus Group on economic and financial issues, Amman, July 26, 2017.

[127] Among the Arab countries, the export partner share of Saudi Arabia was 15 percent, while Iraq's share was 10 percent in 2015 according to the World Bank.

such as the US and the EU fall somewhat behind in this respect, while the third largest share of exports goes to Asian countries (mostly to India, China, and Indonesia).[128] Thus the trade balance is strongly influenced by regional developments, and the demand of regional partners. In particular, we have to note the increased level of imports due to the elevated number of Syrian refugees in the country, as well as a serious blow to exports due to the closure of the Iraqi trade route. The loss of the Iraqi market was seen by the CBJ as one of the most important setbacks, since Iraq has long been a key export market for them.[129]

In terms of external financing, the persistent current account deficit has been – to a large extent – covered by FDI, remittances, income from tourism and grants. Financing has mostly come from the Gulf States in recent years. This also implies that rising oil prices lead to increased support from the Gulf States, and not just result in an elevated strain on Jordan's budget. Participants of the second focus group meeting in Amman even called rising oil prices an "unambiguous blessing" for Jordan as they believed the positive financing effects more than offset the negative terms-of-trade effect.[130]

In terms of financing costs, as a small economy, Jordan is exposed to the global financing conditions. As such, the tightening of global monetary conditions is an important determinant of external financing costs. On the other hand, Jordan's interest rate spread has recently been highly country-specific, and followed regional and global emerging market trends to a lesser extent, with movements mostly linked to the credibility of the reform agenda and the fiscal situation. In particular, deterioration of the fiscal balances have historically been associated with an increase in financing costs (see 2011-12), while the agreement with IFIs involving a credible commitment to fiscal consolidation is believed to bring about a significant drop in risk perceptions, and hence, financing costs.

Therefore, in terms of external factors, Jordan is mostly exposed to regional developments (future of the Iraqi trade route, external demand from regional trading partners, the conflict in Syria) and the evolution of the global monetary conditions. In terms of internal factors, fiscal policy and the development of the country's reform agenda has the primary importance in shaping the country-specific risk premium.[131]

EQ2.1.4 How is the country's external financial situation likely to evolve in the 5 years following the final disbursement given the likelihood of changes to current conditions?

Similar to answering previous questions, we need various macroeconomic assumptions and an accounting/modelling framework to forecast the external financial position of Jordan. In this regard, we relied on the IMF's framework for external public debt sustainability analysis (external DSA)[132] for market-access countries (MAC) in projecting a baseline projection for the country's external debt.

The bottom line of our analysis is that Jordan's external financial situation is expected to remain on track, with external debt decreasing gradually from 67 percent of GDP in 2017 to 62 percent in the next five years. The biggest threat to this projected baseline path lies in shortfalls in expected growth and in the external environment. If the country's current account deficit (including grants) exceeds 6 percent of GDP in the future, or the inflow of FDI remains lower than 5 percent to GDP, or the long-term external financing conditions exceed the 2 percent assumed in the baseline scenario, then the improvement in the external position will remain less pronounced.

128 The export recipient share of the USA was 18 percent in 2015, while India had a share of 8 percent according to the World Bank.
129 We base this on our interviews with the CBJ in Amman in July 2017.
130 We obtained this information from the second Focus Group on economic and financial issues, Amman, July 26, 2017.
131 We base this on our interviews with local authorities and our meeting with EU officials in Amman in March 2017.
132 For an overview of this framework, see IMF (2011): "Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis", and IMF (2013): "Staff Guidance note for Public Debt Sustainability Analysis in Market Access Countries".

6.2.2 EQ2.2: Effectiveness in fiscal policy

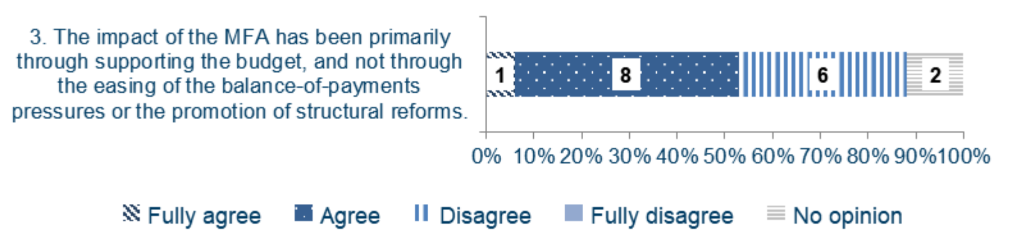
Table 6.12 Evaluation sub-questions on the effectiveness of fiscal consolidation

EQ2.2 To what extent has the MFA operation been effective in fiscal consolidation?
EQ2.2.1 How has the MFA impacted the fiscal position of Jordan?
EQ2.2.2 To what extent has fiscal governance been strengthened as a result of the intervention?
EQ2.2.3 Was the envisaged pace, ambition and composition of fiscal consolidation appropriate in the context of the economic and financial conditions in the beneficiary country?

EQ2.2.1 How has the MFA impacted the fiscal position of Jordan?

Since the support coming from the MFA was un-earmarked, it could efficiently and flexibly help alleviate fiscal pressures, and our semi-structured interviews have indicated that this in fact has been the most important contribution of the MFA.[133] In particular, interviewees at the policy making institutions were the most explicit about the main value added of the MFA resulting from the relaxation of the budget constraint, while the positive impact on the BOP or the structural reforms were deemed marginal in this respect. This statement is somewhat contested though in question 3, sub 3 of the Delphi questionnaire: 9 respondents agreed that the contribution of the MFA was rather through supporting the budget than through supporting the balance-of-payments or promoting structural reforms. However, six respondents disagreed with this statement.

Figure 6.7 The Balance of Payments and budget effect of MFA (Delphi, question 3)



EQ2.2.2 To what extent has fiscal governance been strengthened as a result of the intervention?

The MFA could have had a benign effect on fiscal governance through the structural conditions attached to the programme. Consequently, this question is closely related to the assessment of the structural conditions aiming at improving PFM (especially condition 1 and 2). Conclusions about the PFM-related conditions are discussed in more detail in EQ 2.3 below.

EQ2.2.3 Was the envisaged pace, ambition and composition of fiscal consolidation appropriate in the context of the economic and financial conditions in the beneficiary country?

The IMF set specific fiscal consolidation targets during its SBA, to which the MFA disbursements were linked. Accordingly, we can answer this question by evaluating the track record of the country in face of the IMF's requirements. The SBA's seventh, and final review was released in August 2015, along with a proposal for post programme monitoring. The IMF's Executive Board assessed that the pace of fiscal consolidation – aided by lower oil prices – ensured the stabilization of public debt, and has preserved macroeconomic stability, though significant challenges still remain.

The IMF's targets on primary fiscal deficit were met in 2015 (for the actual evolution of fiscal deficit, refer to Section 5.2). NEPCO's losses were in line with the Fund's expectations, and all arrears were cleared by April 2015.

Several structural fiscal reforms were made, which the IMF appreciated. In particular, a law was drafted to ensure that all revenues from the government go through the treasury single account (TSA). Furthermore,

[133] It was confirmed by the first Focus Group on structural and social issues in Amman, conducted on March 27, 2017.

the MoF approved budget ceilings during the programme years, which were consistent with the medium-term fiscal consolidation path of Jordan. Last but not least, the Government prepared an action plan for handling arrears of the energy sector agencies, to reduce future fiscal risks.[134]

All in all, the pace and the ambition of the fiscal consolidation plan was found satisfactory. However, the consolidation was mostly built on the expenditure side, a decrease in subsidies in particular. Note that efforts in reducing subsidies were helped by extremely favourable global energy price movements. Structural challenges still remain, most importantly in the revenue side of the budget, income taxation in particular remains a major unsolved issue (see our discussion on condition 3 below).

6.2.3 *EQ2.3: Effectiveness in structural reforms*

Table 6.13 Evaluation sub-questions on the effectiveness of structural reforms

EQ2.3 To what extent has the MFA assistance been effective in terms of supporting structural reforms in Jordan?
EQ2.3.1 What were the expected short and medium-term structural effects of the assistance (in the context of Jordan's reform programme)?
EQ2.3.2 To what extent have the short and medium-term expected structural effects of the assistance (in the context of Jordan's reform programme) occurred as envisaged?
EQ2.3.3. To what extent have the structural criteria of the MFA contributed to the desired structural outcomes / effects?
EQ2.3.4. To what extent have the structural effects been enhanced by complementarities between the MFA assistance, IMF programme conditions and other EU instruments?
EQ2.3.5 What has been the contribution of actions resulting from the respect of structural conditionality criteria to the achievement of the short and medium term macroeconomic objectives of the assistance (i.e. indirect effects of the structural conditionality criteria)?

This part of the MFA evaluation questions pertains to the structural conditions that were attached to the MFA operation.

EQ2.3.1 What were the expected short and medium-term structural effects of the assistance (in the context of Jordan's reform programme)?

The objectives of the reform programme that the authorities implemented were presented above related to EQ1. The short and medium-term structural effects of the MFA conditions presented in Table 6.14 below are closely related to parts of the intervention logic of each of the conditions, as discussed in Chapter 5.

[134] See IMF (2015): Country Report No. 15/115.

Table 6.14 Expected short and medium-term structural effects of the assistance

No.	Condition	Short-term effects	Medium-term effects	Implementation deficits
1	Audit Bureau law	• Ensure financial independence of Audit Bureau in line with INTOSAI standards.	• Strengthen the role of the Audit Bureau as a Supreme Audit Institution; • Ensure an appropriate separation between internal and external audit.	The law was not adopted and a waiver was given.
2	Internal control units	• Strengthen internal controls in line Ministries; • A phased withdrawal of the Audit Bureau from pre-audit activities.	• Improve economic governance: greater transparency and accountability; • Reduce risk of fraud and corruption with public spending.	No deficits encountered.
3	Income tax law	• Widening the income tax base by lowering the exempted threshold; • Increase top tax rates for individuals and corporates.	• Higher government revenue and therefore improved fiscal sustainability and less donor dependency; • More fairness in the tax system.	A watered down version of the law was adopted without a lower threshold for exemptions.
4	National Unified Registry	• Poor households are receiving compensation for the liberalisation of energy prices, conditional on the price of oil exceeding USD 100 per barrel.	• Better targeting of the social safety net while supporting fiscal consolidation; • Poverty reduction.	The NUR was established to compensate vulnerable groups for the removal of fuel subsidies. It became relatively idle after the drop in the world market price for crude oil in 2014.
5	Unemployment Fund & Maternity Fund	• Unemployed and women on maternity leave can rely on both funds on a permanent basis.	• More social and economic security for the unemployed and for women on maternity leave; • A positive effect on Jordan's low rates of participation of women in the labour force; • Modernization of the social safety net in Jordan.	No deficits encountered.
6	PPP law	• PPP law adopted; • Central PPP institution established.	• Increased number of PPPs: additional private finance attracted to fund public provisions.	No deficits encountered.
7	Regulatory framework for investment	• Unify the regulatory framework for investment, streamline the system of investment incentives and ease statutory restrictions to foreign ownership; • Establish the principle of one-stop shop to facilitate company registration and project licencing.	• Increased number of investments in Jordan.	No deficits encountered.

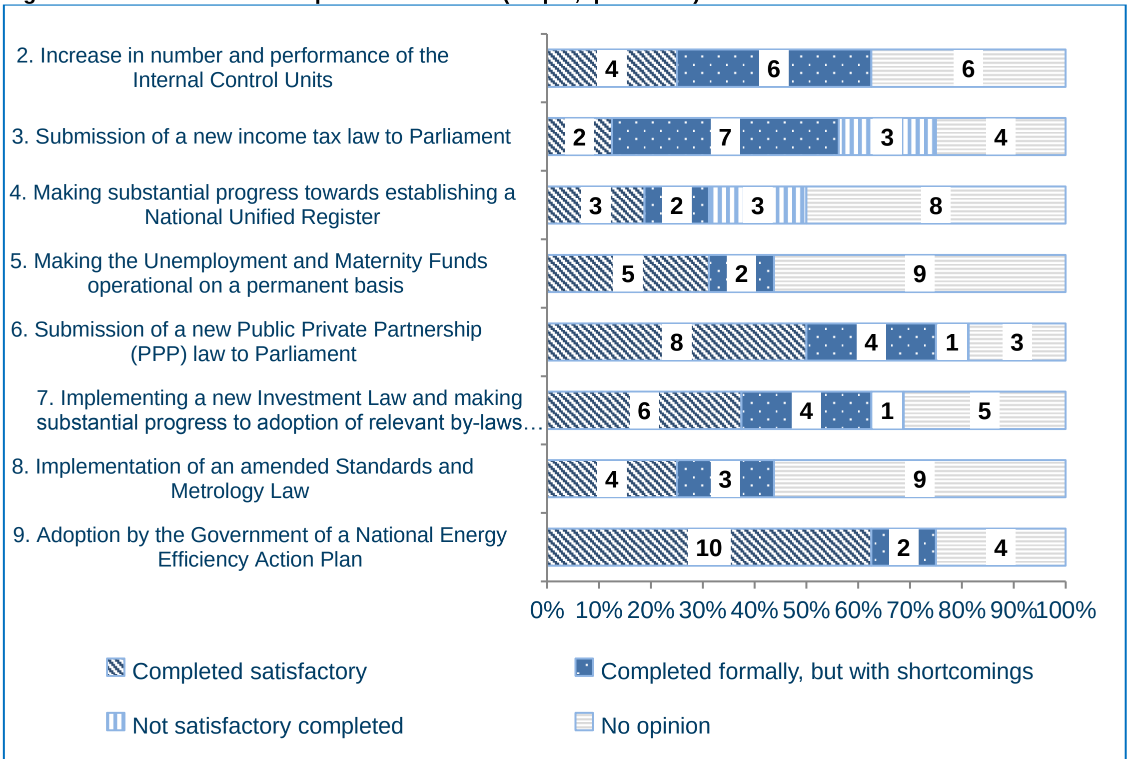
No.	Condition	Short-term effects	Medium-term effects	Implementation deficits
8	Law on Standardization and Metrology	• Definition of, inter alia, new obligations of economic operators regarding product safety and establishment of a new conformity assessment and market surveillance regime in Jordan consistent with EU practices.	• Conclusion of ACAA of industrial products between Jordan and the EU; • Increased export to the EU in three priority sectors.	An extra-ordinary session of Parliament was needed to get the law adopted in time.
9	National Energy Efficiency Action Plan	• The plan adopted covers many sectors and focuses on solar applications, for thermal and electricity purposes, while setting new building codes in compliance with energy efficiency and renewable energy principles.	• Reduce energy dependency and achieve 20 percent energy savings by 2020.	No deficit encountered.

EQ2.3.2 To what extent have the short and medium-term expected structural effects of the assistance (in the context of Jordan's reform programme) occurred as envisaged?

The right-hand column of Table 6.14 above shows the achievements with regard to the short and medium-term effects as well as the implementation deficits. In general, the conditions agreed for the MFA appeared to have been achieved in a satisfactory manner before the disbursement of the second tranche in 2015 and without serious implementation deficits. The only real exception is External Audit law (condition 1), for which a waiver was given, because the law was not adopted. For the income tax law (condition 3) and the NUR (condition 4) some nuanced comments about the achievement of the reforms need to be added, because ultimately a watered down version of the income tax law was adopted while the NUR became relatively idle in 2014.

In the Delphi questionnaire the above-mentioned assessments have been triangulated with experts' views (see Annex 4, question 7) about the satisfactory implementation of the reforms. As can be seen in Figure 6.8 below, the satisfactory implementation of condition 9 has taken place convincingly, because ten experts support the statement that the NEEAP (condition 9) has been implemented completely satisfactory. For other statements, the support is less convincing. It ranges from only two experts who support the satisfactory implementation of the income tax law (condition 3) up to 8 experts who support the satisfactory implementation of the PPP law.[135]

Figure 6.8 The successful completion of reforms (Delphi, question 7)



Detailed information about this implementation deficit for each of the conditions is provided below.

Condition 1: Audit Bureau law

In August 2015, when the EC reviewed the compliance, this amended law was not yet adopted by Parliament. Nevertheless, the EC concluded that progress was made towards attaining some of the objectives of the new law, especially regarding the de facto preparation of its own budget and the implementation of certain INTOSAI standards through eight pilots. Given these positive steps taken to

135 Condition 1 is left out of this Delphi question 7, because this condition required a waiver and is therefore covered separately in question 6 of the Delphi questionnaire and discussed below.

strengthen external audit in general and given the adverse regional environment, the EC concluded that it would be justified to grant a waiver for this MFA condition.

The experts consulted in the Delphi questionnaire differ in view whether progress made in the area of the Audit Bureau law up to August 2015 (see Annex 4, question 6). Seven out the 16 experts (most of them GoJ officials) assess that "some progress was made", while four see "no progress" and the remaining five have "no opinion".

Condition 2: Internal control units

No evidence of implementation deficit encountered so far. There were no political barriers in this area. Delays were mainly caused by limited financial resources. Compliance with this condition was assessed on the basis of a review, to be completed by the Audit Bureau, of progress achieved in the 25 budgetary entities. Based on the progress observed, the EC considered this condition to be fulfilled.

Condition 3: Income tax law

This amended income tax law which was adopted by Parliament failed to lower the exempted threshold regarding individuals. This law was expected to increase annual revenue in 2015 by only 0.25 percent of GDP in 2015 (compared with the 1.0 percent of GDP increase in tax collections under the government's proposal) and 1.0 percent in 2016 onwards. Both the IMF and ECFIN regarded this amended law as a step forward, even though the Parliament watered down the initial proposal by the government. The new law has increased progressivity and revenue collections, even though modestly, as it increased the tax rates and introduced new tax grids for individuals. Tax rates for corporate income tax has also significantly increased in some sectors such as banks and telecommunication.

The authorities have committed themselves revisiting the law in the future.[136] They agreed with the IMF to adopt a revised income tax law in 2017. During the interviews in Amman in July 2017 we gathered that the Income and Sales Tax Department (ISTD) has prepared a revised law which is ready to be sent to Council of Ministers. In this law exemptions will be reduced from JD 24,000 to 12,000 per family. This law should be approved by the Parliament in first half of 2018 and should become operational in 2019. Different stakeholders in the GoJ expressed the expectation that this law will be amended after discussion in Parliament and after further negotiation between the Parliament and the GoJ.

Condition 4: National Unified Registry

The unit operating the NUR was officially established in January 2015 in ISTD, within the MoF. In May 2015, it consisted of three employees seconded to ISTD and one project manager. The rationale for setting up the NUR was to compensate vulnerable groups for the removal of fuel subsidies. However, when the world market price for crude oil dropped in 2014, there was no need anymore to provide this type of compensation. Therefore, the NUR became relatively idle and was moved from ISTD to NAF in 2016 to be used for the implementation of the broader NAF objectives to provide a social safety net for the poor. The NAF is currently running its own household data base, is connected to four other institutions electronically and it gets data from another 22 institutions on CDs monthly. As was explained in the interviews, the NAF plans to link all these institutions electronically.

Condition 5: Unemployment Fund and Maternity Fund

There is no evidence of a real implementation deficit for this condition. The condition was fulfilled in 2014. A potential weakness of the unemployment fund is that the granting of the unemployment benefit is not related to an obligation for job seeking or training by the unemployed worker. The current set up could facilitate abuses and reduce incentives for training.

---

[136] The Memorandum of Economic and Financial Policies accompanying the 6th review of the SBA in 2015 mentioned the intention of the government to lower the threshold for personal income taxation in the medium term.

Condition 6: Public Private Partnership (PPP) law

No evidence of implementation deficit. The condition only refers to the submission of this law – the law was even adopted.

Condition 7: Regulatory framework for investment

No evidence of implementation deficit.

Condition 8: Amended law on Standardization and Metrology

During the EC review mission in 2015 to establish fulfilment of the conditions, this condition was not yet fulfilled because the law was not yet adopted. During the mission as well as through a formal letter from the EC to the Government of Jordan it was communicated that this requirement should be completed, and that it may be considered in the extraordinary Parliamentary session on 3 June 2015. This was indeed done.

Condition 9: National Energy Efficiency Action Plan

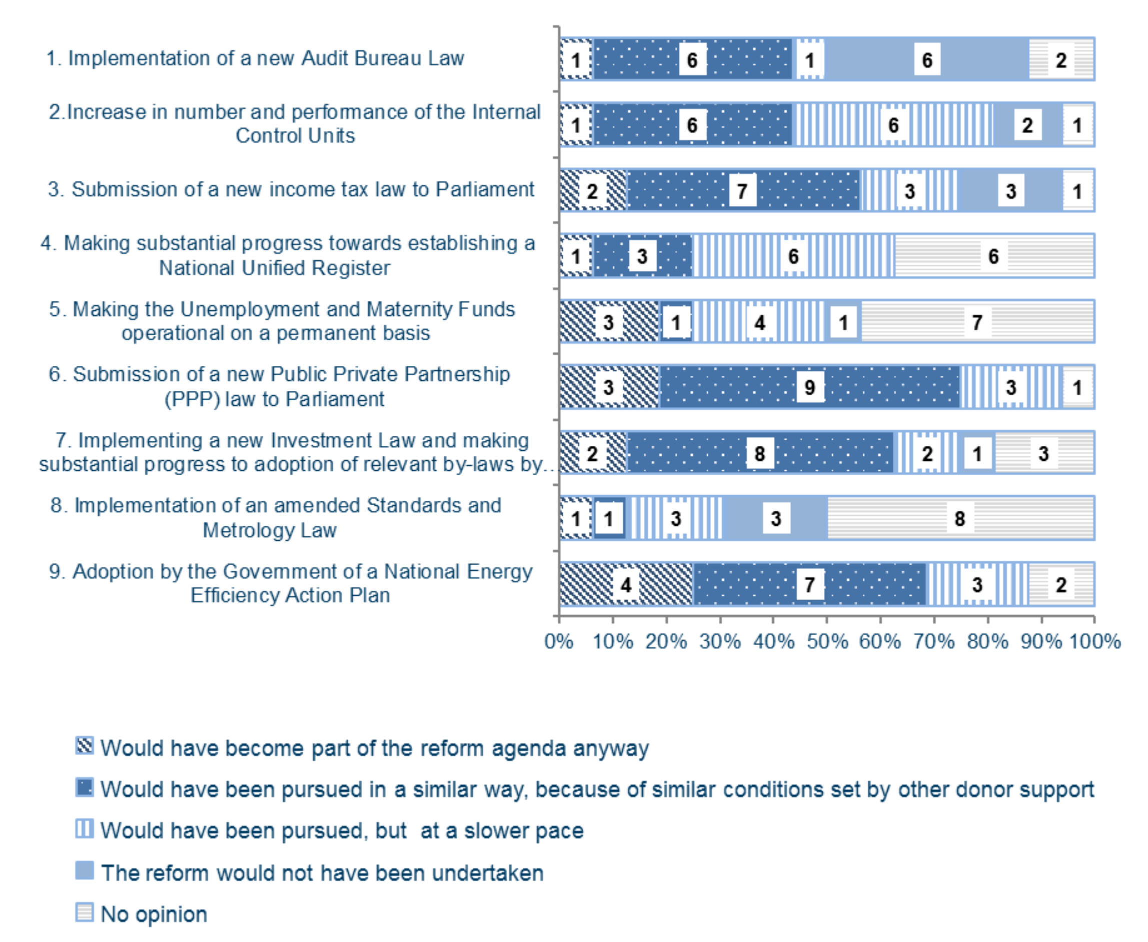
No implementation deficit.

EQ2.3.3. To what extent have the structural criteria of the MFA contributed to the desired structural outcomes / effects?

The contribution of each of the nine structural conditions has been assessed in the interviews but also in a more structured manner in question 8 of the Delphi questionnaire by asking the respondents "what would have happened to the reforms agenda if the MFA support has not been taken place?" On the one hand, respondents may assess no direct contribution of MFA to implementation of the structural reforms if they agree with the statement that the reforms "would have become part of the reform agenda anyway" or "would have been pursued in a similar way because of similar conditions set by other donor support". On the other hand, respondents may see a clear impact of MFA on the structural reforms if they agree with the statement that either the reforms "would have been pursued, but at a slower pace" or "would not have been undertaken". Figure 6.9 shows the feedback received from the respondents.

On four of the nine conditions the majority of the respondents do not recognize a direct impact of the MFA conditions on reforms, mainly because the condition was also covered in other interventions (as discussed below in EQ2.3.4). This is the case for the income tax law (condition 3), the PPP law (condition 6), the investment law (condition 7) and the energy efficiency plan (condition 9). These conditions seem to have been covered by other interventions and/or were relatively high on the reform agenda of the GoJ. For condition 1 and 2, the responses are more dispersed. A large share of the respondents (6 out of 16) also agrees with this limited effect due to cross-conditionality, but a same number of respondents sees a clear positive contribution of the MFA condition.

Figure 6.9 The implementation of reforms without MFA (Delphi, question 8)



For condition 4, 5 and 8 a large part of the respondents did express “no opinion”. For condition 4, the majority of the respondents with an opinion expected that the reforms would have been pursued at a slower pace. For condition 5 and 8, the respondents with an opinion gave a very diverse response. The EU impact is also seen as more important in the “socially sensitive” conditions (4, 5 – at least among people having an opinion). This probably also confirms why MFA is rightly associated with a social agenda.

A striking feature in the feedback on the Delphi questionnaire is that the Jordanian officials assess a smaller contribution of the MFA conditions on the reforms than the EU officials and they are more positive about the ability of the Jordanian authorities to get the reforms moving without MFA conditions.

The overall conclusion is that the direct effect of most of the MFA conditions on the implementation of the structural reform agenda has been limited. This might also be explained by the fact that MFA conditions came without technical support on the ground to help the authorities to implement the reforms.[137] Nevertheless, to assess the full contribution of the MFA conditions indirect effects, for instance through strengthening the conditions of other interventions, need to be taken into considerations. This is discussed in EQ2.3.5 and further in EQ 4.1.

EQ2.3.4 To what extent have the structural effects been enhanced by complementarities between the MFA assistance, IMF and World Bank programme conditions and other EU instruments?

In eight of the nine structural conditions of the MFA there has been some form of cross-conditionality with similar conditions in other interventions, in particular the EC Budget Support operations, the IMF SBA and

[137] The EU did provide technical assistance in a number of the reform areas, but this support was mainly linked to the EU Budget Support Operations (see Annex 3).

the DPLs of the World Bank (see Table 6.14). Condition 8, a typical EU condition, is the only exception. The main findings with regard to the cross-conditions and complementarities are discussed in further detail below. An overview of these other programmes and instruments is provided in Annex 3.

Table 6.15 Cross-conditionality and complementarity between the MFA and other interventions[138]

Condition number	Condition name	EU Budget Support Operations	IMF's SBA	World Bank's DPLs
1	Audit Bureau law	+	-	+
2	Internal control units	+	-	+
3	Income tax law	-	+	-
4	National Unified Registry	-	+	-
5	Unemployment Fund and Maternity Fund	+	-	-
6	PPP law	-	-	+
7	Regulatory framework for investment	+	-	+
8	Amended law on Standardization and Metrology	-	-	-
9	National Energy Efficiency Action Plan	+	+	-

Condition 1: Audit Bureau law

The implementation of the Audit Bureau law was also being supported by the EU through its budgetary support operations. The inclusion of the Audit Bureau Law as a condition of MFA was in fact a logical next step after the benchmarks in the Sector Reform Contract (SRC) in the field of PFM, signed in 2010.[139] In this SRC the disbursement of two tranches was linked to this Audit Bureau law.[140] In the follow up SRC, signed in 2014, the Audit Bureau law was not included as a benchmark but an amount of EUR 6.5 million was allocated for technical support to internal and external audit.[141]

Conditions with regard to the Audit Bureau (related to condition 1) and ICUs (see condition 2 below) were included as a prior actions in both World Bank's DPL I (2012) and II (2014).[142] In the context of a Twinning project that started in 2013, with the participation of the Supreme Audit Institutions of Spain and Netherlands, certain INTOSAI standards have started to be implemented through eight pilot projects.

Condition 2: Internal control units

Similar to condition 1, the strengthening of internal financial control and set up of ICUs was supported by the EU through its budgetary support operations. This condition also built on what was agreed in the benchmarks in the SRC in the field of PFM, signed in 2010.[143] In this SRC the disbursement of three tranches was linked to this ICUs.[144] The EC continued its focus on internal audit and control through the

[138] We only focus here on official cross-conditionality in the sense that the specific condition is actually replicated by the other institution. This does not mean that these other institutions do not support similar or same objectives without having this specific condition. For instance the WB was and still is supporting the implementation of the NUR, as described in Box 3. However, the WB does not have any condition with regard to the NUR de jure, and therefore it is not included as such in this table.

[139] 'Support to the Public Financial Management Reform Programme' (CRIS decision no. 21932)) with a total contract value of EUR 44 million.

[140] In 2012, the disbursement of tranche 3 was linked to amendment of the Audit Bureau law and in 2013 tranche 4 was linked to the approval of this law by the Cabinet and its submission to Parliament.

[141] 'Support to Public Finance and Public Administration Reforms' (PFPA, 2014-2017 (33664)), with a total contract value of EUR 47.5 million of which EUR 40 million budget support.

[142] Prior Action in DPL I (2012): withdraw the Audit Bureau from ex-ante controls and strengthen internal controls in line Ministries through Council of Ministers approval of the Internal Control By-Laws; Indicative trigger DPL II (2014): amend the Audit Bureau (AB) Law to ensure independence for the AB and a greater focus of this institution on performance audit and on ex post controls, consistent with International Standards for Supreme Audit Institutions, and also adopt the MoU between MOF and AB to strengthen ICUs so as to implement Internal Control By-Laws.

[143] 'Support to the Public Financial Management Reform Programme' (CRIS decision no. 21932)) with a total contract value of EUR 44 million.

[144] In 2011, the disbursement of the second tranche was linked to by-laws covering the ICUs are developed and approved by cabinet. The 3rd tranche (2012) was linked to capacity building in 10 MDAs and the 4th tranche (2013) was linked to 10 ICUs being operational.

SRC "Support to Public Finance and Public Administration Reforms" (PFPA, 2014-2017 (33664) signed in 2014. In this SRC two benchmarks were closely linked to this condition with targets for disbursement in 2015 and 2016.[145] As mentioned above, the complementary support to this SRC included technical support to the internal and external audit. The EU has supported and will continue supporting efforts for training the staff of ICUs through the three institutional building instruments (Twinning, TAIEX and SIGMA). As mentioned above related to condition 1, condition 2 was also part of the same prior action (no. 3) in both DPLs of the World Bank.

Condition 3: Income tax law

The submission of the income tax law was a structural benchmark of the IMF SBA (2012). Linked to the Request for SBA (December 2012) it was agreed with the authorities to "submit to the parliament an income tax reform law, including changes on mining sector taxation, by end-September 2012". During the first review of SBA (May 2013), a new condition was agreed to "implement an income tax law yielding additional revenue of about one percent of GDP by end-September 2013".

Three technical evaluation studies were developed by USAID Fiscal Reform Project II for the MoF and ISTD aimed at supporting Jordan's tax policy reform and improving tax administration. These studies on tax expenditure study, tax incidence and tax administration benchmarks provided useful inputs for the policymakers to reform the tax policies.

Condition 4: National Unified Registry

This condition was closely linked to one of the structural benchmarks in the IMF SBA. According to the IMF Reviews, this IMF benchmark was met in October 2013. In the request for SBA it was agreed to "introduce targeted transfers to the poor, which would protect the poor from higher oil prices should they increase beyond USD 100 per barrel by end-January 2013." In the first review of the SBA (May 2013) one new benchmark was agreed, to "implement a NUR for targeting of subsidies by October 2013".

The World Bank has supported the NUR since 2014 through a project of USD 2.5 million financed through the G8 Deauville Partnership Transition Fund (see Box 3).

Box 3 – World Bank support to NUR

The development objective of the project is entitled "Support to Implementation of a NUR and Outreach Program for Targeting Social Assistance". It aims to improve the targeting of social safety net programmes and developing an efficient outreach mechanism. The project was scheduled to be completed end-2017 but might probably be extended by one year. It comprises two main components, Component 1: Building and Using the NUR; and Component 2: Piloting Integrated Outreach Worker Program. The NAF has been the main institutional beneficiary of the first component. One of key objectives under this component is to establish an integrated and automated data-exchange mechanism (as the NUR Platform) connecting the NAF with other key government institutions, providers of public data. The proposed platform is expected to facilitate data sharing about households and beneficiaries of the NAF's welfare programmes and improve eligibility verification and enrolment processes in a most secure and reliable manner. More specifically, it should improve accuracy of targeting of NAF programmes and help provide better services to the population.

Condition 5: Unemployment Fund and Maternity Fund

In the area of social security, the EC has been the main donor. This MFA condition built on the conditions included in the GGDC of EUR 39.7 million signed in 2012.[146] For the first tranche (2012) of the GGDC, the draft new Social Security law needed to be sent to Parliament. For the second tranche (2013), the maternity fund and employment fund needed to be established and operational.

---

145 Benchmark 1 focused on the capacity ICUs in MDAs to conduct ex-ante (pre-audit) controls and build a professional financial controller community throughout the government, while benchmark 2 covered the withdrawal of the Audit Bureau from pre-audit in certified MDAs.

146 CRIS decision no. 24396.

Condition 6: Public Private Partnership (PPP) law

PPPs have been an area of interest of other donors as well. PPPs have been topic of reforms in the DPL of the World Bank.[147] In the first DPL (2012), PPPs are mentioned as key drivers of growth in Jordan, especially considering the limited fiscal space available. One of the reform areas specified in the DPL is "put in place streamlined guidance for processing PPP and lower the associated fiscal risks of PPPs". A specific 'prior action' is approval of the PPP Law by the Council of Ministers and submission of this law by Parliament. The rationale for this reform was the limited capacity of Jordan to mobilise additional funding considering its fiscal situation, hence the need for private capital to invest in infrastructure and other key areas.

In the second DPL (2014), the establishment of a PPP unit is one of the identified prior actions.[148] The rationale for this action is that it would, combined with a new PPP law, improve Jordan's ability to implements PPPs, including small- and medium-sized PPP – so that investment efficiency is increased and the pressure on the government's budget is relieved.[149] The World Bank provided support to develop this PPP legislation. The PPP unit has also received Technical Assistance from WB/IFC in drafting of guidelines for financial contingent liabilities and in the development of a roadmap for the next 3 years. The World Bank also provided some capacity building for line ministries.[150] USAID has also supported PPP reforms: capital funding was provided to support the As Samra Wastewater Treatment Plant PPP, and support to the establishment of the PPP unit (including paying part of salaries) was incorporated in the USAID Fiscal Reform Project II.[151]

Condition 7: Regulatory framework for investment

The first DPL of the World Bank included as prior action: the approval of the new draft Investment Law mandating a reduction of restrictions on FDI, speedier acquisition of licenses and more transparent rules for granting exemptions to investors. This Investment Law was submitted to Parliament on June 2011. The second DPL incorporated as prior action that the Government issued a decree in 2013 to strengthen the 'one-stop-shop' at the JIB by expanding delegated authority and mandating the MIT to develop administrative solutions for cases submitted to JIB. These prior actions should result in a reduction in the number of days to obtain all required licenses to effectively start a business.[152]

A 'unified institutional and regulatory framework established for investment' was also a deliverable under the GGDC 2012-2014. Late 2014, when the indicators for disbursement of the last tranche were being assessed, this indicator was deemed partially fulfilled. Reference is made to the signed Investment Law and the Law for restructuring Public Institutions and Department (in March 2014), but despite progress, the framework has not yet been unified.[153]

Condition 8: Amended law on Standardization and Metrology

This condition is part of the preparations for the negotiations between Jordan and the EU on the ACAA for industrial products. This is a typical EU condition and therefore there was no cross-conditionality with

---

147 International Bank for Reconstruction and Development, Program Document for a proposed first programmatic Development Policy Loan in the amount of USD 250 million to the Hashemite Kingdom of Jordan, February 2, 2012.

148 International Bank For Reconstruction And Development, Program Document for a Proposed Loan in the Amount Of USD 250 Million to The Hashemite Kingdom Of Jordan for a Second Programmatic Development Policy Loan, February 18, 2014.

149 International Bank For Reconstruction And Development, Program Document for a Proposed Loan in the Amount Of Us$250 Million to The Hashemite Kingdom Of Jordan for a Second Programmatic Development Policy Loan, February 18, 2014.

150 During the interviews the PPP unit expressed the need for training and capacity building in the area of PPP, within the PPP unit itself but also within most MDAs.

151 Public-Private Infrastructure Advisory Facility (PPIAF), PPIAF supports the institutional and policy environment for PPPs in Jordan, December 2014, http://documents.worldbank.org/curated/en/762281468329337061/pdf/938550WP0Box380rdan0PPP0ImpactStory.pdf.

152 It was explained in the interviews in July 2017 that the JIC is currently more focusing on the creation of a "fast track" environment for investors, rather than a real "one-stop-shop".

153 GGDC Disbursement note last tranche.

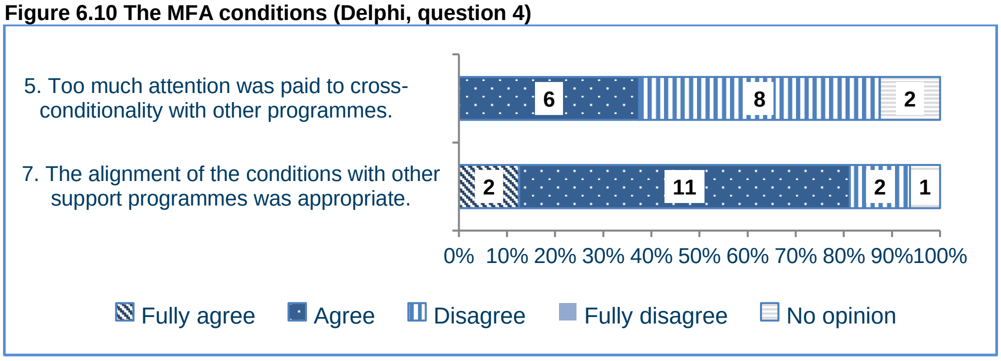
programmes or interventions of other donors. Although progress in the preparations for the ACAA negotiations was a topic in EU policy documents, it was not a condition attached to other EU support.

Condition 9: National Energy Efficiency Action Plan

The IMF SBA included the following three structural benchmarks related to the energy strategy: i) announcing a medium-term electricity/energy strategy (September 2012); ii) implementing already announced tariff increases as outlined in the medium-term energy strategy (January 2014); and iii) implement already announced annual tariff increases as outlined in the medium term energy strategy. Conditions overlap with those of EC budget support operations in the area of Renewable Energy and Energy Efficiency.

Overall, it can be concluded that eight of the nine conditions were aligned with the conditions of other interventions and support programmes. We learnt from our interviews that most of the stakeholders appreciated this alignment with the respective conditions. The feedback on sub-question 4.5 and 4.7 of the Delphi questionnaire supports this view broadly but not unanimously. An ample majority of the respondents (13 out of 16) agrees or fully agrees with the statement 4.7 that this “alignment of the conditions with other support programmes was appropriate”. Furthermore, 8 of the respondents disagrees with the statement that “too much attention was paid to cross-conditionality” while 6 other respondents agree with this statement.

Figure 6.10 The MFA conditions (Delphi, question 4)



EQ2.3.5 What has been the contribution of actions resulting from the respect of structural conditionality criteria to the achievement of the short and medium term macroeconomic objectives of the assistance (i.e. indirect effects of the structural conditionality criteria)?

As explained in EQ2.3.3, the direct effects of most of the MFA conditions on the implementation of the structural reform agenda have been limited. In this question we assess the indirect effects of the MFA conditions on the structural reforms and also to the achievement of the macroeconomic objectives.

Most of the MFA conditions seem to have contributed indirectly to some extent to the implementation of the requested reforms. These effects have primarily been generated by reinforcing the reforms efforts of the IFIs or other donors. With regard to most conditions, the likely MFA contribution often results from joint leverage with an IFI in the lead. Condition 8 is the only exception, because this is a specific EU condition.

It further needs to be mentioned that it is very difficult to disentangle the effects of the conditions of different interventions in the same policy area. The likely indirect effects of each of the MFA conditions and their related actions are assessed below.

Condition 1: Audit Bureau law

The inclusion of this MFA condition was a logical next step after benchmarks regarding the Audit Bureau Law in the SRC. In fact, this condition in the MFA kept the issue on the policy agenda and dealt, to some extent, with the political resistance. It also reinforced the prior actions in the DPLs of the World Bank.

Condition 2: Internal control units

This MFA condition was also logical next step after the benchmarks regarding the ICUs in the SRC for PFM. This condition also showed the continued focus of the EC on this issue and strengthened the prior actions in the DPLs.

Condition 3: Income tax law

The specific impact of this MFA condition is difficult to disentangle from the overall reforms in this area. The main added contribution is created by joint leverage of the IFIs with IMF in the lead. There was political resistance to reduce the threshold for exemptions. The authorities were more in favour of increasing corporate tax rates than personal income tax. The income tax law was only adopted in 2014 after large pressure from the IMF and also after the IMF delayed the disbursement of one tranche of the SBA.

Condition 4: National Unified Registry

This MFA condition reinforced the targeting of poor household. Its specific impact is difficult to disentangle from the effects of the structural benchmark of the IMF. The main added value is created by a joint leverage with IMF in the lead. In addition, the WB has also been supporting (and still is) the implementation of the NUR through specific technical assistance as described in Box 3.

Condition 5: Unemployment Fund and Maternity Fund

This MFA condition reinforced the adoption of the Social Security law in 2014. It helped the SSC to get the new law adopted by Parliament, because it was treated as a hard condition for the release of MFA. The Maternity Fund was a sensitive issue in an Islamic country like Jordan. The social security law was also included as a condition in the GGDC, but ECFIN believed that the overlap and repetition might be useful to achieve further leverage as the law was pending parliamentary approval for quite some time.

Condition 6: Public Private Partnership (PPP) law

Compared to the requirements set by the World Bank, the MFA condition is relatively lenient, only requiring the submission of the PPP law to Parliament. The MFA supported the efforts of the World Bank and USAID, but since the threshold was relatively low, it is likely that the law would have been submitted anyway. The PPP law was already being reworked to be submitted again to Parliament. The condition thus created an additional incentive for submission which was not extremely difficult to fulfil.

Condition 7: Regulatory framework for investment

During negotiations about the MoU, the new Investment Law was finalised and submitted to Parliament in June 2013. It was thus still being discussed by Parliament and it depended on its approval how quickly implementation could start. At that time, the MFA was intended to be disbursed end of 2013, and it was not certain if there would be sufficient time to reach implementation stage and make sufficient progress with the preparation and approval of the by-laws.[154] Therefore, requiring the implementation of the law was relatively challenging: the MFA on its own would have struggled meeting the demanded results if no other support programme had included this condition. Cross-conditionality with the two DPLs of the World Bank and the GGDC and Technical Assistance on the ground were very relevant in this case.

Condition 8: Amended law on Standardization and Metrology

The condition has been a decisive factor for the adoption of the amended law: it pushed for the adoption of the law, which was prepared years ago and had been given low priority by the Parliament.

[154] Based on interviews in Amman.

Condition 9: National Energy Efficiency Action Plan

The inclusion of this MFA condition emphasized that the EU continues to regard the energy sector as a key area of interest, and regards the adoption of an Action Plan in this field essential. It reinforced the prior actions, and followed in the track of the IMF and the World Bank, who pushed energy reforms forward, contributing to improved energy efficiency, reduced energy dependency, and an improved financial standing of the sector.

6.3 EQ3: Efficiency of the operation

To assess the efficiency of the operation we respond to the following EQ.

Table 6.16 Evaluation questions on the efficiency of the operation

EQ3 To what extent did the MFA operation design and implementation allow to carry out the intervention efficiently?
EQ3.1 In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its costs and its objectives?
EQ3.2 Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in Jordan?

6.3.1 EQ3.1: In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its costs and its objectives?

The design of the MFA operation did have substantial implications for its efficiency, both from the perspective of the EC as well as from the GoJ.[155]

There was mutual leverage between the MFA on the one hand and on the other hand the SBA provided by the IMF and to a lesser extent the DPLs of the World Bank. The MFA operation was also closely coordinated with IMF. Therefore, impact was significant compared to its cost. Moreover, in negotiating specific policy conditions, the EC was able to draw on the expertise of those institutions, influence their conditionality and keeping the preparation cost of the MFA relatively low. For the authorities, the number of conditions, focusing on different reform areas, and the comprehensiveness of some of them, was challenging. Nevertheless, most MFA conditions were common conditions also covered in other interventions (see EQ 2.3.4 on complementarities and Annex 3 on cross conditionality and complementarities). In the interviews, the authorities underlined that these cross-conditionalities improved the efficiency of the operation, because it leveraged the conditions and they had to report only once on the progress made.[156]

To support the implementation by the beneficiary of the relevant measures, the EC aimed at achieving synergies with other EU policies and instruments. The main synergies were achieved with its budget support operations notably in the area of public finance management, social security, investment framework and renewable energy;

The MFA was provided in the form of loans and therefore the budgetary impact for the EC was smaller than in the case of grants. For the authorities of Jordan, it was the opposite. The impact of the MFA loans on the Jordanian budget was less than if grants would have been provided. Nevertheless, the relatively soft conditions of the MFA were attractive compared to most alternative funding sources. The highly concessional terms, i.e. relatively low interest rates (see Section 6.7.3 for more details), long maturity (15

155 The ex-ante evaluation statement put forward a number of reasons for a high degree of cost effectiveness of the MFA operation from the Commission's perspective. See SWD, 'Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan', April 2013.

156 In general, the authorities appreciated the use of common conditions given the administrative burden to deal with different conditions of multiple donors and because it increased the chance that a condition would be fulfilled.

years) and long grace period, made the MFA attractive in comparison with other loan operations such as the SBA of IMF, and also compared to US guaranteed Eurobonds and T-bills. The benefits and savings associated with these soft conditions are elaborated in detail Section 6.7.

The MFA was more cost-efficient than the provision of a similar amount of financial support by different EU Member States individually. It needs to be mentioned, however, that MFA was not replacing bilateral support of Member States. Some of them still provided substantial amounts of bilateral support to Jordan. The Sector Policy Loans (SPLs) of France from 2012 onwards are a clear example of this.

6.3.2 EQ3.2: Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in Jordan?

In the first half of 2013, it was the intention of the EC to disburse the first tranche of the MFA before the end of 2013. This intention was also expressed to the Jordan authorities and to the IMF. Mid-2013, the Commission sent a request to the European Parliament to get the MFA proposal approved in October 2013. The Commission's request was however rejected by the Secretariat of the Parliament. Ultimately, the proposal was approved in December 2013 by both the European Parliament and the Council.

In the second half of 2013, the pressure to disburse quickly reduced, due to some improvements in the BoP and fiscal balance, among others due to the receipt of larger than expected grants from the GCC countries, and because of a more challenging outlook for 2014. In January 2014, discussions between the Commission and the authorities were still ongoing on three of the conditions, the Audit Bureau, the income tax law and the ACAA. Ultimately, the MoU and the LFA were signed on 18 March 2014. The Jordan authorities' unfamiliarity with the MFA instrument contributed to the delays.

After signing the MoU, the MFA disbursement of the first tranche was further delayed by 6 months reflecting Jordan's need to amend certain aspects of its public debt legislation. The first tranche of EUR 100 million, which was conditional on the IMF programme being on track, was disbursed on 10 February 2015. The second tranche of EUR 80 million was disbursed on 15 October 2015.

While the above listed factors all contributed to the delays, the implementation process of the MFA to Jordan is assessed to be lengthy. Nevertheless, the disbursement of the MFA was appropriate in the context of the prevailing economic and financial conditions in Jordan. As we explained in EQ 2.1.1, the combined effect of the MFA and the SBA contributed to a long-term positive effect on the external financial position. This view was shared during the interviews with the CBJ and the second Focus Group.

6.4 EQ4: EU added-value of the operation

This EQ considers the extent to which the EU assistance has provided additional benefits beyond those which would have resulted from other interventions (e.g. the IMF and other donors). This section has benefitted from the findings of the Delphi Questionnaire focusing on the added value of the operation.

Table 6.17 Evaluation sub-questions on the EU added-value the operation

EQ4 What was the rationale for an intervention at EU level? To what extent did the MFA operation add value compared to other interventions by other international donors?
EQ4.1 To what extent have the expected benefits of the EU intervention been attained?
EQ4.2 What is the value resulting from the EU assistance which is additional to the assistance obtained at other levels (IMF, Member States, etc.)?
EQ4.3 To what extent has the sharing of roles between the European Commission (DG ECFIN and other DG's), IMF, Member States and others contributed to optimise the impact of the assistance?

6.4.1 EQ4.1 To what extent have the expected benefits of the EU intervention been attained?

The immediate benefits of the conditions and the related implementation deficits have been discussed in EQ 2.3.2. This evaluation has further identified added value of this MFA operation in several areas that are described below.

Financial value added. The MFA loan contributed to alleviating the financing pressure in Jordan in 2015, despite the substantial delays in MFA disbursement and its relatively small amount. The size of the MFA operation (EUR 180 million) corresponded to 0.5 percent of Jordan's GDP in 2015. A main attractiveness of the MFA loan versus alternative sources of financing (e.g. the SBA of the IMF, the US guaranteed Eurobonds and T-bills) was its highly concessional terms, i.e. relatively low interest rates, long maturity and long grace period. This was confirmed by the authorities during the interviews. Our calculations also support significant fiscal savings arising from the favourable financial conditions (see Section 6.7).

Providing some fiscal breathing space: In 2011 and the following years, Jordan had faced severe challenges, notably related to the Syrian crisis, the external energy supply problems and the domestic Arab Spring-related unrest. The authorities had to deal with these disruptions and with related internal political, economic and social tensions. In this regard, the prospects of the MFA loan provided the authorities some of the much needed breathing space. In particular, because, the MFA was also one of the few sources of un-earmarked support and therefore helpful to deal with the sincere budget constraints. While it was clear that substantial fiscal consolidation was required in Jordan, the social and political tensions were not conducive for a very rapid stabilisation path. In this regard, the prospects of the MFA allowed the GoJ to implement only gradual fiscal adjustments and to sustain the cost of its social provisions. This added value of the MFA was confirmed by an ample majority of the expert in question 11.1 of the Delphi questionnaire. From the 16 participants, 10 supported the statement that "the MFA made a significant difference in enabling Jordan to sustain the cost for social provisions". From the other 6 participants, 2 disagreed and 4 had no opinion.

In a broader context, the MFA signalled to the region that the EU is ready to support the countries that, like Jordan, embark on a clear path towards economic reforms in moments of economic difficulties.

Focus on social impact: EU expressed commitment to help addressing short and medium-term social challenges in many areas detailed below (see Section EQ6 on Social impact). While a number of international donor agencies focus on various social development areas in Jordan, these short and medium-term social aspects of the MFA are relatively unique with a high value added among general balance-of-payments and budget support instruments.

Part of EU Response to Syrian crisis. The Commission presented the MFA as one of their instruments to support the Jordan authorities to deal with the implications of the Syrian crisis and to manage these challenges in an organised and peaceful manner. By complementing the resources made available by the international financial institutions, bilateral donors and other EU financial institutions, it contributed to the overall effectiveness of the package of financial support agreed by the international donor community in the aftermath of the Syria crisis.

Contribution to promotion of certain reforms. In EQ 2.3.3 we concluded that the direct effects of most of the MFA conditions on the implementation of the structural reform agenda have been limited. This conclusion was also based on the feedback on question 8 of the Delphi questionnaire "what would have happened to the reforms agenda if the MFA support has not been taken place?" Nevertheless, in most reform areas, the reinforcing effect of the MFA conditions has been important. In EQ 2.3.5 we stated that the MFA conditions seem to have contributed indirectly to promoting certain reforms and in reinforcing reform efforts of other stakeholders. The progress in these areas, even if it can only partly be attributed to the MFA, opened the possibility of long-term benefits, apart from certain smaller gains that have materialised already.

Reforms in some areas progressed faster than the MFA negotiations, and in these areas, it was particularly difficult to identify the real added value of MFA. It is plausible that the MFA negotiations might have influenced the shape and/or timetable of these reforms when they were at an early stage, but there is no substantive supporting evidence for this.

Indirect effects on the EU economy. The conditions in the framework of investment and trade, such as the PPP law, the regulatory framework for investment and the amended standards and metrology law might have some small positive indirect effects on the EU economy, also with respect to improved market entry. Furthermore, there are several other small potential EU gains, e.g. related to migration trends, costs of cross-border business, potential expansion of the Jordan market for FDI, etc. The MFA contribution in these areas is rather limited and impossible to quantify given their long-term character.

In summary, the MFA operation for Jordan provided added value in relation to other actors involved in promoting socio-economic development of the country. The MFA has supplemented other international support that Jordan received after 2011 and contributed to some extent to the better macroeconomic outcomes, and more political and economic stability in this geo-politically and strategically important country in the Southern neighbourhood.

6.4.2 EQ4.2 What is the value resulting from the EU assistance which is additional to the assistance obtained at other levels (IMF, Member States, etc.)?

The MFA was provided on top of other substantial EU-funded programmes available to Jordan (mainly through the ENPI (2007-2013) and its successor, the ENI (2014-2020). Given its un-earmarked character, MFA can be seen to a large extent complementary rather than duplicating other assistance programmes. Furthermore, by supporting the authorities' efforts to stabilize macroeconomic conditions, the MFA helped to improve the effectiveness of other EU financial assistance to the country, including the budgetary support operations and it contributed to the strengthening of the FX reserves.

6.4.3 EQ4.3 To what extent has the sharing of roles between the European Commission (DG ECFIN and other DG's), IMF, Member States and others contributed to optimise the impact of the assistance?

The added value of the MFA conditions has been discussed in EQ2.3.5. The MFA was closely linked to the SBA provided by the IMF and its added value should therefore not be assessed in isolation. The possible upcoming MFA support to close the financing gap arguably might have made it somewhat easier for the IMF in 2012 to decide on the SBA programme, although the MFA not was factored-in. Around the time of the preparation of the SBA, which was signed in July 2012, the Commission started the discussions with the authorities on the provision of MFA, also to help them closing the remaining financing gap.[157] The joint IMF-EU support might have reduced the risk of a disorderly macroeconomic stabilisation process. The provision of MFA has also given the Commission a 'seat at the table' in the discussions on the macroeconomic strategies and policies in Jordan.

The cooperation between the Commission and the IMF was fruitful and effective. The level of coordination between the IMF and the EC in terms of negotiations and sharing information was productive. There was some but limited replication with regard to the analytical work done by IMF and the Commission. The EU Delegation also hosted the meetings and supported logistics and information sharing as the IMF did not have a resident representative in Jordan.

[157] A possible MFA to Jordan was mentioned in the internal communication and in some internal documents of the Commission in the second half of 2012, for instance in Ares (2112)987032 of 21 August 2012, where reference was made to a possible MF programme to Jordan.

The IMF has the lead on macroeconomic issues in Jordan. In terms of structural reform, IMF mostly relied on other parties, especially the World Bank and the IFC.[158] The IMF provided leadership in some of the structural reform areas, e.g. the labour market.

6.5 EQ5: Coherence of the operation

Table 6.18 Evaluation question on EU coherence

EQ5 Were the measures of the MFA operation in line with key principles, objectives and measures taken in other EU external actions towards Jordan?
No sub-question

As explained in Chapter 2, Jordan received substantial financial support from the EU and its related institutions since 2011, primarily owing to the serious escalation of the Syrian crisis. The EU provided several forms of assistance to Jordan and the MFA was part of this comprehensive package.

The entire allocation under the ENI for 2014-2020 amounted between EUR 587 to 693 million, depending on the level of future progress made in the fields of democratic, social and economic reforms. In addition to these bilateral allocations, Jordan was eligible for additional funds under the EU's thematic programmes and instruments – all this totalling EUR 214 million since 2011.

With regard to the preparation of the MFA, there was also close coordination within the EC, especially between ECFIN and the EU Delegation. This was confirmed during the interviews in Brussels and at the EUD in Amman. As a result, a number of the MFA conditions built on what had been agreed and achieved in earlier EU budget support operations (see EQ 2.3.4). The following four budget support contracts had the same or similar conditions to the MFA (see Annex 3):

- GGDC Jordan (EUR 39.7 million, 2012-2014);
- SRC Support to the PFM Reform Programme (EUR 44 million, 2010-2013);
- SRC Support to Public Finance and Public Administration Reforms (PFPA) (EUR 40 million, 2014-2017);
- SRC Renewable Energy and Energy Efficiency (REEE) Programme in Jordan (EUR 33 million, 2011-2015).

Furthermore, the structural conditions in the MFA were closely aligned with the three priority sectors and the challenges that occurred in these sectors.

Along with the EU, the EIB and the EBRD have also increased their financial assistance to Jordan in response to the escalation of the Syrian crisis.

In summary, the MFA was part of a broader package of EU support to Jordan and the measures and conditions of the MFA were broadly in line with key principles, objectives and measures taken in other EU external actions towards Jordan.

6.6 EQ6: Social impact

This section elaborates on the observed effects of the financial assistance on key social indicators in Jordan. After mapping the expected impact, we assess what has materialised in the programme years (2013-2015), and try to identify the contribution of the MFA programme in this setting. The country was performing poorly in terms of social indicators compared to its regional peers in the previous decade (see

[158] We base this information on the interview made with the World Bank during our second field viist in July 2017.

Section 5.4), and the Syrian crisis further exacerbated the situation. As a response, the EU expressed strong commitment to help addressing these social challenges, and hence this aspect of the evaluation is especially important.

The section is structured around one main question on social impact, which is further divided into three sub-questions, displayed in the table below.

Table 6.19 Evaluation sub-questions on the effectiveness in terms of social impact

Q6 What was the social impact of the MFA operation?
Q6.1 What were the expected short and medium-term social effects of the assistance?
Q6.2 To what extent have the expected short and medium-term social effects of the assistance occurred as envisaged? What has been the evolution of other key social indicators during the period?
Q6.3 What has been the contribution of the MFA (financial assistance, conditions) to the occurrence of expected social effects?

Identifying and analysing the social impact of the assistance over the subject years (2013-2016) is challenging due to data limitations. Furthermore, identifying the contribution of the MFA (Q6.3) requires a pronounced use of qualitative assessments derived from target group interviews, as time series data analysis alone does not provide enough evidence to answer that question.

6.6.1 EQ6.1: What were the expected short and medium-term social effects of the assistance?

Given that the main scope of the MFA is balance-of-payments support, the programme does not directly target social objectives. However, the legislative Decision (No 1351/2013/EU) mentions social development with regards to the objective of the MFA, as cited in EQ 1.1.1 and these social dimensions of the assistance are further elaborated in the Commission Staff Working Document (SWD) accompanying the legislative proposal[159], which refers to social needs indirectly. The SWD states that the MFA will contribute towards covering Jordan's residual external financing needs, in the context of the IMF programme.[160] The SWD also lists the facilitation of the efforts of the authorities in implementing the measures identified under the EU-Jordan Action Plan (refer to EQ 1.1.1. for more details).[161] This Action Plan, in turn, states the following (bolding added to highlight relevant points): *"It will help to devise and implement policies and measures **to promote** economic growth, **employment and social cohesion, to reduce poverty** and to protect the environment, thereby contributing to the long-term objective of sustainable development."*

Finally, the SWD[162] describes the aspirations of the assistance in the following way (bolding added to highlight relevant points): *"The proposed assistance would promote policy measures to improve public financial management and tax reform **while strengthening the social safety net** (including through a better targeting of the cash transfers system put in place last November to compensate households for the reform of the energy subsidy system); measures to improve the regulatory framework and climate for investment; and **reforms to reduce unemployment and encourage participation in the labour market, notably among women**."*

159 SWD(2013) 151 final,

160 They note the following in the Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan: "*The MFA would help Jordan address the lingering economic consequences of the Arab Spring and the external shocks of its energy sector. It would reduce the economy's short-term balance of payments and fiscal vulnerabilities, while supporting the adjustment and reform programmes agreed with the IMF and the World Bank, as well as the reforms agreed under the EU's budgetary support operations (including the GGDC of EUR 40 million financed by the Support for Partnership Reform and Inclusive Growth (SPRING) programme).*"

161 See European Commission (2013): Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan.

162 See section 1.1.1.

From these statements, as well as the context of the EU assistance to Jordan as a whole, social developments can be identified as a major concern for the EU, when designing and deciding about the MFA intervention.

Accordingly, there is little doubt that the MFA instrument, though by nature not explicitly targeted at particular areas of social development, had been designed to cover external financing gaps and in this way to help the authorities in their efforts to address the social and labour market challenges. The refugee crisis in particular to the extent that creates additional external financing and fiscal needs which are hard to cover had been identified by the Commission as one of the main reasons to support Jordan with the MFA. The social impact and the ability of the authorities to deal with the accumulating social strife was also an important consideration in the 2012 IMF SBA, to which the MFA instrument was linked and whose request document specifically referred to a social impact of the arrangement.[163] The IMF noted *"the need **to strengthen the social safety net to shield the poor**".* Furthermore, the IMF also envisioned that the social aims of the SBA are key in gaining the public's support of the programme: "*The large fiscal adjustment will withdraw some stimulus from the economy, and will have to be accompanied by growth-enhancing and **employment-generating policies**. Such policies will also help in ensuring broad support of the program."*

These aforementioned documents and the listed areas allow us to map out the intended social effects of the MFA in the short and the medium term. However it should be emphasized, that this is an arbitrary construction in this respect, though inspired by the Legislative Decisions and the supporting documents. Therefore the analysis of associated social actions and indicators cannot be completed objectively due to the lack of declared social targets. Bearing this limitation in mind, we were still able to establish a logical list of indicators, which could be analysed.

First of all, it is obvious that the documents identify the poorly performing labour market, which came under further pressure with the influx of refugees, as the juncture of the most pressing social issues in Jordan. As described in Section 5.4, unemployment is a long-standing and chronic problem in the country, along with poverty, which also represents a major problem.[164] Both of these key issues are explicitly mentioned in the aforementioned EC documents, as well as the IMF's reports. We can see that one of the main challenges – and key social concerns of the EU and the IMF – at the time of the MFA inception, was whether Jordan can create jobs amidst an ongoing fiscal consolidation scheme. This is also the field, where financial assistance could have allowed an easier transition for the country and thereby led to visible social effects. Additionally, the assistance could have provided room to better focus on labour market reforms, and address key issues like skills mismatches, low female participation or problematic public sector hiring practices – which we can repeatedly find in IMF reports.[165]

Based on these findings, we have constructed a list of the MFA's intended social effects. For the *short-term*, we have identified two key points that required immediate attention:[166]

1. Reducing the social strife related to the refugee crisis;
2. Sustaining wage growth and the social safety net amidst the ongoing fiscal consolidation.

The first point is related to the general social cohesion in the country, while the second one deals with the issue of wages and budget spending on social programmes. No guidance is provided in the cited documents on what indicators to choose for the mentioned social areas, thus our chosen list in the following section is arbitrary to some extent.

---

163 IMF, Jordan: Request for a Stand-By Arrangement—Staff Report; Staff Supplement; Request for Modification of Performance Criteria; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Jordan, IMF Country Report No. 12/343, December 2012.

164 We acquired valuable insight from our interviews with the Ministry of Social Development and the Development and Employment Fund in Amman on March 2017.

165 See for example IMF (2015): Country Report No. 15/115.

166 For a full summary of these social indicators and actions refer to Section 6.6.3.

Nevertheless, these indicators are certainly very relevant. As we show in Chapter 5, around 3 million non-Jordanians reside in the country (more than one third of the total population) today, of whom over 1.2 million are Syrians according to a national census conducted in November 2015 – however different sources on the exact number vary greatly. UNHCR data show that less than half of them are registered or live in camps, thus a large majority is hosted by local communities. This enormous social challenge has put pressure on many institutions in the country, as the refugees are not denied access to the health and education services paid for by the government. For instance, at the peak of the influx of Syrians, in 2012-13, consumption of energy and water has increased dramatically (some reports suggest a 40 percent jump in northern areas, which are closest to the Syrian border).

A number of interlocutors as well as focus group participants have also pointed to the high relevance of sustaining the income levels and social cohesion amidst the fiscal consolidation required by the IMF's SBA. As a result of the mounting fiscal stress, the primary deficit had to be slashed from more than 8 percent in 2013 to close to zero by 2016, putting much strain on preserving the welfare levels of the Jordanians, especially considering that the public sector is the most relevant employer and wage-setter.

In addition to these most pressing, and mainly short-term issues, we can also deduce a number of medium-term indicators. Specifically, we have mapped out three key areas of *medium-term* concern:
1. Reducing high unemployment;
2. Stimulating equality, inclusion and protection in the labour market; and
3. Reducing the poverty rate.

The first and second points of the expected medium-term effects are related to the long-standing problems of the labour market, while the third deals with the chronic social issue of poverty. Once again, these indicators are highly relevant, as we demonstrate in Chapter 5 in detail. Jordanian employment levels trail its regional peers and are about a half of the EU average. Labour force participation is chronically low – the lowest in the region. Despite the low labour force participation, the unemployment rates are persistently high too. Inclusion and equality in the labour market, especially in relation to youth and women, are perennial problems. For instance, the employment and the labour force participation of the youth and women are among the lowest in the region, despite the fact that both the youth and women in general enjoy good (though uneven) access to education and are generally well-qualified. Finally, a number of agencies concur in assessing the income inequality and poverty as important long-term challenges.

While a number of international donor agencies are focused on various social development areas in Jordan, these short and medium-term aims of the MFA are relatively unique with a high value added among general balance-of-payments and budget support instruments. In that regard, for instance, the MFA's social safety aspect is an important distinctive feature, which complemented the IMF's SBA instrument well.[167]

6.6.2 *EQ6.2: To what extent have the expected short and medium-term social effects of the assistance occurred as envisaged?*

In attempting to arrive at an objective conclusion, we identified a set of measurable indicators to track the achievements of the aforementioned actions and indicators, as well as the evolution in the relevant social development areas in Jordan. Certain arbitration and judgment in the choice of these indicators is needed, because none of the above objectives have been specified in the context of specific measurable targets.

Furthermore, we found that reliable data allowing for tracking these social developments in Jordan is scarce. It is especially the case for poverty indicators, which would be crucial to track in the case of Jordan, where poverty is a long-standing issue. Thus, when analysing the social effects of the assistance,

[167] We base this information from our interviews with the CBJ on July 24, 2017, during our second field visit.

we needed to broaden our selection of tracked variables, in which we decided to put a strong emphasis on the labour market. Our reason for this is twofold: its related indicators (employment and unemployment) were mentioned in the cited documents with a strong emphasis, and its developments are closely connected to other social developments, like the (poorly observed) poverty rates.

We divided the analysis into areas where we want to assess short-term and medium-term effects separately, and use different indicators to verify each of them. We complement our data analysis with the findings from the structured interviews, the Delphi Questionnaire and focus group discussions.

Short-term indicators

Our short-term indicators are related to the social strife as a consequence of the refugee crisis and sustaining wage growth and employment amidst the ongoing fiscal consolidation.

The structure of the public budget – in particular, the dynamics of current expenditures, and its subcomponents, the wage bill and social benefits – provides a good picture on how the authorities were able to cope with both of these short-term challenges. As we show in Chapter 5, current expenditures - as a ratio of GDP - needed to be cut after peaking in 2012, as a result of the mounting fiscal stress. However, despite the ongoing fiscal consolidation, the public wage bill remained broadly stable. That way the GoJ aimed at supporting the purchasing power of the Jordanians through the stability of the labour conditions in the public sector, the largest employer of the country. Wages and salaries in the budget constituted 5 percent of GDP in 2013, and stayed at around that level since (4.7 percent in 2015).

While significant cuts in certain social programmes took place during the analysed time-frame, many of these cuts did not materially affect the social safety net. For instance, the social assistances were adjusted downward by 21.7 percent in 2014, as a result of the termination of cash subsidies for oil derivatives, which were no longer needed.[168] Indeed, payments on social benefits increased significantly from 2012 onwards, and have stayed at a higher level ever since.[169]

Apart from alleviating Jordan's short and medium-term external financial needs, MFA also increases the resilience of the economy to future shocks by achieving a significant build-up of foreign reserves. Combating a balance of payments crisis and restoring foreign reserves reduces the risk of unwarranted currency depreciation, which would give rise to inflationary pressures by making imports more expensive reducing steeply the standard of living. MFA is supporting macro-economic stability and purchasing power in this way while allows the country to restore competitiveness through structural and fiscal policies.

In conclusion, the assistance in the short-term succeeded in sustaining wage growth and employment, thus alleviating the social strife as a consequence of the refugee crisis and the ongoing fiscal consolidation.

Medium-term indicators

Our medium-term indicators of the assistance focus on reducing high unemployment; stimulating equality, inclusion and protection in the labour market; and reducing the poverty rate. In evaluating whether these effects have taken place, we have to bear in mind that any policy response to these problems will only have a lagged effect, and thus the MFA's timeframe hardly allowed these to fully materialize during the analysed period. What we can verify with the related indicators – like poverty rates, or the unemployment ratios of disadvantaged groups – is whether any favourable change has started to take hold in the latest available data, which must have been the logical intention of the intervention in this case.

---

[168] We obtained valuable information on this from our interview with the Ministry of Social Development on March 2017.

[169] For a more detailed overview of these developments in the budget, please refer to Section 5.2.

Medium-term effects on the labour market

Starting with the labour market – we focus on the falling participation rate that started with the onset of the global financial crisis, and resulted in a decline of roughly 3 percentage points by 2013. We find that its decline stopped at about the time of the inception of the MFA and the SBA. This is a significantly positive result in terms of addressing the structural challenges of the labour market, even if no correction of the participation rate has occurred in the following years, as it remained broadly stable at around 40 percent.

Another key labour market indicator, the unemployment rate, definitely disappoints in relation to the MFA's social actions. Examining its evolution in the past several years, we can neither identify a turning point, nor a clear trend, as the rate remained within its historically high range of 12-15 percent. There is not even a clear cyclicality related to such economic turbulences, as the global financial crisis. This is likely a result of the strong dominance of the public sector in the jobs market, which makes unemployment more resilient in the face of such shocks.

If anything, the unemployment rate has increased after the inception of the MFA both in overall terms, and for the most disadvantaged groups: the youth and the female. The unemployment rate went up by one percentage point from 2012 to 2015, while youth unemployment increased by 3 points during the same period. While this does not imply any causality, we cannot identify any intended improvement either, and must conclude that this very important field shows no satisfactory progress so far.

Furthermore, women form the vast majority of the unemployed – in fact, twice as much as men – and there is no discernible progress. For the female youth the average unemployment ratio was as high as 55 percent between 2013 and 2016. We see this high figure despite the fact that female participation in the labour market is considerably lower than men's, thus the underlying problem – unemployment and inactivity – is actually even more severe. This means, that the second medium-term indicators and actions, stimulating equality, inclusion and protection in the labour market show no clear progress yet.

In 2013, we see a slight increase in the unemployment figures – especially for women. However, looking at the entire spectrum of the period of 2012 to 2016, we can conclude that there was no clear social effect stemming from the assistance in this regard. Similarly, we see no improvement in the female to male participation ratio of Jordan, which remained stable at around 64 percent for men and 14 percent for women.

In summary, we can conclude that the labour market's performance during the past five years was unsatisfactory, as both unemployment and the inclusivity objectives related to the MFA have not been fully achieved yet, though the SBA and the MFA may have softened the effect of the large inflow of refugees. High unemployment continues to be a problem and so is the high unemployment of the youth and the female groups.[170] The labour market challenges of Jordan remain severe, new arrivals to the labour force have not been fully absorbed, as jobs creation has not picked up significantly enough in the programme years. Accordingly, additional policy responses may be needed in upcoming assistance programmes to facilitate progress in this key area.

Concluding all of the above, we can say that the envisaged social effects in the labour market have clearly not taken place in the short to medium-term for most of the relevant key indicators. It is very likely that the labour market reforms, as well as the measures aimed at improving the social safety net require more time to take effect, and additional effort has to be made by both the GoJ and the international organizations supporting the country.

[170] This was also confirmed during the first Focus Group on structural and social issues, conducted in Amman on March 27, 2017.

Medium-term effects on poverty

By 2016, the fast rise in Jordan's population had led to the country's per capita GDP declining to lower middle-income status. Entering this less favourable income bracket, as defined by the World Bank, goes hand-in-hand with the deteriorating welfare conditions of the Jordanian citizens.

As far as the scant data evidence tells, poverty, a long-term phenomenon, has been on the rise throughout the entire period of evaluation. The official GoJ records show that the poverty level stood at 14.4 percent in 2010, up from 13.3 in 2008. Although a new survey is only planned for the period of 2017-18, we can derive some information on its tendency from an estimate made by Jordan's Economic Policy Council, which set the figure to be at 20 percent in 2016.[171]

In addition to this, the World Bank estimates that about a third of the population is in transient poverty, despite the fact that Jordan spends one of the largest share of its GDP on social protection and health expenditures in the region, and its social services are accessible to a large portion of its population. This deterioration of the welfare conditions has been occurring despite a number of specific steps taken by the authorities to uphold social welfare. The GoJ, following the guidance on international donors, have created social assistance programmes, and established a government strategy, which aims to reduce the poverty rate to 8 percent, and the unemployment ratio to 9 percent by 2025, which are quite ambitious targets considering the current situation.

A number of specific programmes were helping too. Social assistance programmes benefited poor households during the time when the energy prices needed to be adjusted (see Case Study 2 in Annex for more details). As electricity prices were increased by almost 40 percent from 2013 onwards, only 9 percent of households were actually affected by the changes due to an exemption put in place. Water tariff increases were also carried out in a way that protected poor households as the increase was widely distributed among all types of consumers, and cross-subsidies between residential and non-residential consumers were introduced.

In summary, despite many active steps taken by the authorities with the help of international donors to preserve social welfare standards, poverty has remained as acute a problem as ever, and the social welfare conditions deteriorated during the period of the evaluation. Thus, the intended medium-term effects of the assistance have not materialized yet. Once again, we must note that, given the lags with which some of the policy measures work, more time is needed for a more inclusive evaluation of these medium-term indicators.

6.6.3 *EQ6.3: What has been the contribution of the MFA (financial assistance, conditions) to the occurrence of expected social effects?*

By covering external financing gaps in the balance of payments the MFA instrument helps the authorities to preserve macro-economic stability and thus addressing more effectively the social challenges via two different channels. The financial support of the MFA instrument ensures a more gradual consolidation of public finances minimizing in this way the social cost of the adjustment and preserving more public resources for financing the social reform agenda. Furthermore, the MoU conditionality was put in place to help the authorities in prioritizing certain social reforms, and thus to contribute to increased social cohesion. For instance, the establishment of the NUR to better target the social safety net (see condition 4) was especially important in this context. The recent move of the NUR under the auspices of the NAF should further help in making the social assistance more effective.

[171] Additionally, we have a supporting indicator, namely the percentage of the urban population living in slums, which stood at 13 percent in 2014, indicating a decline of roughly 7 percentage points from 2009. However, we did not deem this statistic robust enough to draw main conclusions from it.

Determining the exact contribution of the MFA in the aforementioned social aspects is not possible in the absence of a clear counterfactual scenario. The IMF did not engage in modelling and forecasting the unemployment rate (or any other key labour market indicator), thus we cannot rely on any external assessment of what has been the expected and materialized impact of the financial assistance.

When considering the effects of the combined SBA and MFA assistance, our surveys and interviews show that the impact was, in our assessment, only marginal in most of the identified social indicators and actions. As for the short-term, the effect came mostly through the relaxation of the overall budget constraint, and was therefore very indirect. Progress in the medium-term indicators still fall behind the expectations, but the most promising MFA-relevant effects could come in the future from the permanent Unemployment Fund and the Maternity Fund in terms or improving inclusion in the labour market. The latter is a unique initiative in the region, which is specific to the EU's agenda, and can provide an important contribution towards inclusive growth in the country. Furthermore, the establishment of the NUR could also help in addressing poverty by making the social safety net better targeted, even though it became less relevant as the price of oil fell later on. Meanwhile, the improvements in the social integration of the refugees could further reduce the social strain experienced by the population in recent years.

We summarize our list of social indicators, their covered areas and our corresponding findings in the table below:

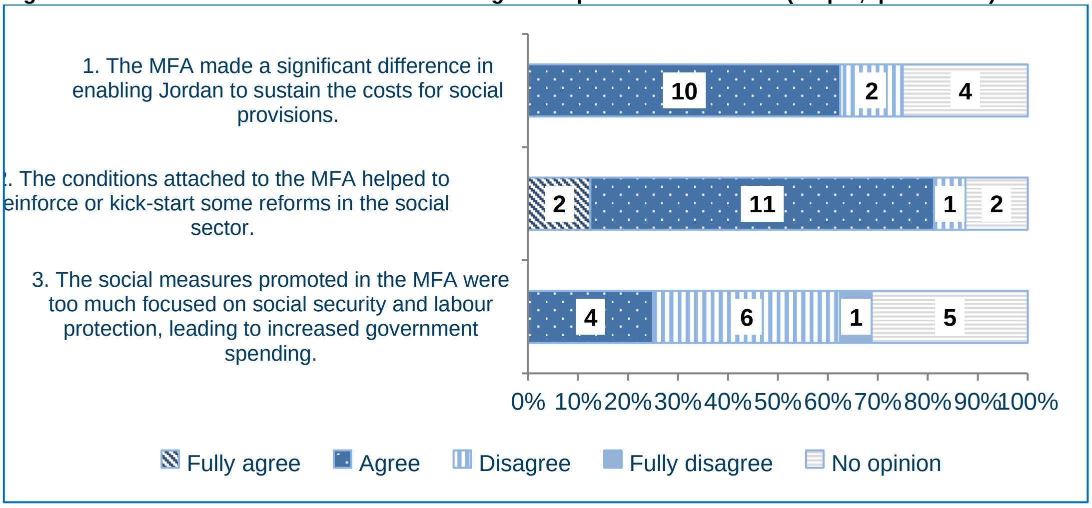
Table 6.20 Social actions and indicators and our corresponding findings

Actions and indicators	Term	Area/Specification	Verifiable indicators	Evaluation Statement (EQ 6.2)	MFA Contribution (EQ 6.3)
Reducing the social strife related to the refugee crisis	Short-term	General social cohesion	Dynamics of the refugee influx	Current budget expenditures have spiked in 2012, and expenses related to social benefits have increased, and stayed at an elevated level from 2012 onwards.	Positive, mostly through the relaxation of the overall budget constraint.
			Current budget expenditures		
			Social, education and health related expenditures in the budget		
Sustaining wage growth and the social safety net		Labour market	Wage growth and employment in the public sector	Stagnating public wages and minor increase in employment.	Positive, mostly through the relaxation of the overall budget constraint.
			Spending on social programmes	Moderate cut-backs in terms of the social safety net	
Reducing high unemployment	Medium -term	Labour market	Unemployment rate	Still very high unemployment rates, but the decline in the participation rate has halted.	N/A
			Participation rate		
			Total labour force		
Stimulate equality, participation in	Medium -term	Labour Market	Unemployment rates by gender groups	No visible progress in terms of female	The permanent Unemployment Fund and the Maternity

Actions and indicators	Term	Area/Specific ation	Verifiable indicators	Evaluation Statement (EQ 6.2)	MFA Contribution (EQ 6.3)
the labour market, notably amongst women.			Participation rates by gender groups	participation and unemployment.	Fund may have contributed positively (remains to be seen on the longer term).
Reducing poverty		General social cohesion	Poverty rate	Poverty rates have not changed	Establishment of the NUR (Condition 4) could contribute to better targeting of social transfers, thus reducing poverty in the future.

The subjective assessment of key stakeholders, as derived from the Delphi questionnaire, reveals that a majority of respondents (10 out of 16) agree that the MFA contributed to enabling Jordan to sustain the costs for social provisions (although 2 people disagreed and 4 had no opinion). Moreover, 13 people supported the statement that the MFA contributed to kick-starting reforms in the social sectors via its structural conditions (1 disagreed, 2 had no opinion). There was little support from the expert panel to the statement that the social conditions of the MFA were too much focused on social security and protection, and had a counter-effect by raising government expenditures.

Figure 6.11 The added value of MFA to alleviating social pressures in Jordan (Delphi, question 11)



6.7 EQ7: Public debt sustainability

This EQ deals with the impact of the MFA-I operation on Jordan's medium to longer term fiscal sustainability. The strong emphasis on the sustainability of the fiscal position is an important aspect of the MFA and therefore we devote a separate section of the evaluation to the public debt sustainability.

Table 6.21 Evaluation sub-question on public debt sustainability

EQ7 What was the impact of the MFA operation on public debt sustainability?
EQ7.1 To what extent has the MFA/IMF assistance contributed to returning the fiscal situation of Jordan to a sustainable path over the medium to longer-term?

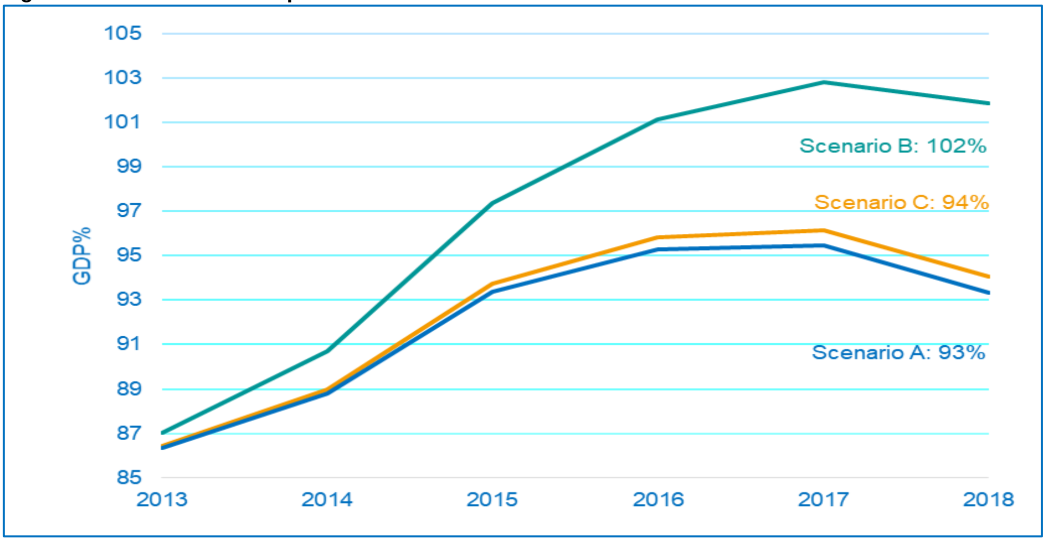
In line with the methodological orientation discussed at the kick-off meeting, this section uses the debt sustainability analysis (DSA) framework of the IMF to quantify the effect of the IMF and the EU assistance on public debt sustainability for the period of 2013-2018 (medium term) and beyond (longer term).[172] To this end, different macroeconomic scenarios are constructed and compared within the DSA framework. Additionally, we also explore the magnitude of savings that can be attributed to the favourable financing conditions of the MFA. For more background on the methodology used below, please refer to Annex 6.

6.7.1 Debt sustainability in the medium term

In analysing debt sustainability, we compute one baseline scenario (scenario A) and two alternative scenarios. The baseline scenario incorporates the effect of both the SBA of the IMF and the MFA of the EU. Two alternative scenarios are constructed to measure the impact of the financial support programmes. The first alternative scenario (Scenario B) is calculated assuming that neither the SBA, nor the MFA is available. In the next scenario (Scenario C) it is assumed that only the SBA loan was granted to Jordan without the MFA assistance. By comparing these alternative scenarios to the baseline, one might evaluate the effect of the aggregate level of financial assistance (from SBA and MFA combined) on debt sustainability, while the effects of the two financial assistance programmes can also be disentangled.

Figure 6.12 illustrates the effect of the different macroeconomic scenarios on the public debt to GDP ratio for the period 2013-2018. With the fiscal adjustment envisaged under the programme (baseline), Jordan's public debt peaked at around 95 percent of GDP in 2016-2017. Subsequently, the public debt to GDP ratio is projected to decline to 93.3 percent by 2018. Without the joint financial assistance of the IMF and the EU however, Jordan's public debt is projected to increase substantially, reaching 102.8 percent of GDP at the end of 2018. This is almost 10 percentage points higher than the baseline. The results clearly show that the joint assistance significantly contributed to returning the fiscal situation of Jordan to a sustainable path over the medium term. The financial aid helped to ease macroeconomic pressures and generated higher growth. The figure also shows that if we only account for the IMF SBA (Scenario C), the debt path is very close to the baseline (both SBA and MFA loans), which means that the MFA loan contributed significantly less than the SBA to public debt stabilization given the much smaller size of the envelope. Our analysis also reveals that the positive effects of the MFA work both through the confidence channel (reduction in risk premium[173]) and the real growth channel (upward revision of the growth outlook).

Figure 6.12 Evolution of the public debt to GDP ratio in the baseline/alternative scenarios



Source: IMF and own calculations.

[172] The IMF developed the debt sustainability analysis (DSA) framework as a tool to better detect, prevent, and resolve potential payment crises. The framework consists of two complementary components: the analysis of the sustainability of total public debt and that of total external debt. For details see: https://www.imf.org/external/pubs/ft/dsa/.

[173] We base this on the information obtained from the second Focus Group meeting and our interview with the CBJ during our field visit in Joradn in July 2017.

6.7.2 Debt sustainability in the long term

A longer term outlook requires a set of assumptions about the long-term equilibrium values of the main determinants of the public debt to GDP ratio (real GDP growth, inflation, primary balance to GDP, interest payments to GDP). In fact, the precision of the long-term projections rely primarily on these underlying assumptions regarding the equilibrium values for the main determinants of the public debt in Jordan. Our assumed long-term values are mostly in line with those used in the IMF's latest forecast, however in the case of the primary deficit, we are a bit more pessimistic. In that respect, we assumed that the country is only able to maintain a zero percent primary deficit to GDP.[174] With regards to the potential growth outlook, we are in line with the IMF's 3 percent forecast[175], and we also see inflation hovering around 2.5 percent in the longer term. In this environment, interest payments to GDP will stabilize at around 4.4 percent.

For an overview of these key assumptions, the IMF's forecasts in the past years and the historical values, please refer to the table below.

Table 6.22 Long-term assumptions for the key macroeconomic variables

Long-term assumptions	Real GDP-growth	Inflation (YoY%)	Primary balance (GDP%)	Implicit interest rate
Average of past 10 years	3.9	5.9	-3.8	4.2
IMF (2015)	4.5	2.0	-0.5	-
IMF (2016)	4.0	2.5	1.2	-
IMF WEO (2017)	3.0	2.5	1.0	4.4
Our assumption	3.0	2.5	0	4.4

Source: IMF and own calculations.

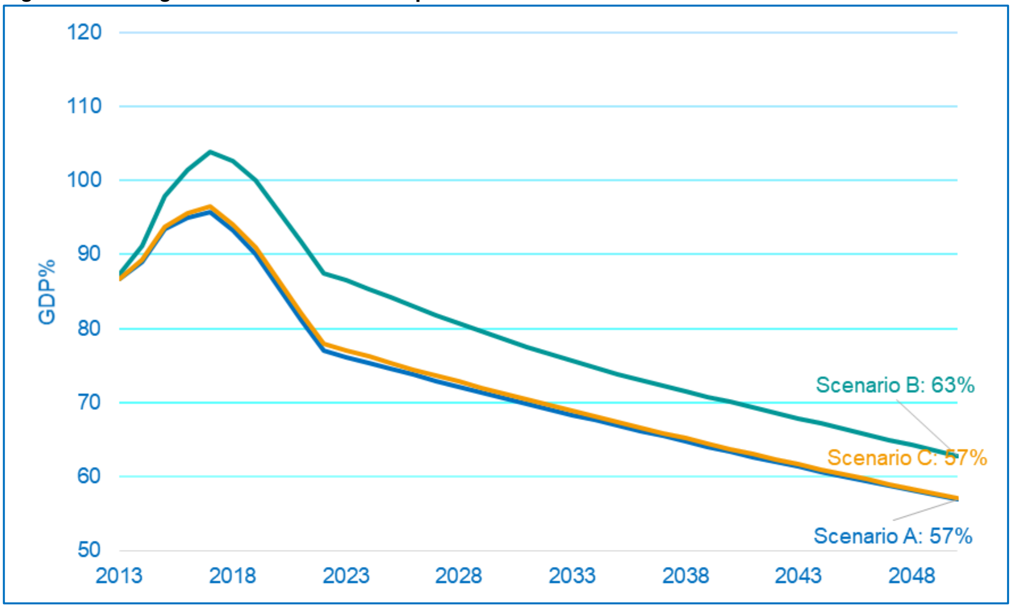
With regards to the robustness of these assumptions, it is worth pointing out the relatively high uncertainty of the growth assumption due to the envisioned fiscal consolidation. Our interest rate and its associated burden on the budget also bear high uncertainty, and their risks point to the downside. This is stemming from our assumption that concessional loans will continue to be accessible for Jordan, and thus the financing costs of its debt will remain moderate in the foreseeable future.[176] The longer term evolution of the public debt ratio is presented in Figure 6.13.

[174] This assumption is also shared, or at least regarded as more realistic, by our interviewees in the CBJ during our second field visit in Amman.

[175] The IMF has downgraded its near-term growth forecast for Jordan, seeing only 2.3 percent growth in 2017 and 2.5 percent in 2018, however the long term assumption was 3 percent in their latest Article IV publication.

[176] We forecast that interest payments will gradually decline from around 3.5 percent of GDP to 2.5 percent until 2050.

Figure 6.13 Longer term evolution of the public debt to GDP in the baseline/alternative scenarios



Source: IMF and own calculations.

6.7.3 *The fiscal savings related to the favourable MFA conditions*

An important aspect of the MFA, is that it entails a significantly lower interest rate burden compared to market alternatives. Accordingly, it is worth exploring how much saving can be attributed to relying on the MFA as a source of financing other than conventional debt issuances. In our calculations, we used the exact terms of the financial envelope provided by the EC (though these terms were not disclosed publicly). The different terms of the two tranches of the MFA-I result in an effective weighted average interest rate of the whole loan equalling 0.97 percent. We also took into account the specified grace period in addition to the 15-year maturity. This specification ranks the MFA-I among the cheapest sources of financing at the time based on the MoF's collection of debt items.[177] It has to be mentioned though, that it cannot simply be compared to market alternatives, as Jordan was not issuing debt instruments of similar maturities at the time. The longest maturity bonds the country was able to sell, were the five-year government bonds, the interest rate on which hovered around 5 percent at the auctions of end-2014 and early 2015. Jordan only issued a 10-year Eurobond at the end of 2016, which had a 5.75 percent coupon rate, and we have taken into account the observed term premium.

To arrive at an estimate of how much saving can be attributed to the MFA's favourable conditions, we attempted to calculate a "fair price" for this debt item. In doing so, we summed up its associated discounted cash flows in the future to arrive at the present value of this item in the market circumstances of the time. The challenge in this respect was estimating the corresponding market interest rate that would prevail on the market, were the country able to issue a bond with the same maturity. As mentioned above, we can only observe primary issuances up to five years at the time of the MFA disbursement. The interest rate on the five-year issuances hovered around 5.5 percent at the time, and the observable structure of the yield curve was upward sloping. Our approach was to look at the prevailing term premium since it is observable in Jordan's yield curve for the longer tenors (between 5 and 10 years), and assume the same term structure at the time of disbursement as well. This results in an assumption of 6.5 percent for a hypothetical debt of a 15-year tenor in 2015 (i.e. a 100 basis point premium over the 5-year bond).

When pricing the MFA as a debt item, taking into account the grace period as well, we arrived at a fair value of around EUR 79 million at the time of disbursement. This fair value translates to savings of around

[177] See the outstanding debt items in the publication of the Ministry of Finance: Public Debt Bulletin No.44.

EUR 101 million on this debt item.[178] It means, that were Jordan to borrow from the market at prevailing interest rates for 15 years, it had to pay 101 million euros more in discounted terms during the entire period of the market-based debt instrument.

The main result of our calculations is presented below in nominal terms, and as a ratio to 2015 GDP and total interest payments in 2015. Note that in the latter case we compare the savings on the entire life of the debt to just one year's variable. For an easier understanding, the MFA's fair value and the associated savings can be interpreted in the following way as well: the favourable conditions of the MFA make it financially equivalent to providing a market-based loan of around EUR 79 million combined with a financial subsidy of EUR 101 million.[179]

Table 6.23 The savings related to the MFA at the prevailing market-based rate

Assumed market interest rate for 15Y	Savings (% of GDP)	Savings (% of interest payments)	Savings (EUR millions)	Estimated net present value of the MFA (in EUR)
6.5%	0.30%	9%	101.4	78.6

Source: Own calculations.

6.7.4 *Conclusion*

The analysis of public debt sustainability reveals that the combined SBA/MFA assistance contributed significantly to returning the fiscal indebtedness to a manageable level. In particular, according to our calculations, in the absence of the joint financial support, the public debt to GDP would have exceeded the initial level even after ten years. Our calculations revealed that the financing terms of the MFA were very favourable at the time of disbursement, and have contributed to significant savings when compared to market based alternatives. This MFA support, combined with the IMF's SBA, helped the Jordanian public debt to stabilize already in the medium term, in barely four years.

178 Note that the face value of the bond is equal to the sum of its fair market value and a "grant component". The latter can also be interpreted as the amount of saving on the MFA due to its favourable terms compared to prevailing market conditions at the time.

179 It is worth noting though, that since the market interest rate for 15 years is an estimate, there is a certain level of uncertainty to the fair value and the associated savings as well. To quantify this uncertainty, we calculated the fair value with a term premium ranging between 0 to 2 percent, and found that it creates a confidence band of around +/- 10 percent with respect to the estimated savings.

7 Conclusions

This chapter builds on the evidence presented in the report and sums up the evaluation team's conclusions on the performance of the MFA operation to Jordan along the usual evaluation criteria (relevance, effectiveness, efficiency, EU value added and coherence) and the two further areas of interest identified by the TOR (social impact and public debt sustainability).

The conclusions presented below are built on an analysis using multiple evaluation approaches. However, we need to emphasize that data limitation at certain areas (e.g. social indicators, grants), as well as relatively short time series (MFA was disbursed in 2015) provided challenges in terms of impact measurement. Furthermore, the rapidly changing external environment and the fact that the MFA was provided in parallel with an IMF SBA and other international financing instruments encumbered the disentangling of the different factors behind the developments. Despite these difficulties, we believe that the conclusions are well founded.

SUMMARY

The EU's MFA (coupled with IMF's SBA) has enabled Jordan to make substantial progress in strengthening its fiscal and external situation despite a very difficult regional environment. The widening current account deficit was reverted and the foreign exchange reserves were replenished. At the same time, the primary fiscal deficit was pushed below 1 percent by 2015, but key social indicators and related expenditures were preserved. Macroeconomic and fiscal balances were restored and the increase of the public debt ratios all but halted.

RELEVANCE

Relevance of the objectives: The MFA operation's primary objective was to support the restoration of sustainable external financing in Jordan, thereby supporting economic and social development. Furthermore, the MFA aimed at strengthening the efficiency, transparency and accountability of the public finance management systems and promoting structural reforms, to support sustainable and inclusive growth, employment creation and fiscal consolidation. Finally, the MFA intended to reach a progress in mutual market opening, the development of rule-based and fair trade and other priorities in the context of the EU's external policy.

Based on the economic challenges in Jordan in 2013, the objectives of the MFA operation were very relevant. Economic and financial stabilisation in particular, as Jordan was in need of financing in the context of a significant deterioration of the country's external accounts and fiscal position. The structural reform objectives were also relevant as their ultimate goal was to strengthen medium-term sustainability, to ease social strains, as well as to promote sustainable growth.

Relevance of the financing envelope and the form of the assistance: The form and the terms of financing are found to be relevant and appropriate. The MFA was disbursed in the form of a medium-term loan, which was consistent with the middle-income status of the country and the fact that Jordan did have access to the financial markets at the time. While the question could be raised whether a country that hosts a large number of refugees should receive grant-based support, one need to take into consideration that the financial terms of the MFA loan were more advantageous compared with the market or IMF financing terms at the time of the disbursement. The long maturity and extensive grace period also imply a very low rollover risk. The MFA provided a very favourable form of debt financing for Jordan.

Relevance of the structural conditions: Only a few of the structural conditions were directly relevant to the main economic challenges of Jordan at the time. A total of nine MFA conditions covered four reform areas: PFM, social safety and labour market, investment framework and trade, and energy. Out of the nine conditions, only four can be assessed as relevant for the economic challenges at the moment of preparation of the MFA in 2013. However, the other five were relevant in terms of and consistent with the structural reform objectives.

EFFECTIVENESS

Effectiveness in improving the external financial conditions: The combined financial assistance from the IMF and the EU contributed substantially to the effective stabilization of Jordan's external financial position. Given the superior magnitude of the SBA assistance most of this beneficial effect came from the SBA programme by the IMF. A large share of the positive effect came through the confidence channel: an agreement with the IMF and EU reduced the risk premium for investors, and thus improved the financing conditions of Jordan's outstanding debt. Jordan's external financial situation is expected to remain on a sustainable path with gradually declining external debt to GDP ratios.

The most important risks to a sustainable external financial situation lie in the growth outlook, which is affected by the challenging external environment (the external demand from regional partners, the future of the trade route in Iraq, the evolution of the conflict in Syria, and the global financing conditions). Internal factors, most importantly the credibility of the reform agenda, are expected to remain a major determinant of the country-specific movements in the risk premium, thus in external financing costs.

Effectiveness in fiscal consolidation: The Jordanian fiscal situation normalized in three years after the agreement with the IFIs. Since the support coming from the MFA was un-earmarked, it could efficiently and flexibly alleviate short-term fiscal pressures, and contribute to the fiscal consolidation path set forward in the IMF's SBA programme. However, as the consolidation was mostly built on the expenditure side, a decrease in subsidies in particular, fiscal policy continues to be characterized by serious structural challenges, most importantly in the revenue side of the budget. Income taxation, in particular, remains a major unresolved issue. Apart from relaxing the budget constraint in the short term, the MFA programme also aimed to attain a benign medium-term effect on fiscal governance through the PFM-related structural conditions attached to the programme

Effectiveness in structural reforms: The conditions agreed for the MFA appeared to have been achieved in a satisfactory manner before the disbursement of the second tranche in 2015 and without serious implementation deficits. The only real exception is the Audit Bureau law (condition 1), for which a waiver was given, because the law was not adopted. For the income tax law (condition 3) and the National Unified Registry (NUR, condition 4) some nuanced comments about the implementation need to be added, because ultimately a watered down version of the income tax law was adopted, while the NUR became relatively idle in 2014.

The direct effects of most of the MFA conditions on the implementation of the structural reform agenda have been limited, mainly because the conditions were also covered in other interventions and lacked technical support on the ground to help the authorities implement the reforms. Nevertheless, there have been indirect channels through which the MFA conditions have contributed to the implementation of the structural reforms, e.g. by reinforcing the reforms efforts of the IFIs or other donors. In eight of the nine structural conditions of the MFA, there has been cross-conditionality with similar conditions in other interventions, in particular the EC Budget Support operations, the IMF Stand-by Agreement and the Development Policy Loans of the World Bank. Condition 8 (Amended law on Standardization and Metrology) is the only exception, as this is a specific MFA condition and was fully implemented. Most of the stakeholders seem to have appreciated the alignment of the conditions over the support programmes.

EFFICIENCY

Efficiency of the design of the MFA operation: The design of the MFA operation did have substantial implications for its efficiency, both from the perspective of the EC as well as from the Government. The MFA operation was closely coordinated with the IMF and some conditions were also closely linked to interventions by the World Bank. Therefore, the EC was able to draw on the expertise of these institutions and could keep the preparation cost of the MFA relatively low. The cross conditionality with other interventions also contributed to the efficiency of the operation, because the authorities could focus on a limited number of conditions. The MFA was provided in the form of loans and therefore the budgetary impact for the EC was smaller than in the case of grants. For the authorities of Jordan, it was the opposite, but the soft conditions (i.e. relatively low interest rate, long maturity and extensive grace period) made the MFA attractive compared to alternative funding sources.

Efficiency of the implementation of the MFA operation: In the first half of 2013, the Commission emphasised the need for quick action, given the severe balance of payments situation in Jordan, and aimed to disburse the first tranche of the MFA before the end of 2013. In the second half of 2013, the pressure to disburse quickly abated, due to some improvements in the external and fiscal balance. Mainly due to the Jordanian authorities' unfamiliarity with the MFA instrument the discussions on three of the conditions continued till early 2014 and therefore caused delays. After signing the MoU in March 2014, the MFA disbursement was further delayed by six months reflecting Jordan's need to amend certain aspects of its public debt legislation. The first tranche was finally disbursed on 10 February 2015 and the second tranche on 15 October 2015. While the above mentioned factors all contributed to the delays, the implementation process of the MFA to Jordan is assessed to be lengthy.

EU ADDED-VALUE

EU added-value of the financing: The MFA loan contributed to alleviating the financing pressure in Jordan. A main attractiveness of the MFA loan versus alternative sources of financing was its highly concessional terms, i.e. relatively low interest rates, long maturity and long grace period. The authorities confirmed this during the interviews. Our calculations also suggest significant fiscal savings arising from the favourable financial conditions. Furthermore, the prospects of the MFA loan provided the Government some breathing space. While it was clear that substantial fiscal consolidation was required in Jordan, the social and political tensions were not conducive for a very rapid stabilisation path. In this regard, the prospects of the MFA and its un-earmarked nature allowed a more gradual fiscal adjustment path and hence to better taking into consideration the social impact of the adjustment.

Focus on social impact: EU expressed commitment to help addressing short and medium-term social challenges in many areas detailed below (see subsection Social impact). While a number of international donor agencies focus on various social development areas in Jordan, these short and medium-term social aspects of the MFA are relatively unique with a high value added among general balance-of-payments and budget support instruments.

Signalling in the region: The provision of MFA also signalled to other countries in the region that the EU is ready to support countries embarking on a clear path towards economic reforms. The MFA contributed to some extent to the better macroeconomic outcomes and improved the political and economic stability in this geo-politically and strategically important country in the Southern neighbourhood.

Part of EU Response to Syrian crisis: The Commission presented the MFA as one of their instruments to support the Jordan authorities to deal with the implications of the Syrian crisis and to manage these challenges in an organised and peaceful manner. By complementing the resources made available by other donors and other EU financial institutions, it contributed to the overall effectiveness of the package of financial support agreed by the international donor community in the aftermath of the Syria crisis.

COHERENCE

Coherence of the operation: Since 2011, the EU has increased its financial support to Jordan in response to the escalating conflict in Syria and the influx of refugees. The MFA was part of a comprehensive package of EU support to Jordan. With regard to the preparation of the MFA, there was close coordination within the Commission and with the European External Action Service, especially between ECFIN and the EU Delegation in Amman. As a result, a number of the MFA conditions built on what had been agreed and achieved in earlier EU budget support operations. The structural conditions in the MFA were also closely aligned with the three priority areas i.e.(i)) reinforcing the rule of law for enhanced accountability and equity in public service delivery; (ii) employment and private sector development; and (iii) renewable energy and energy efficiency, and the challenges that occurred in these sectors.

SOCIAL IMPACT

Social impact of the operation: The MFA instrument, though by nature not explicitly targeted at particular areas of social development, had been designed to cover external financing gaps and thus by preserving macro-economic stability to help the Jordanian authorities in their efforts to address the social and labour market challenges in face of the refugee crisis and the fiscal consolidation. In the short term, the MFA's intended social effects include the mitigation of the social strife related to the refugee crisis and sustaining wage growth and social safety amidst the ongoing fiscal consolidation. In addition to these most pressing, and mainly *short-term* issues, our analysis mapped out the following key areas of *medium-term* concern: reducing high unemployment, stimulating equality, inclusion and protection in the labour market, and reducing the poverty rate. The focus on the short and medium-term social aspects is a relatively unique characteristic of the MFA with a high value added.

Short-term social impact: As for the identification of the social impact of the MFA, due to data limitations and short time series, data analysis alone does not provide enough evidence. Therefore, the evaluation required a pronounced use of qualitative assessments. Regarding the short-term effect, we found that it came mostly from the un-earmarked character of the assistance, through the relaxation of the overall budget constraint. Furthermore, MFA increases the resilience of the economy to future shocks by decreasing the risk premium and hence improving the debt sustainability. By improving resilience of the economy, the probability of a crisis – usually accompanied with a steep reduction in the standard of living – decreases. Overall, the assistance in the short-term succeeded in sustaining wage growth and employment, thus alleviating the social strife as a consequence of the refugee crisis and the ongoing fiscal consolidation. Therefore, it can be concluded that the MFA, at least indirectly helped to ease short-term social burden in Jordan.

Medium-term social impact: Regarding the medium-term effects, based on our surveys and interviews, the combined SBA and MFA assistance is assessed to have a marginal impact on most of the identified social actions and indicators. However, the most promising MFA-relevant effects could come in the future from the permanent Unemployment Fund and the Maternity Fund in terms of improving inclusion in the labour market. The Maternity Fund is a unique initiative in the region, which is specific to the EU's agenda, and can provide an important contribution towards inclusive growth in the country. Meanwhile, the improvements in the social integration of the refugees could further reduce the social strain experienced by the population in recent years. Overall, the labour market reforms, as well as the measures aimed at improving the social safety net require more time to take effect.

PUBLIC DEBT SUSTAINABILITY

Public debt sustainability: Our analysis of public debt sustainability reveals that the combined financial assistance from the IMF and the EU contributed significantly to returning Jordan's fiscal indebtedness to a manageable level. The positive effects of the joint assistance work both through the confidence channel (reduction in risk premium), and the real growth channel (upward revision of the growth outlook due to the alleviation of immediate pressures and increased potential growth on the account of the structural reforms). According to our calculations, in the absence of the joint financial support, the public debt to GDP would have exceeded the initial level even after ten years. The financing terms of the MFA were very favourable at the time of disbursement, and have contributed to significant fiscal savings (amounting to EUR 101 million, or 0.3 percent of GDP cumulatively) when compared to market based alternatives. Combined with the IMF’s SBA, the MFA helped the Jordanian public debt to stabilize already in the medium term, in barely four years. The longer-term outlook for Jordan’s public debt remains optimistic, although the continuous decrease in the public debt to GDP ratio, as presented in our baseline projection, presumes only moderate increases in the interest payments following the global tightening and a persistently tight fiscal stance.

Annex 1: Stakeholder consultation strategy

Introduction

Stakeholder consultation is a key element to successfully carry out this ex-post evaluation of EU Macro-financial assistance (MFA) I to Jordan. The design of the MFA I operation effectively already started in late 2012, when the first talks on a possible MFA operation between Jordan and the EC took place. The MFA I Memorandum of Understanding (MoU) and Loan Agreement were officially signed on 18 March 2014. Disbursement of the first tranche took place in February 2015; the second and last tranche was disbursed in October 2015 (see Table A.1.1).

Table A.1.1 General timeline of MFA I operation

<table>
<tr><th colspan="6">TIMELINE OF MFA I</th></tr>
<tr><td>End 2012</td><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>First half 2017</td></tr>
<tr><td colspan="2">MFA design</td><td colspan="2">MFA implementation</td><td colspan="2">Post-MFA</td></tr>
</table>

This stakeholder consultation strategy is developed with the overall objective to capture as much information as possible with regard to the MFA I operation, in addition to information collected through consultation of EC officials, data analysis and review of key documentation and communication. The consultation focuses on extracting recollections from the time period in which the operation was designed (late 2012 – March 2014) and implemented (March 2014 – October 2015), but also on collecting views on the period after the MFA was ended (November 2015 – now) to assess its impact and sustainability.

This consultation strategy:
- sets out the objectives of the consultation;
- maps key stakeholders;
- presents the consultation methods and tools which are used; and
- demonstrates how the stakeholder consultation fits in the evaluation framework.

Table A.1.2 presents a detailed timeframe for the implementation of this consultation. The items listed in this timeframe are elaborated in the following sections.

Table A.1.2 Time schedule for the implementation of the stakeholder consultation

<table>
<tr><th colspan="8">CONSULTATION TIME SCHEDULE</th></tr>
<tr><th colspan="4">MARCH 2017</th><th colspan="2">APRIL-MAY 2017</th><th colspan="2">JULY - AUGUST</th></tr>
<tr><td colspan="2">Washington, US
20-23 March</td><td colspan="2">Amman, Jordan
26-30 March</td><td colspan="2">Home-based</td><td colspan="2">Amman, Jordan, 23-27 July</td></tr>
<tr><td></td><td></td><td>Jordan authorities</td><td>Semi-structured interviews</td><td></td><td></td><td>Jordan authorities</td><td>Semi-structured interviews</td></tr>
<tr><td></td><td></td><td>IFIs and other donors</td><td>Semi-structured interviews</td><td>IFIs and other donors</td><td rowspan="2">Delphi questionnaire (online survey)</td><td>Other donors</td><td>Semi-structured interviews</td></tr>
<tr><td>IFIs</td><td>Semi-structured interviews</td><td>External experts</td><td>Focus group structural and social reforms</td><td>Jordan authorities</td><td>External experts</td><td>Focus group macroeconomic and fiscal reforms</td></tr>
<tr><td colspan="6" rowspan="2"></td><td>Jordan authorities</td><td rowspan="2">Delphi questionnaire (online survey + follow up face-to-face and by phone)</td></tr>
<tr><td>IFIs and other donors</td></tr>
</table>

Objective setting

The objective of stakeholder consultation is to collect as much valuable and relevant information as possible from various groups and people involved to construct an ex-post assessment of the design, implementation and impact of the MFA I operation. We have consulted stakeholders on the following key aspects:

- **Relevance of the MFA I operation**: the relevance of the objectives, the financial envelop and the conditionality, both at the time of designing the MFA I operation (late 2012 – March 2014) and now with the benefit of hindsight;
- **Effectiveness of the MFA I operation**: the direct results of the MFA I operation, i.e. the results of the MFA operation on macroeconomic level and the results in the area of the structural reforms;
- **Efficiency of the MFA I operation**: the design and process of the MFA I in terms of value-for-money;
- **EU-added value of the MFA I operation**: the added value of the operation when considering other possible scenarios and alternatives;
- **Coherence of the MFA I operation**: alignment with other support initiatives implemented at the time of the MFA I;
- **Social impact**: the more indirect impact of the MFA I operation in the context of social development in Jordan, in particular alleviation of the impact of the refugee crisis;
- **Debt sustainability**: the longer-term result of the MFA I in terms of implications for Jordan's fiscal sustainability.

Consultation has thus partly related to reconstructing past events, but also to collect current opinions which can be made with the benefit of hindsight. We thus gained an understanding of the decision-making at the time of the design and implementation of the MFA operation, but we also identified the actual relevance and impact of the operation.

While stakeholders were asked to make (subjective) assessments and express their personal opinions, we encouraged them to refer to written sources wherever possible. Eventually, the results of the stakeholder consultation is triangulated with data and documentation to provide well-evidenced responses to Evaluation Questions (as demonstrated in the last section of this annex).

Stakeholder mapping

Since MFA entails balance-of-payment support and does not lead to tangible and visible outputs for the public, no consultation from the general public and citizens has been sought. Instead, consultation was targeted to specialists – either people who have either been closely involved in the development and/or the implementation of the MFA operation or persons with expert knowledge in the areas related to the objectives of the MFA operation (i.e. macroeconomic and fiscal policy, structural reforms in the areas of PFM, social and labour policy, investment climate and trade, and energy).

Therefore, the following four groups of stakeholders have been central in this consultation strategy:

1. Jordan authorities

Obviously, the recipient is an important stakeholder to consult on the key aspects, in order to incorporate the beneficiary's view on the MFA I operation. The Jordan authorities have expressed a high interest in and have had a high influence on the MFA operation and its evaluation.

After having gone through all documentation provided and collected on the MFA I, we identified in cooperation with DG ECFIN the following key institutions within the Government of Jordan (GoJ) for a discussion on the design and the implementation MFA I operation, and its macroeconomic and fiscal effects:

- **Ministry of Planning and International Cooperation (MOPIC)**: coordinators on the recipient side of the MFA operation;
- **Ministry of Finance (MOF)**: implementing ministry of the MFA loan;
- **Central Bank of Jordan (CBJ)**: implementing financial institution.

Within these organisations, we have made a distinction between high-level policy makers and the technical staff working on actual implementation. The latter group is able to specifically comment on the efficiency of the implementation of the MFA I operation.

Furthermore, we have approached and interviewed a number of other key stakeholders within the GoJ to consult specifically on the relevance, effectiveness, and impact of the conditions for structural reforms:

- **Audit Bureau:** on PFM reforms, notably on condition 1 and to a lesser extent on condition 2;
- **MoF - Incomes and Sales Tax Department (ISTD):** on tax reform (condition 3) and social security reforms (condition 4);
- **MoF - dedicated PPP unit**: on investment climate (condition 6);
- **Investment Promotion Commission**: on investment climate (condition 7);
- **Ministry of Social Development**: on social reforms (condition 4-5) and social impact;
- **Ministry of Labour**: on employment in Jordan (condition 5) and social impact;
- **National Assistance / Aid Fund (NAF):** on social safety nets (condition 4) and social impact;
- **Social Security Cooperation**: on social security (condition 5) and social impact;
- **Ministry of Industry and Trade (MIT)**: on the investment climate (condition 7);
- **Jordan Standards and Metrology Organization (JSMO)** – on trade standards (condition 8);
- **Ministry of Energy and Mineral Resources** – on energy reforms (condition 9 and partly condition 4).

2. International Financial Institutions

The IMF and World Bank are key stakeholders for consultation as they were to some extent involved in the preparation and implementation of the MFA I. In addition, they provided similar support to Jordan respectively via the SBA and the DPLs. Both organisations have provided useful inputs to all key aspects of the evaluation. They are not the group with the largest interest in this MFA evaluation, but they do have a significant influence.

3. Jordan external (i.e. non-governmental) experts

There is a variety of actors who were not directly involved in the MFA operation itself, but are very knowledgeable on the topic of macroeconomic and fiscal developments, and structural and social reforms in Jordan. They have been consulted to determine the actual relevance, effectiveness and impact of the MFA I, as they possess the knowledge to place the MFA I in the wider context of Jordan's economic and social situation. We have identified the following groups:

- **Ex-government officials and (ex-)Parliamentarians**: They might have been part in the decision making with regard to the structural conditions, but due to their (current) position, they might give a more external view on these issues;
- **NGO, academics and other interest groups**: they might be able to provide an outsider's view on the economic and social developments that have taken place in Jordan in the last five years (2012-2017) and on the structural reforms which have taken place in Jordan since the MFA;
- **Banks and financial institutions**: Officials from private banks and former CBJ officials in Jordan might be able to provide an external view on the economic and financial developments in Jordan and on the current macroeconomic and fiscal situation.

For the first focus Group, which was concerned with structural reforms, we combined the first two target groups, mainly NGOs, (ex-) Parliament members and academics. The list of the participants, as well as the reasoning for it, is included below.

Table A.1.3 Participants in the first focus group discussion in Jordan

	Name	Position	Reason for inviting
1	Mr. Riad Al Azzam	Rapporteur, Spokesman and second person of the current financial committee at parliament	Experienced in public finance issues
2	Mr. Mutaz Abu Romman	Financial Committee member	Active member in Financial Committee of Parliament
3	Dr Alla Tarawneh	Dean of Econ. Dept at the University of Jordan	Participated in all kind of meetings on government policies, also in sessions in Parliament
4	Dr. Ghazi Al Assaf	Prof. of Economics at the University of Jordan	Experienced in public finance issues and involved in discussions about government policies
5	Dr. Ragheb Sharim	Programme Manager - Al Hayat Center -Rased www.hayatcenter.org	Al Hayat Center is working to strengthen youth participation in development work all across Jordan and to increase youth critical thinking and decision making abilities as well as their awareness of rights and opportunities for participation in political life.

The second Focus Group discussed the technical details of the financial assistance, external financing, fiscal policy and public debt. The team identified and invited a group of eight financial experts for this meeting. Six of them confirmed their participation on the day before the meeting but only two of them showed up.

Table A.1.4 Participants in the second focus group discussion in Jordan

	Name	Position	Reason for inviting
1	Mr. Saleem Abu Shaar	Economic expert and ex- Central Bank Officer	Large experience in economic and public sector issues
2	Dr Mohammad Jafari,	Director General of Jordan Loan Guarantee Corporation (JLGC)	JLGC is a public shareholding company which aims to provide the necessary guarantees to facilitate financing of SMEs and national export, to contribute to the process of economic growth, job creation and national export encouragement.

4. Other donors

A selection of other donors have been consulted, to provide a more outsider's' opinion on the MFA operation in the context of wider aid provisions and to gain further insight in the coherence of the MFA operation. They do not have a strong interest or influence, but are interesting to get a better understanding of the context in which the MFA was provided, and put the relevance and impact into context. A shortlist of donors to be consulted was put together by the team and added upon by DG ECFIN. During the both mission to Amman we have interviewed some of them (see Annex 2).

Consultation methods

Related to the four groups of key stakeholder above, the evaluators will use a targeted consultation approach. We will make use of three key tools:

1. Semi-structured interviews

The objective of the interviews are to extract detailed information: on the MFA design and implementation, on the results of MFA on the macroeconomic and fiscal situation, on the results in the fields of the structural reform conditions and on the social impact and debt sustainability. Interviews are thus carried out in particularly with the first two group of stakeholders, who are well-aware of the MFA instrument and its implementation.

The format of semi-structured interviews is chosen on purpose: on the one hand, this format offers the possibility to discuss a few set topics with the interviewees. Details are asked on events which happened in the past, therefore we intend to send out pre-interview questionnaires. These questionnaires contain a brief overview of key bullet points that the evaluators would like to discuss, to enable the interviewee to prepare him/herself by collecting information in advance. On the other hand, semi-structured interviews leave room for the interviewer to raise other relevant issues, also in feedback to answers of the interviewee.

We also conducted interviews with the fourth group (other donors), but these interviews focused on the coherence of MFA with other donor initiatives and were less in-depth than the interviews with the first two groups.

2. Expert Focus Group / roundtable

The objective of the Focus Groups is to gain information of the MFA in a wider context: what has been its relevance and its impact if the operation is put in a broader perspective. The Focus Groups were particularly useful to the questions on effectiveness, which discuss the current trends in Jordan's macroeconomic and fiscal policy, and ongoing social reforms. These Focus Groups helped us also to understand the current paradigm of reforms and provided a better understanding on the local situation in Jordan.

We have used this instrument particularly for the third stakeholder group: these experts have been or are too far away from the MFA operation to conduct detailed one-on-one interviews, but their participation in a group discussion is very useful to gain deeper understanding of the macro/fiscal developments and the structural/social reforms in Jordan. The ideal number of invitees is between 3 and 10 people. We restricted the discussion to approximately three hours, to encourage active participation of people and ensure participants that Chatham House rules are applied. These rules elicit the maximum amount of input from the participants and therefore provide the best opportunity to contribute to addressing the evaluation questions with valuable stakeholder insights that may not be possible in a more open forum.

As discussed above, we organised two focus group sessions, each with a specific focus:

a. Structural and social reforms in Jordan

- Relevance of the MFA conditions in light of Jordan's developments;
- Reforms in: PFM, social and labour policy, investment climate and energy;
- Development of social indicators regarding employment and poverty, notably related to the refugee crisis.

b. Macroeconomic and fiscal developments in Jordan

- Jordan's financing requirements;

- Internal and external factors of Jordan’s external financial situation;
- Pace, ambition and composition of appropriate financial consolidation;
- Debt sustainability.

3. Delphi method

The Delphi method is an evaluation methodology that relies on judgmental estimates of experts based on their insights and collective knowledge. We applied a light version of the Delphi method as an additional consultation tool. The objective of using this tool is to gain further insight into the added value of the MFA operation. In April, after the first mission, we have identified a few possible scenarios related to the Jordan’s macroeconomic and fiscal developments and structural reforms. The main question to the participants in the Delphi survey is to what extent the MFA operation has contributed to certain developments, macroeconomic, fiscal and in the field of structural reform, by considering what would have happened if the MFA loan would not have been granted (see the questions and the feedback of the Delphi questionnaire in Annex 4).

A selection of persons of the first two stakeholder groups has been targeted, as well as EC staff. We have approached a selected group of 26 experts who have been involved in the MFA operation, in similar operations of the International Financial Institutions, or should at least be to some extent familiar with the MFA operation. These experts were invited for an online survey. From these 26 experts, 17 responded to the questionnaire. The others nine were non-responsive or not willing to participate, also after a few reminders. Some of them also indicated that they fill the questionnaire together with a colleague. The evaluators have assessed the feedback from the respondents and have approached them again by sharing the results of the first round and asking them if they would like reconsider their response. Those respondents who provided responses deviating from the mainstream have been approached individually, either by face-to-face interview or by phone/skype, requesting them to explain their responses.

The consultation strategy and the evaluation framework

Table A.1.5 combines the different groups of stakeholders and the consultation methods, and shows how they are intended to contribute to answering the evaluation questions. We also mention other sources which will provide information that can be triangulated with the information collected from stakeholder consultation.

Table A.1.5 Stakeholder consultation in the evaluation framework

EQ criteria	Sub-criteria	Stakeholders	Consultation method	Other sources
RELEVANCE	Relevance of objectives	Jordan Authorities: MOPIC, MOF, CBJ	Semi-structured interviews	• Consultation of EC staff; • Study of documentation.
		IFIs	Semi-structured interviews	
		Other donors	Semi-structured interviews	
	Relevance of the financial envelope	Jordan Authorities: MOPIC, MOF, CBJ	Semi-structured interviews	• Consultation of EC staff; • Economic/financial background papers.
		IFIs	Semi-structured interviews	
		External experts	Focus group on macroeconomic and fiscal topics	
	Relevance of conditions	Jordan Authorities: selected organisations for structural reforms	Semi-structured interviews	• Consultation of EC staff; • Case studies on investment climate and energy; • Reports on socio-economic situation in Jordan; • Delphi survey.
		IFIs	Semi-structured interviews	
		External experts (Parliamentarians and NGO/academics)	Focus group on structural reforms	
EFFECTIVENESS	Effectiveness in terms of macroeconomic stabilisation	Jordan Authorities: MOPIC, MOF, CBJ	Semi-structured interviews	• Consultation of EC staff; • Data analysis; • Document review of macroeconomic reports.
		IFIs	Semi-structured interviews	
		External experts (officials from banks and financial institutions)	Focus group on macroeconomic and fiscal topics	
	Effectiveness in terms of fiscal policy	Jordan Authorities: MOPIC, MOF, CBJ	Semi-structured interviews	• Consultation of EC staff; • Data analysis; • Document review of fiscal reports.
		IFIs	Semi-structured interviews	
		External experts (officials from banks and financial institutions)	Focus group on macroeconomic and fiscal topics	
	Effectiveness in terms of structural reforms	Jordan Authorities: selected organisations for structural reforms	Semi-structured interviews	• Consultation of EC staff; • Data analysis; • Document review of Jordan reforms; • Case studies on investment climate and energy; • Delphi survey.
		IFIs	Semi-structured interviews	
		External experts (Parliamentarians and NGO/academics)	Focus group on structural reforms	
EFFICIENCY	NA	Jordan Authorities: MOPIC, MOF, CBJ (more technical staff)	Semi-structured interviews	• Consultation of EC staff; • Review of communication.
EU ADDED VALUE	NA	Jordan Authorities: MOPIC, MOF, CBJ	Delphi survey	• Delphi survey;

EQ criteria	Sub-criteria	Stakeholders	Consultation method	Other sources
		IFIs	Delphi survey	• Documentation review and interviews with EC staff on the rationale.
COHERENCE	NA	Jordan Authorities: MOPIC, MOF, CBJ	Semi-structured interviews	• Consultation of EC staff • Review of programme documentation and EU / other donor programmes
		Other donors	Semi-structured interviews	
SOCIAL IMPACT	NA	Jordan Authorities: selected organisations for structural reforms	Semi-structured interviews	• Consultation of EC staff; • Document and data analysis of social variables.
		IFIs	Semi-structured interviews	
		Other donors	Semi-structured interviews	
		External experts (Parliamentarians and NGO/academics)	Focus group on structural reforms	
DEBT SUSTAINABILITY	NA	Jordan Authorities: MOPIC, MOF, CBJ	Semi-structured interviews	• Consultation of EC staff; • Data analysis; • Document review of fiscal reports.
		IFIs	Semi-structured interviews	
		External experts (officials from banks and financial institutions)	Focus group on macroeconomic and fiscal topics	

Annex 2: The list of completed interviews during the field visits and in Brussels

Table A.2.1 List of completed interviews with key stakeholders during the first field visit to Jordan

Name	Institution	Position
Jordan authorities		
Mr. Emad Shanaa	Ministry of Planning and International Cooperation	Head of European relation section
Mr. Mohammad Al Nusairat	Ministry of Planning and International Cooperation	European relation section
Mr. Sulaiman Altaleb	Income and Sales Tax Department	Deputy D.G.
Mr. Hussain Al Sorakhi	Income and Sales Tax Department	Director of Planning Directorate
Mr. Musa Al Tarawneh	Income and Sales Tax Department	Media and Communications Director
Eng. Riyad Alkhatib	Jordan Enterprise Development Corporation-JEDCO	Acting DG
Mr. Ra'ed Ahmad nawaiseh	Jordan Enterprise Development Corporation-JEDCO	Feasibility Studies department
Mr. Mutaz Alnumair	Jordan Enterprise Development Corporation-JEDCO	Impress Accounting Officer
Mr. Muhannad Shehdeh	Jordan Investment Commission (JIC)	Minster of State for Investment Affairs
Ms. Arej Zgailat	Jordan Investment Commission (JIC)	Manager
Dr. Izz Al Deen Kanakria	Ministry of Finance	Secretary General
Mr. Husam Abu Ali	Ministry of Finance	Assistant Secretary General for Financial Affairs
Dr. AbdulHakeem Al Shibli	Ministry of Finance	Research Directorate Director
Mr. Salem Al Qudah	Ministry of Finance	Debt Directorate, Director
Mr. Ahmad H. Hmaidat	Ministry of Finance	Head of Borrowing Division
Mr. Osama Sulaiman	MoF - PPP unit	PPP unit Director
Mr. Taroub Ghaleb Al-Zu'bi	MoF - PPP unit	Head of Division of Communications, Training & International Cooperation
Dr. Ali Al Ghwairi	MoF - PPP unit	Head of projects Division
Mr. Scott Jazynka	MoF - PPP unit	PPP Technical Advisor
Dr. Adel Al-Sharkas	Central Bank of Jordan	Deputy Governor
Dr. Hassan Barakat	Central Bank of Jordan	Research department Executive Director
Dr. Nidal Al Azzam	Central Bank of Jordan	Assistant Executive director
Dr. Rajeh Al Khdor	Central Bank of Jordan	Head of Division
Mr. Ibrahim Al Majali	Audit Bureau	Secretary General
Mr. Samer Al-Madanat	Audit Bureau	Director of Legal Affairs

Name	Institution	Position
Mr. Mohammad Hiasat	Audit Bureau	QA manager
Mr. Belal Okasha	Audit Bureau	Manager
Ms. Amani Al Azzam	Ministry of Energy	Secretary General
Ms. Nancy Al Remawy	Ministry of Energy	MOPIC rep. for EU projects
Eng. Rula Madanat	Jordan Standards and Metrology Organisation (JSMO)	Director of Accreditation and Standardisation Systems
Mr. Majdi Abu Sa'an	Jordan Standards and Metrology Organisation (JSMO)	Head of Labor Market Information
Mr. Abdallah Semerat	Ministry of Social Development	Acting Secretary General
Mr.mohammad Al Sawalqah	Ministry of Social Development	Assistant Secretary General
Dr. Ahmad Abuhaidar	Ministry of Social Development	Advisor
Dr. Mohammad Al Tarawneh	Social Security Corporation	Deputy Director general for Studies And Information
Mr. Mahmoud Al Maaita	Social Security Corporation	Director of Inspection Directorate
Ms. Rana Musleh	Social Security Corporation	Head of Gender and Social Studies Section
Ms. Hazar Asfoura	Social Security Corporation	Head of Economic and Insurance Studies Section
Mr. Ghassan Abu Yaghi	Development and Employment Fund	Director
Dr. Mukhallad Omari	Jordan Investment Commission	Secretary General
International financial institutions		
Ms. Kristina Kostial	International Monetary Fund	Assistant Director
Mr. Martin Cerisola	International Monetary Fund	Assistant Director
Ms. Lea Hakim	World Bank	Economist
Mr. Jad Mazahrah	World Bank	Senior Financial management Specialist
Jordan external experts: Focus Group Meeting		
(For the list of names, see Annex 1)		
Other donors		
Mr. Jean Mulot	TA Project for PFM (Expertise Francaise)	Team Leader
Mr. Vincent Toussaint	French Embassy	Conseiller Economique
Ms. Lidi Remmelzwaal	Netherlands Embassy	Charge d'Affaires
Ms. Fiona Butters,	British Embassy	Economic Advisor
Mr. Chris Eleftheriades,	British Embassy	First Secretary (Economics)
Mr. Richard Laliberte,	USAID	Chief of Party, Fiscal Reform project
Ms. Julie Cooper	USAID	PFM team leader, Fiscal reform project

Name	Institution	Position
EU Delegation in Amman		
Giulia Pietrangeli	EU Delegation	Programme Manager, Public Financial Management and Economic Affairs
Olfa Alouini	EU Delegation	Head of Section (responsible for economic matters)
EC officials in Brussels		
Mr. Heliodoro Temprano	DG ECFIN, Unit D2: Neighbourhood Countries – Macro-Financial Assistance	Head of Unit
Stylianos Dendrinos	DG ECFIN,	Economic Analyst – Country desk Jordan
Irene Vlachaki	DG ECFIN, Unit G1 – Economies of the Member States	Economic Analyst for France (formerly dealing with MFA)
Massimilano Messi	DG NEAR, Unit B1 – Geographical Coordination Neighbourhood South	Country desk Jordan
Tarja El Idrissi	DG NEAR, Unit A5 - Turkey	Country Coordinator-IPA Team (formerly EUD Amman)

Annex 3: Cross conditionality and complementarities

This annex describes the cross conditionality and complementarities between the MFA conditions and the Budget Support operations of the Commission, the DPLs of the World Bank and the SBA of the IMF.

EU Budget Support

Between 2007 and 2016 the EC adopted EC Decisions for 18 Budget Support Operations, of a commitment value of EUR 588.7 million. Four BS contracts had the same or very similar conditions to the MFA (see Box 5).

Box 5: EU Budget Support operations with cross-conditionality

GGDC Jordan (EUR 39.7 million[180], 2012-2014):

- Maternity fund established and operational (condition 5);
- Unemployment Fund established and operational (condition 5);
- Unified institutional and regulatory framework established for investment (condition 7).

SRC Support to the PFM Reform Programme (EUR 44 million, 2010-2013)

MFA condition 1 is a follow up of these conditions:

- Increase transparency and accountability in the use of funds, including signing a Memorandum of Understanding (MoU) between the AB and the MoF to strengthen the role of the AB as a SAI responsible for external audit only.
- Strengthen AB role as SAI and ensure more autonomy: Amendment of Audit Bureau law and draft amendment of law approved by Cabinet and submitted to Parliament for approval.

MFA condition 2 is cross-conditional with the following requirements:

- Improve internal financial control systems in line Ministries: By-laws covering the Internal Controls developed and approved by the Cabinet, Capacity building delivered to 10 lines Ministries and Departments according to the new by-laws and regulations and Internal Control Units in 10 lines Ministries and Departments are operational and according to by-laws and regulations.

SRC Support to Public Finance and Public Administration Reforms (PFPA) (EUR 40 million, 2014-2017)

- Develop the capacity of MDAs' ICU to conduct ex-ante (pre-audit) controls and build a professional financial controller community throughout the government (condition 2);
- Benchmark 2: Implement the withdrawal of AB from pre-audit (condition 2).

SRC Renewable Energy and Energy Efficiency (REEE) Programme in Jordan (EUR 33 million, 2011-2015)

- The condition is not entirely similar, as the conditions for this SRC do not specifically require the adoption of a National Energy Efficiency Action Plan. However, the conditions are very complementary, e.g. "Government has confirmed and published budget allocations for RE and EE actions, measures and investment plans". Therefore, this is considered as cross-conditionality.

Development Policy Loans of the World Bank

The two DPLs of 2012 and 2014 focused on four policy areas, of which three included similar conditions as the MFA: on the Audit Bureau Law (condition 1), the PPP law (condition 6) and the Investment Law (condition 7). See Box 6 for more details.

---

180 The value is the committed value, not the disbursed amount.

Box 6: WB DPL Policy Areas with cross-conditionality

Policy Area 1. Improve Transparency and Accountability

Prior Action DPL I (2012)

- Withdraw the Audit Bureau from ex-ante controls and strengthen internal controls in line Ministries through Council of Ministers approval of the Internal Control By-Laws.

Indicative trigger DPL II (2014)

- Amend the Audit Bureau (AB) Law to ensure independence for the AB and a greater focus of this institution on performance audit and on ex post controls, consistent with International Standards for Supreme Audit Institutions, and also adopt the MOU between MOF and AB to strengthen Internal Control Units so as to implement Internal Control By-Laws.

Policy Area 2. Improve Budget and Debt Management

Prior Action DPL I (2012)

- Reduce contingent liability risks and bring clarity on PPP projects life cycle by mandating a systematic assessment of project fiscal impacts, feasibility and investor rights through cabinet approval of the new PPP law.

Indicative trigger DPL II (2014)

- Cabinet approval of a PPP by-laws that precise the modalities of implementation of the PPP law in line with international best practices.

Policy Area 4. Support Private Sector-Driven Growth

Prior Action DPL I (2012)

- Approve the new Investment Law to reduce barriers to FDI, improve services to investors and establish more transparent rules for granting exemptions Indicative trigger DPL II (2014).

Indicative trigger DPL II (2014)

- Establish a 'one-stop-shop' to provide a one-stop shop service to license economic;
- activities and review and simplify licensing procedures is established at the Jordan;
- Investment Board (JIB) as mandated by the Investment Promotion Law in force.

IMF's Stand-By Arrangement

The IMF SBA included conditions on a revised income tax law (MFA condition 3), an energy strategy (condition 9) and referenced to targeted social transfers, which related to condition 4 of the MFA. In May 2013, the IMF revised the requirement for the income tax law and added the implementation of a National Unified Registry (MFA condition 4).

Box 7: IMF SBA cross-conditionality with MFA

Request for SBA (December 2012)

- Submit to the parliament an income tax reform law, including changes on mining sector taxation, by end-September 2012. (Rationale: fiscal consolidation by increasing revenue);
- Announce a medium-term electricity/energy strategy incorporating inputs provided by the World Bank, including a time table and measures for bringing NEPCO back to cost recovery by end-September 2012. (Rationale: fiscal consolidation and reducing external vulnerabilities);
- Introduce targeted transfers to the poor, which would protect the poor from higher oil prices should they increase beyond $100 per barrel by end-January 2013. (Rationale: protect vulnerable groups during fiscal consolidation).

First review SBA (May 2013) – new conditions

- Implement an income tax law yielding additional revenue of about one percent of GDP By end-September 2013
- Implement a national unified registry for targeting of subsidies. October 2013

Annex 4: Results of Delphi Questionnaire

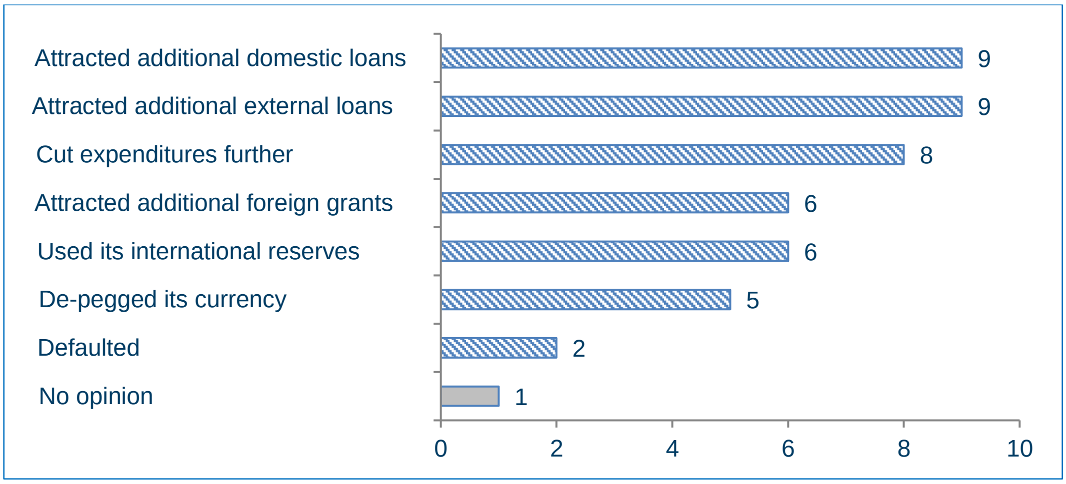
Start date:	09-05-2017
End date:	14-08-2017
Live:	98 days
Questions:	11
Panelist count:	26
Total responded:	17 (65,4%)
Reached end:	16 (61,5%)

The Delphi questionnaire contained eleven questions, related to the MFA assistance:

- Three questions on the macro-economic and fiscal situation and the added value of the financial support provided by the IMF SBA and EU Macro-financial assistance (MFA) and the specific added value of the MFA operation (question 1-3);
- Five questions on the relevance and progress in the areas of structural reform, and the added value of the MFA in this respect (question 4-8);
- Two questions on the MFA design (question 9 and 10);
- One question on MFA's added value to social impact (question 11).

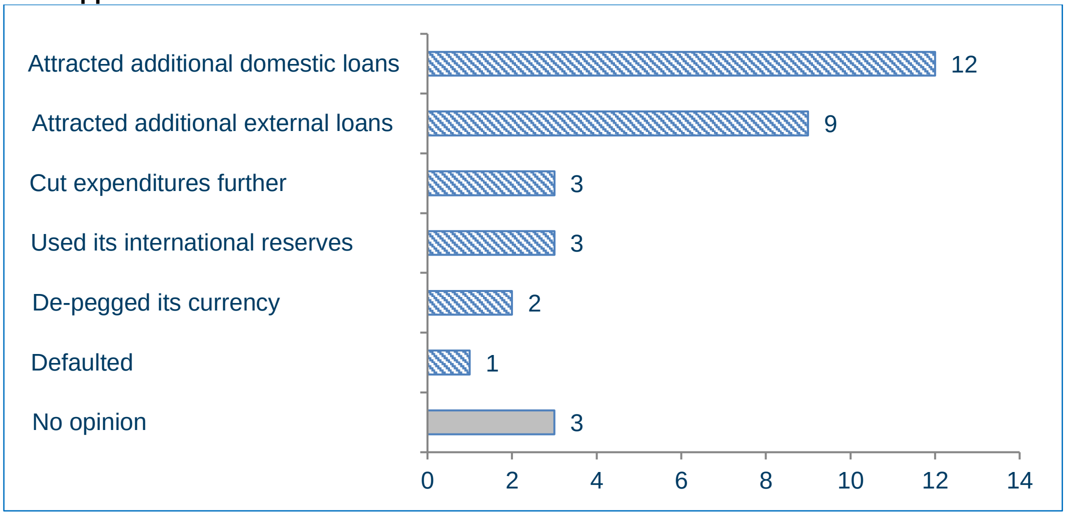
Macro-economic/ Fiscal Situation

1. **If the IMF Stand-By Arrangement (SBA) was not provided in 2012, what would have happened?**
   Jordan would have:



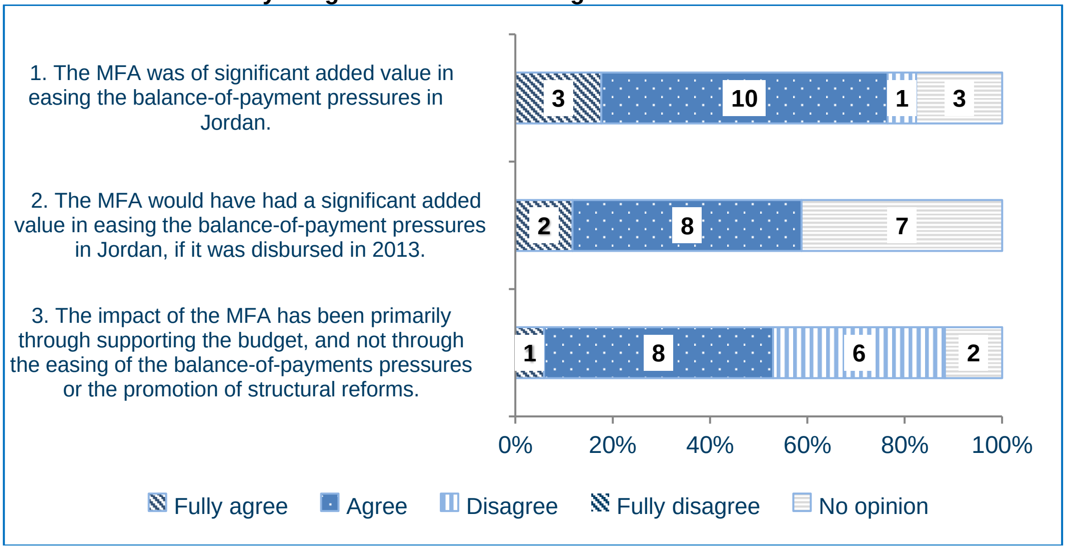
Respondents: 17 (multiple choices possible).

2. If the EU Macro-Financial Assistance (MFA) was not provided in 2015, what would have happened? Jordan would have:



Respondents: 17 (multiple choices possible).

3. To what extent do you agree with the following statements?

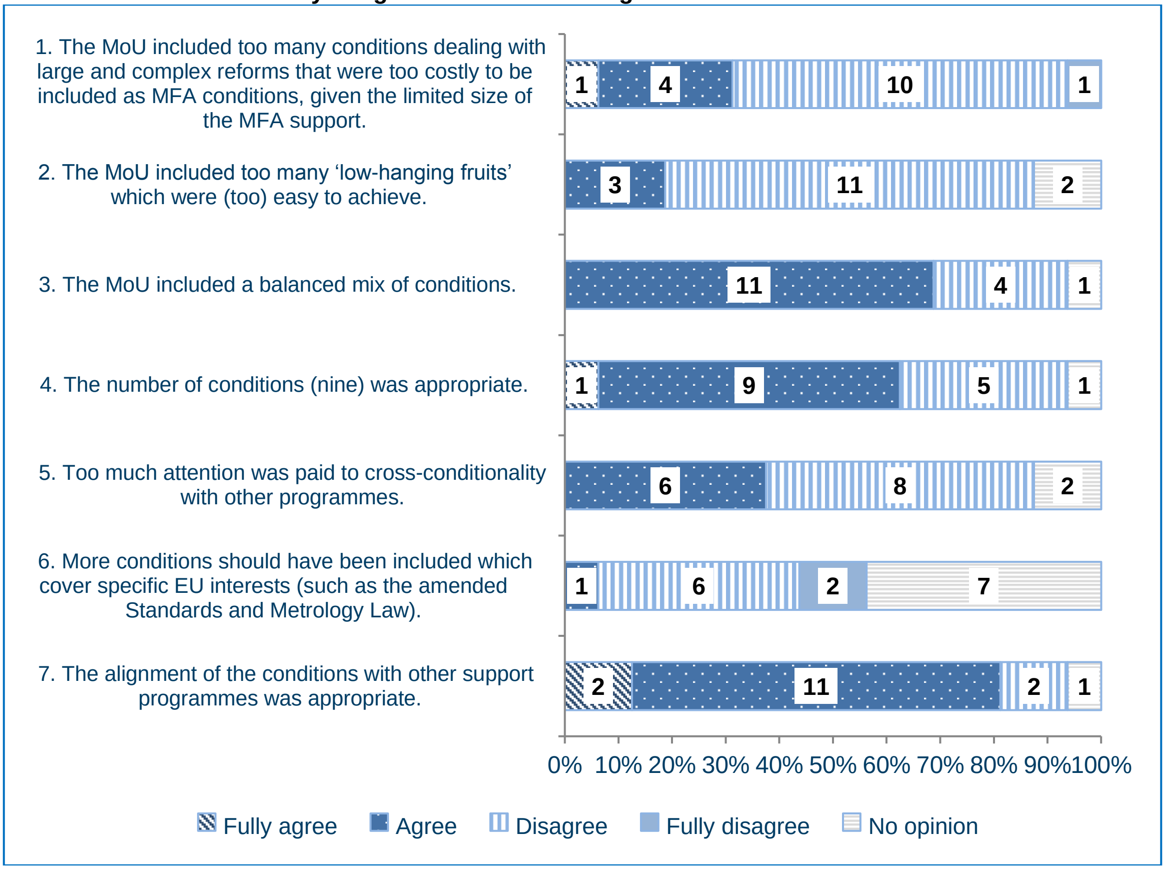


Respondents: 17.

Structural Reforms

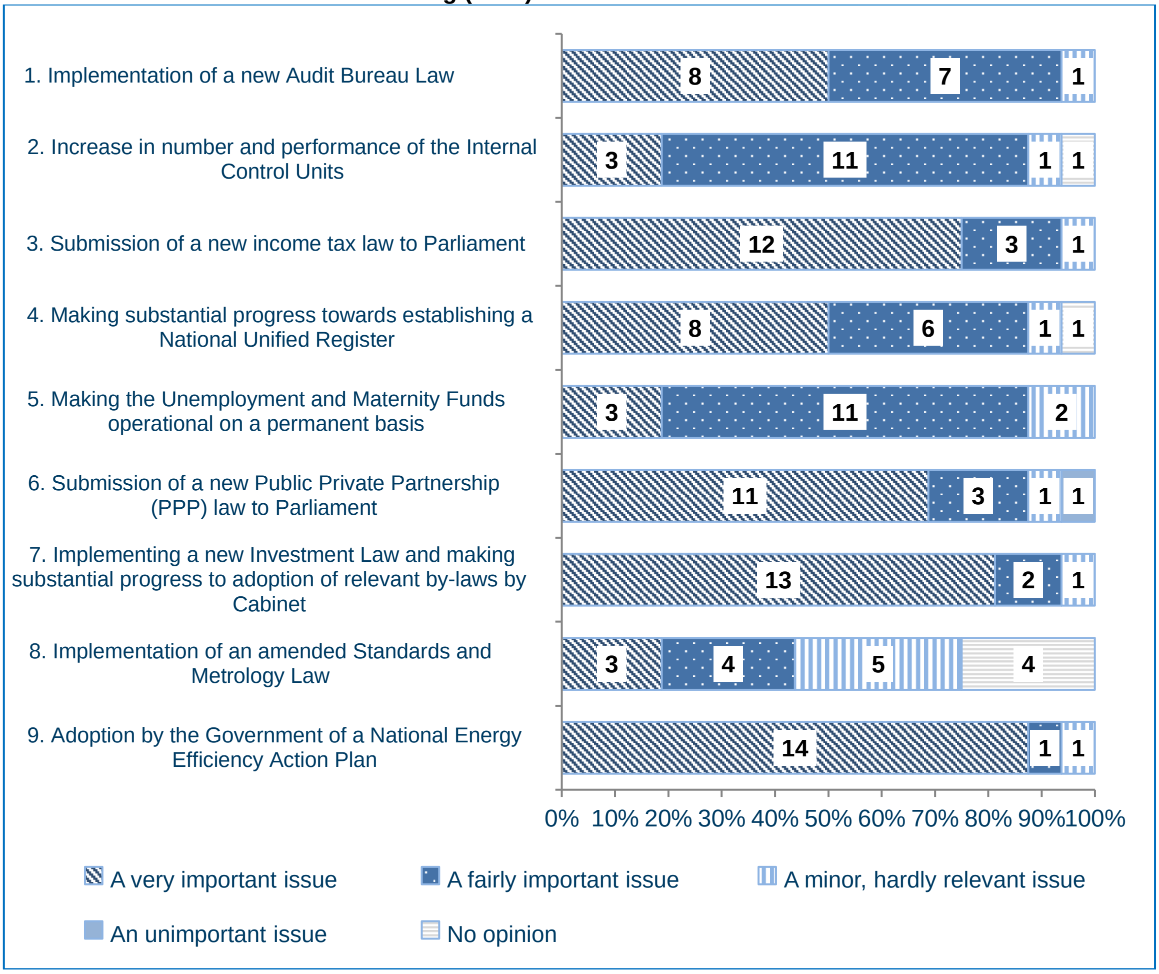
The condition for disbursement of the first tranche of the MFA was a satisfactory track record in the implementation of the SBA between Jordan and the IMF. For the second tranche, besides a satisfactory track record in the implementation of the SBA, nine specific conditions were introduced. Some of them were cross-conditioned with IMF structural benchmarks.

4. To what extent do you agree with the following statements?



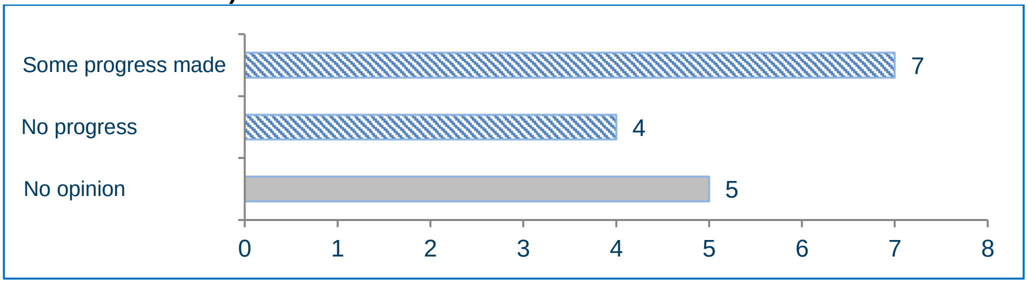
Respondents: 16.

5. **How do you assess the relative importance of these reforms at the time they were included in the Memorandum of Understanding (2014)?**



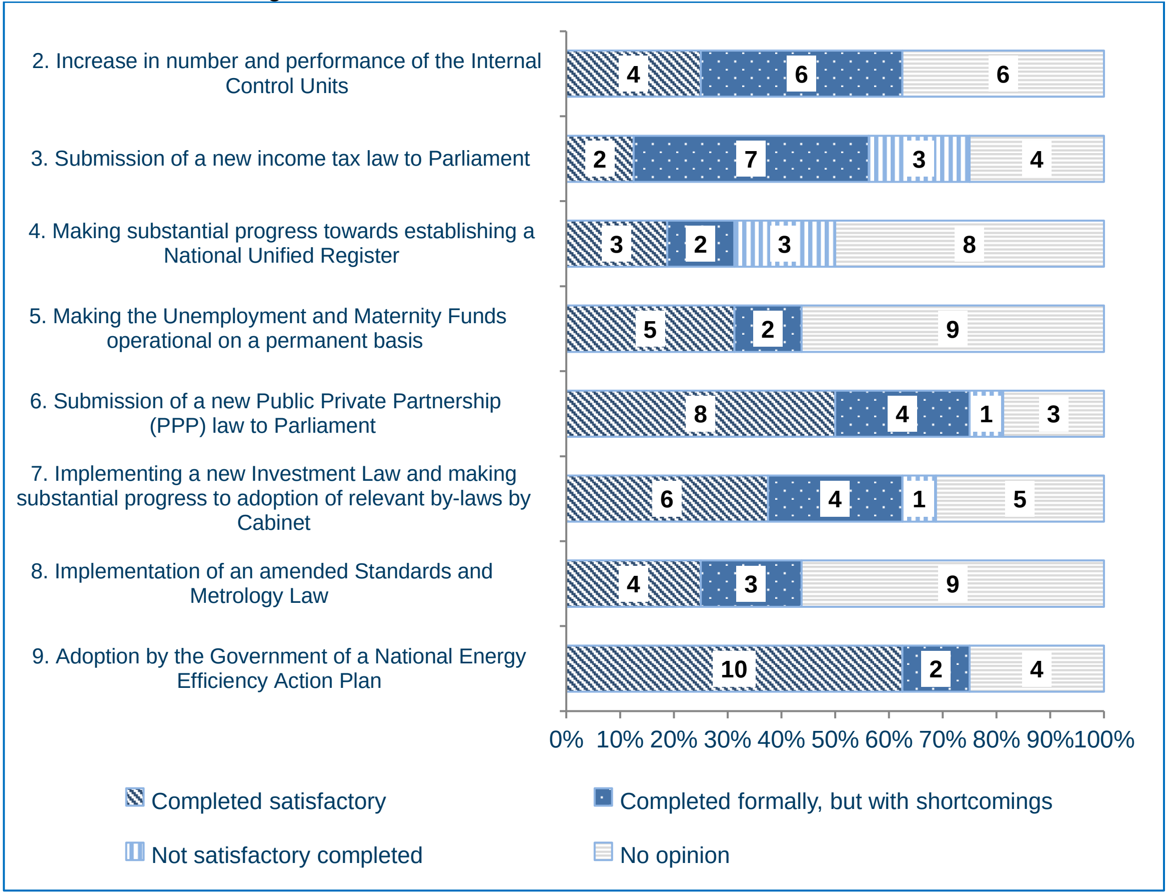
Respondents: 16.

6. In 2015, the Commission provided a waiver for the first of the nine conditions (the Audit Bureau Law). What was the progress made in this area up to August 2015 (release of the second tranche)?



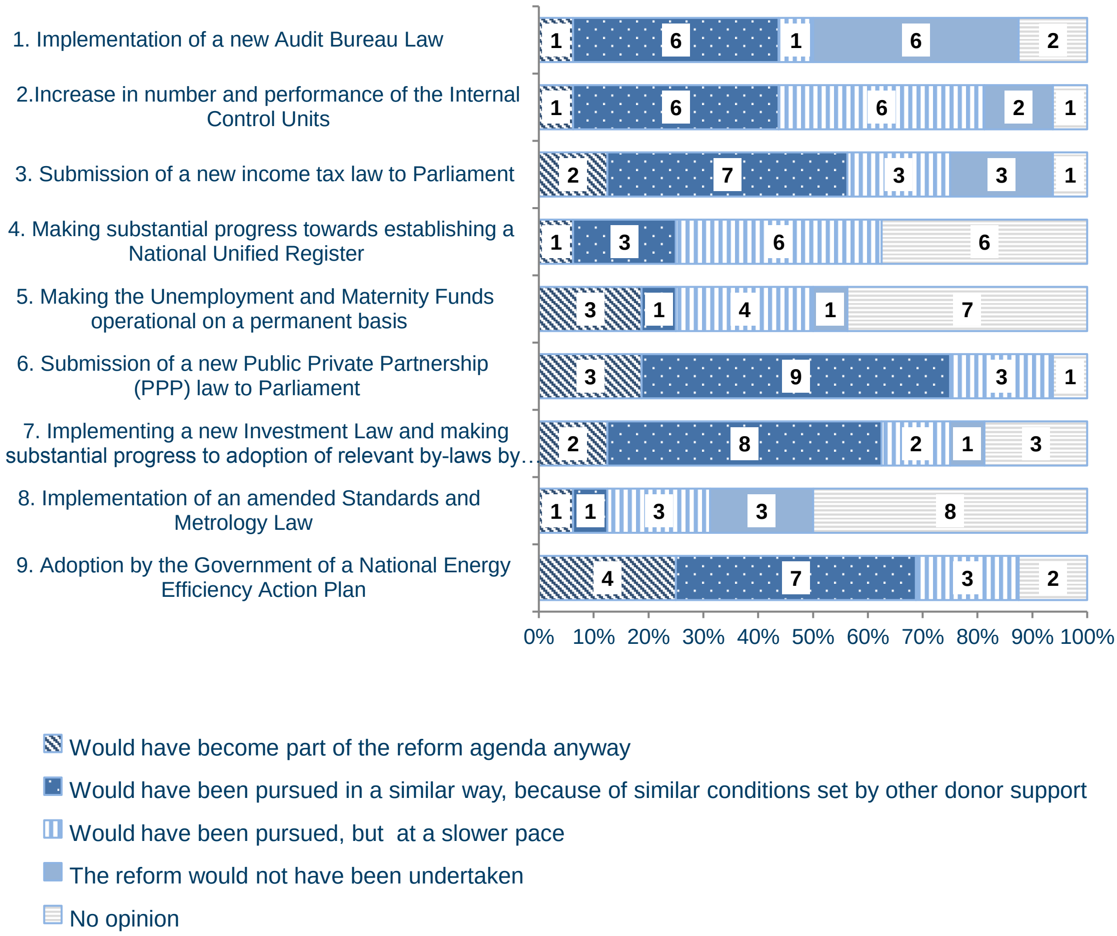
Respondents: 16.

7. In 2015, the other eight conditions were considered formally completed. Were these reforms completed satisfactory, or merely formally with some shortcomings, when the second tranche was released in August 2015?



Respondents: 16.

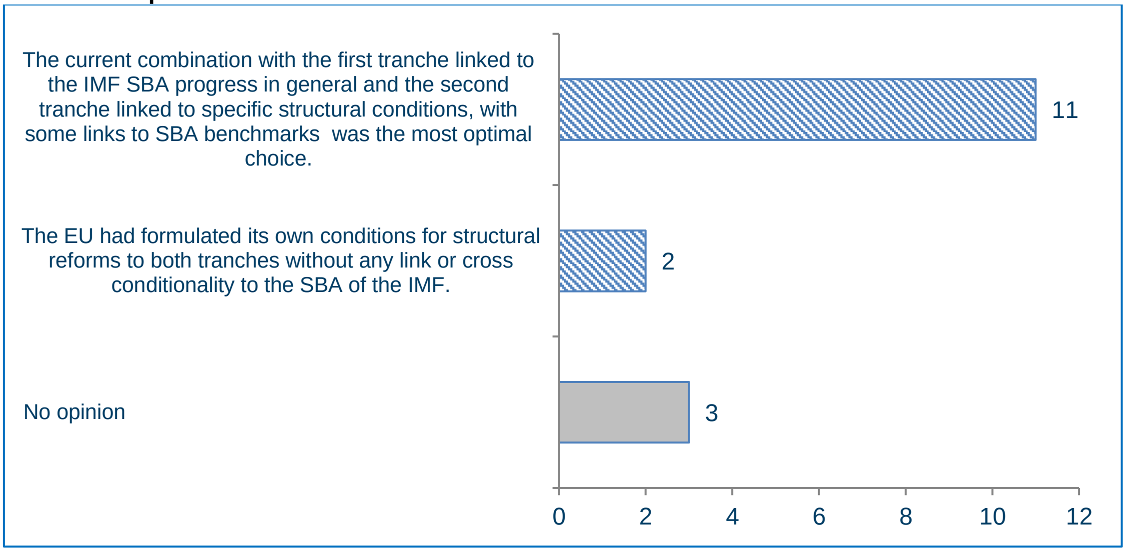
8. **What would have happened to the following reform conditions if the MFA support had not taken place?**



Respondents: 16.

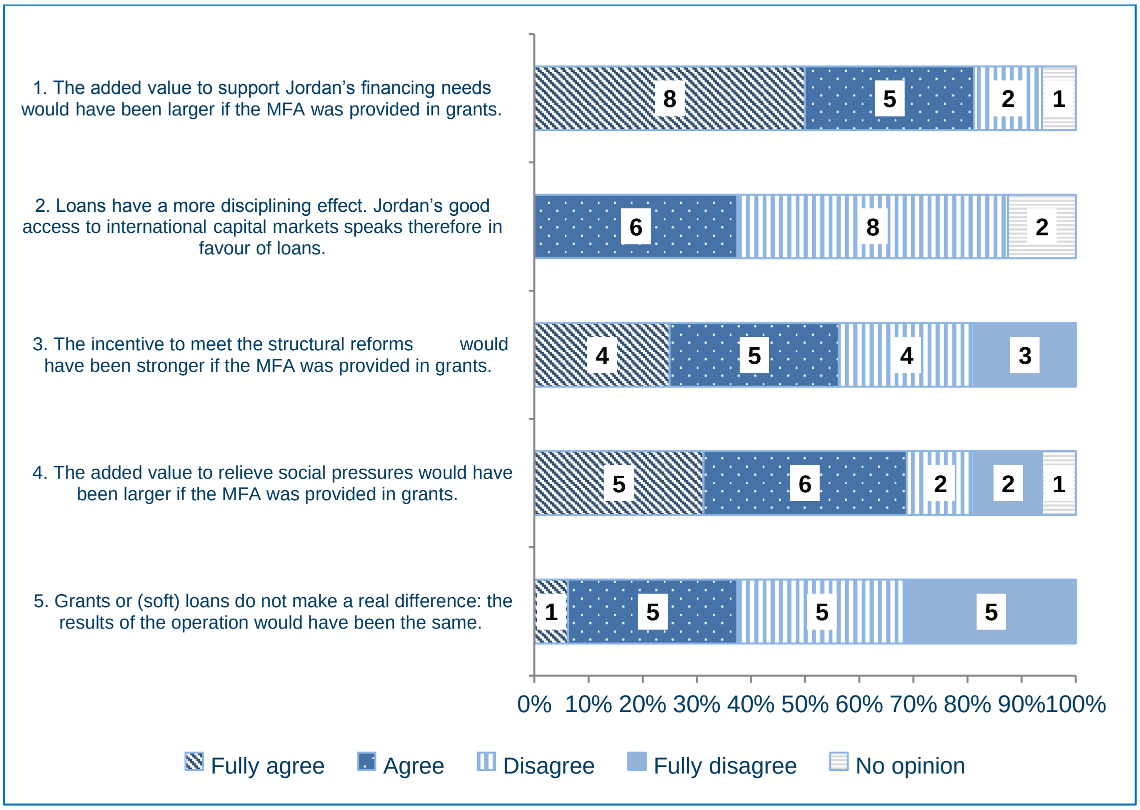
Design of MFA

9. The impact / added value of the MFA would have been increased if:



Respondents: 16.

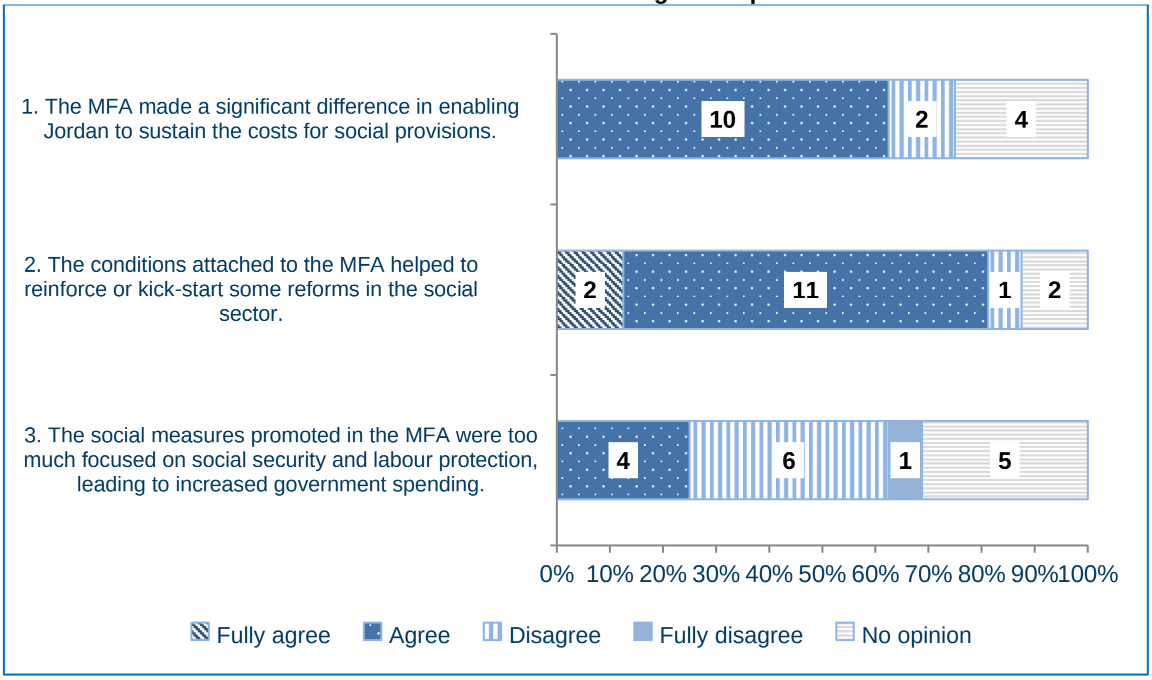
10. If the MFA had been provided in grants instead of loans, what do you think the difference would have been?



Respondents: 16.

Social impact of the MFA

11. To what extent has the MFA added value to alleviating social pressures in Jordan?



Respondents: 16.

Annex 5: Delphi Questionnaire invitees

	Name	Institution	Responded?
Government of Jordan			
1	Mr Izz Eddin Kanakrieh	General Secretary Ministry of Finance	No
2	Mr. Salem M. Ali Al Qudah	Director of Public Debt Department, MoF	Yes
3	Mr Ahmad H. Hmaidat	Head of Borrowing Division (MoF)	Yes
4	Dr. Adel Sharkas	Governor, Central Bank of Jordan	Yes
5	Hassan Barakat	CJB, Jordan	Yes
6	Mr Saleh Al Kharabsheh	General Secretary MOPIC	No
7	Ms Zeina Toukan	Director MOPIC	Yes
8	Mr. Emad Shanaa	MOPIC, Head of European relation section	No, shared with colleague
9	Ms Basma Ishaqat	NAF, Director General	Yes, but partly
10	Mr Elias Farraj	Advisor to the Secretary General of the Investment Commission	No
European Commission			
11	Stylianos Dendridos	DG ECFIN, EC, Brussels	Yes
12	Irene Vlachaki	DG ECFIN, EC, Brussels	Yes
13	Massimilano Messi	DG NEAR, EC Brussels	Yes
14	Tarja El Idrissi	DG NEAR, EC Brussels	Yes
15	Olfa Alouini	EU Delegation, Amman	Yes
16	Giulia Pietrangeli	EU Delegation, Amman	Yes
IMF and World Bank			
17	Kristina Kostial	IMF, Washington DC	No
18	Martin Cerisola	IMF, Washington DC	Yes
19	Eric Le Borgne	WB, Washington DC	No
20	Lea Hakim	WB, Washington DC	Yes
Other donors			
21	Ms Yuko Nobuhara	Senior Country Officer, JICA (Japan based)	No
22	Mr Daisuke Hori	Project Advisor, JICA	No
23	Mr Richard Laliberte	USAID, Fiscal Reform Project, MoF	Yes
24	Mr Rabah Al Shanti	JICA, Economist	Yes
25	Mr Vincent Toussaint	Conseiller Economique, France	No
26	Jean Mulot	Expertise France, PFM expert	Yes

Annex 6: Methodology of the DSA calculations

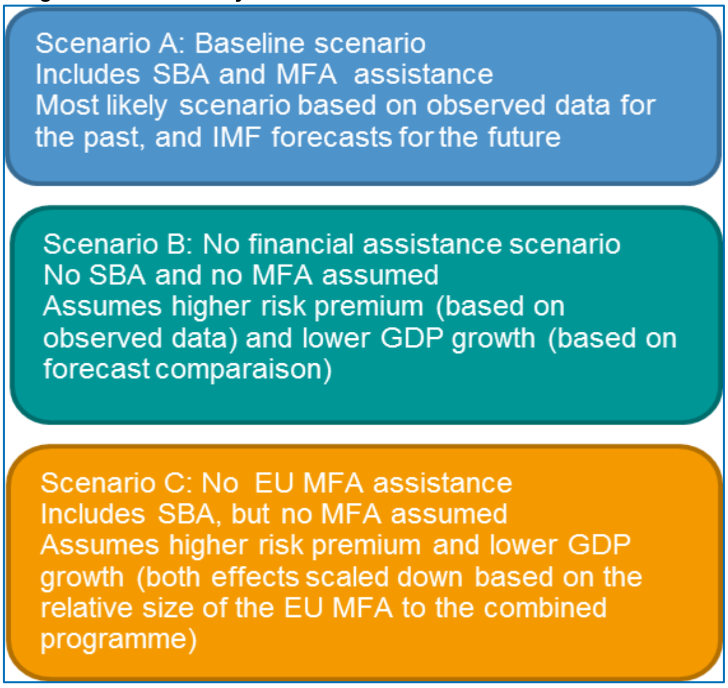
Assessing the impact of financial assistance on the sustainability of the external (EQ2.1.1) and public debt (EQ 7.1) requires a set of realistic and consistent assumptions to create the different scenarios. The baseline scenario (Scenario A) incorporates the financial programme both from the SBA of the IMF and the MFA provided by the EC. For the past, the baseline scenario thus consists of the factual realization of the relevant variables. For the projection horizon, the baseline scenario is primarily constructed on the basis of the September 2016 IMF Country Report, and the IMF forecast presented there.[181] For the longer term[182], we use assumptions on the long-term equilibrium values of the main driving forces consistently with the latest DSA calculations published by the IMF (see Table 6.1 and Table 6.2).

We construct the following two alternative scenarios:

- Scenario B assumes that neither the IMF SBA, nor the MFA was granted to Jordan;
- Scenario C assumes that Jordan received the SBA from the IMF, but no MFA was granted.

A summary of the scenarios and their underlying assumptions are presented in Figure A.6.1 below.

Figure A.6.1 The analysed scenarios in the DSA calculations



As for the quantification of the alternative scenarios (B-C) we proceed in three steps:

1. First, based on the observed dynamics in Jordan's financing conditions and the IMF's growth forecasts shortly before and immediately after the approval of the SBA programme, we quantify the underlying shocks to the risk premium and GDP growth attributable to the financial assistance from the IMF. In doing so we implicitly assume that *all* the reduction in the financing costs and *all* of the upward correction in the growth outlook is attributed to the agreement with the IMF on the SBA. We also implicitly assume that shortly after the announcement of the SBA programme, the market participants were prepared to the MFA as well. It implies that we assume the confidence channel related to the

[181] See http://www.imf.org/external/pubs/cat/longres.aspx?sk=44267.0.

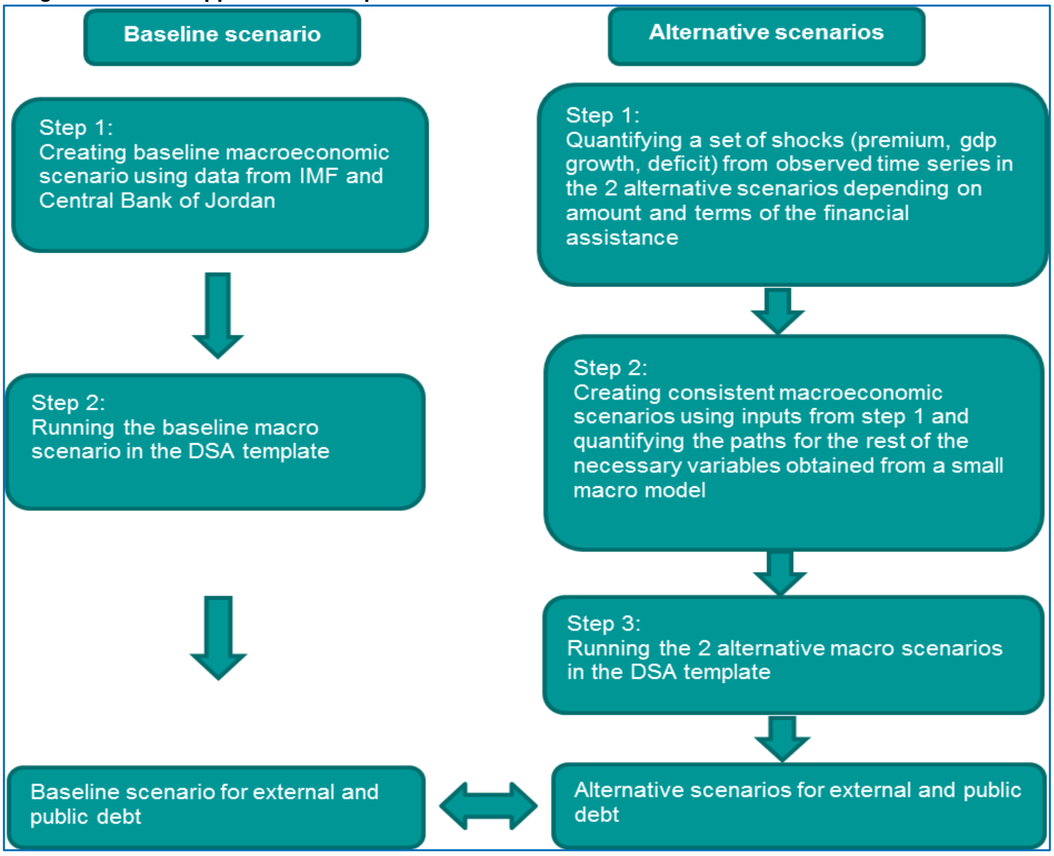
[182] The IMF's standard projection horizon is 5 years, and we deviate from that in our long-term forecast, which is an arbitrary decision. It is, however, approved by the IMF methodology to use a longer timeframe, which may be more appropriate for capturing the relevant risks for debt sustainability. For more on this, see: http://www.imf.org/external/np/pp/eng/2013/050913.pdf.

MFA was already at work from late 2012, at the time of the request of the MFA. In terms of quantifying the effects, we assume that the underlying shocks related to the EU assistance are proportional to the amount of the MFA in the total (SBA and MFA combined) package;[183]

2. Second, consistent paths for some additional macroeconomic variables that are necessary inputs to the IMF's DSA templates (interest rates, inflation, current account and the primary fiscal balance) are derived using a small macroeconomic model[184] across the different alternative scenarios;
3. Finally the consistent macro scenarios are used as inputs in the DSA framework to derive the dynamics for the debt variables in all three alternative scenarios.

Figure A.6.2 below sums up our approach to the creation and the comparison of the different scenarios.

Figure A.6.2 Our approach to compare the different scenarios



Regarding the first step of creating the alternative scenarios, when quantifying the shocks for the risk premium and the real growth, we proceeded as listed below:

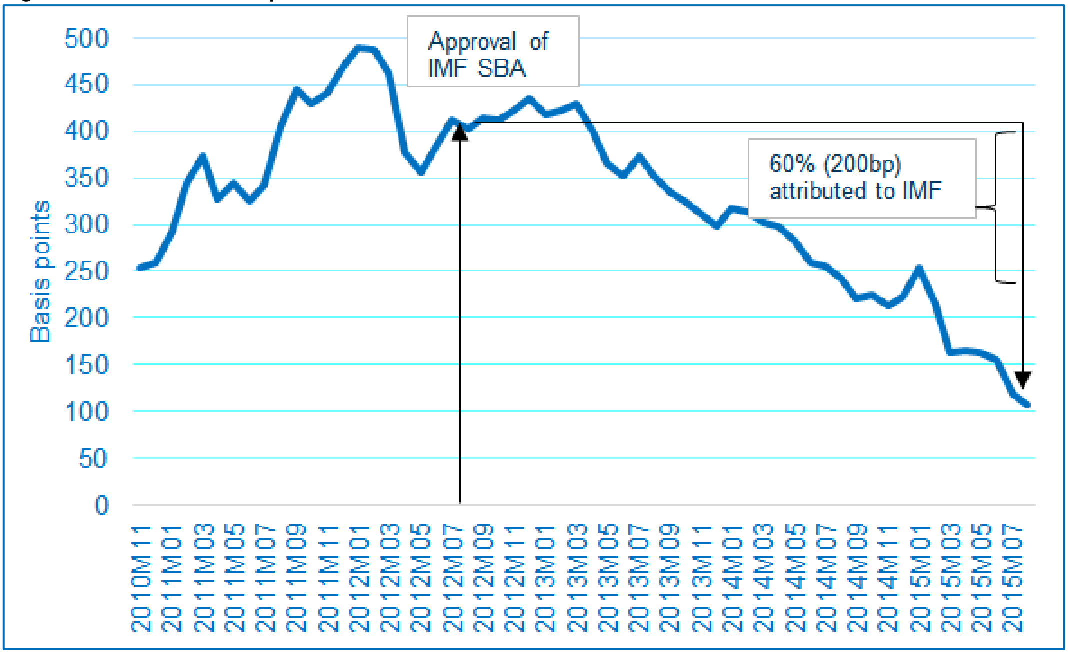
1. Following a series of exogenous shocks from the beginning of 2011, the risk premium for Jordan (as approximated by the interest rate spread between the 5-year Eurobond issued by Jordan and the corresponding U.S. benchmark) increased substantially, by about 2 percentage points until the end of the year (see Figure A.6.4). After the initial jump, but prior to the agreement on the IMF assistance, the premium stabilized at around 4 percent in 2012. Subsequently, once the Jordan government concluded with the IMF on the financial assistance, the premium started to decline, reaching one percent by the end of the second quarter of 2015. In scenario B (no IMF SBA and no MFA loans) it is assumed that without any financial assistance from the IMF or the EC, the risk premium would have remained at the elevated level of 2012 for the following years as well, that is, throughout the 2013-2014 period. This

[183] These two assumptions imply that our results for the impact of both the IMF and the joint IMF-EU assistance is an upper estimate. This is especially true for the EU contribution.

[184] It is a standard stock-flow consistent small macro framework developed by OGResearch, which can be used to model the changes in the stock of public and external debt to various macroeconomic shocks and has been successfully applied in assessing issues with long-term external and fiscal sustainability in several countries.

corresponds to risk premium shocks of 100 and 150 basis points in the next two years following the SBA agreement. Based on the consultations with CBJ officials and our second focus group meeting, we attribute 60 percent of this (around 200 basis points) to the lack of the agreement with the IFIs. For scenario C (only IMF SBA loan, no MFA), we derive the corresponding effects proportionally to the ratio of the IMF SBA loan to the joint funding of the EC and the IMF. This means that the risk premium shock is scaled down by a factor of 0.9, given that the IMF loan is around 90 percent of the joint financing.[185]

Figure A.6.3 Interest rate spread between Jordan's Eurobond and the U.S. benchmark



Source: Bloomberg.

2. The SBA programme was designed to help stabilize the Jordanian economy and to foster high and inclusive growth. Therefore, the analysis assumes that the difference between the GDP growth outlook of the May 2012 IMF article IV (before the SBA request) and the December 2012 IMF staff report (after the SBA approval) captures the growth effects of the joint IMF programme. The difference in the growth projections prior and post the IMF agreement is used to quantify the negative growth shocks in scenario B compared to the baseline (see Table A.6.1). Similarly to the case of the risk premium, for scenario C we derive the corresponding effects proportionally to the ratio of the IMF SBA loan to the joint funding from the EC and the IMF.[186]

---

185 It is important to stress that with this approach, we assume that although the MFA was concluded in late 2013, financial markets expected a deal with the EC already after the IMF agreement was there, i.e. approximately one year before the actual EC agreement. In fact, the request for the MFA was indeed made in the same year as the SBA, so the confidence effect from a prospective EU deal could have materialized promptly after the IMF agreement.

186 We have to note again that the EC loan was not agreed in end-2012, however it can be reasonably assumed that the markets also expected an agreement with the EC at the time.

Table A.6.1 Calculation of the real growth shocks in the alternative scenario B

	Growth outlook in May 2012 (before SBA request)	Growth outlook in Dec 2012 (after SBA approval)	Difference in pp. (shock)
2013	3%	3.5%	0.5%
2014	3.3%	4%	0.7%
2015	3.7%	4.5%	0.8%
2016	4.1%	4.5%	0.4%
2017	4.4%	4.5%	0.1%

Source: IMF and own calculations.

Taking the shock profiles from above and adding consistent paths for the other macroeconomic variables necessary for the DSA framework (real GDP growth, interest rates, inflation, current account and primary budget balance) produces the full-fledged projections for the different scenarios. The results for the main macroeconomic variables are compared to the baseline, and the differences are presented in Table A.6.2. According to our simulations, in the absence of financial assistance from both sources (Scenario B: no IMF, no MFA) the level of real GDP is projected to be 2.5 percent lower by the end of 2017. Interest rates would have increased by 1.4 percentage points in 2014, and the jump would have persisted until the end of the projection period. The joint financial aid also contributed to the achievement of lower primary deficits (through the automatic stabilizer effect) for the period under evaluation. The MFA loan had only a marginal contribution to the improvement in the macroeconomic conditions as the size of the assistance was much lower than the IMF programme.[187]

Table A.6.2 Difference in key macroeconomic variables from the baseline

Scenario B (no IMF and EU loan) vs Scenario A (Baseline, both IMF and EU loans) (in percentage)						
	2013	2014	2015	2016	2017	2018
Real GDP growth	-0.49%	-0.71%	-0.81%	-0.39%	-0.09%	-0.01%
GDP deflator (change in domestic currency)	-0.13%	-0.24%	-0.37%	-0.38%	-0.38%	-0.36%
Nominal external interest rate	0.20%	0.77%	0.66%	0.71%	0.73%	0.69%
Primary balance	-0.20%	-0.44%	-0.66%	-0.64%	-0.48%	-0.31%
Scenario C (only IMF, no EU loan) vs Scenario A (Baseline, both IMF and EU loans)						
	2013	2014	2015	2016	2017	2018
Real GDP growth	-0.04%	-0.06%	-0.07%	-0.04%	-0.01%	0.00%
GDP deflator (change in domestic currency)	-0.01%	-0.02%	-0.03%	-0.03%	-0.03%	-0.03%
Nominal external interest rate	0.02%	0.07%	0.06%	0.06%	0.07%	0.06%
Primary balance	-0.02%	-0.04%	-0.06%	-0.06%	-0.04%	-0.03%

Source: Own calculations.

Once the full macroeconomic picture of the different scenarios were put together, we applied the IMF's DSA framework to make the projections for the external and public debt on both the medium term (2013-2018), and beyond (up until 2050). The results from these simulations are presented in Section 6.2.1 (EQ2.1.1) and 6.7 (EQ7.1).

[187] This is visible from comparing scenario C (only IMF loan) to the baseline (joint financing).

Annex 7: Case Studies

The evaluation team undertook two case studies in two of the structural reform areas, to be able to go more in-depth, place the structural reforms in a broader context and explore the causality between the MFA and the actual structural reforms. These studies have also contributed to this evaluation by investigating progress in a particular area, to which multiple conditions could have contributed, instead of looking at each condition separately.

We have undertaken a case study dedicated to the investment climate reforms (related to condition 6, 7 and 8) and another to the energy sector reforms (related to conditions 4 and 9).

Case study 1: Investment Framework and Trade

In this case study we will first discuss the situation in the area of investment and trade before the start of the MFA preparations in 2013 in Section 7.1.1 and then in Section 7.1.2 the developments in the period 2013-2016.

Situation up to 2012

The situation up to 2012-2013 formed the background for the conditions to structural reforms in investment and trade included in the MFA.

Investment climate

Jordan achieved a number of key economic reforms since the 1990s, including a set of FTAs with the following countries:

- **US**: except from a few items, trade between both countries has been fully liberalized since 2010;
- **EU**: the Association Agreement came into force in 2002 and progressively liberalized trade in goods and services within 12 years;
- **EFTA**: Jordan also signed an FTA with the EFTA-countries Switzerland, Norway, Iceland and Liechtenstein;
- **Singapore**: Jordan signed as first Middle Eastern country an FTA with Singapore;
- **GAFTA**: Jordan is part of the Greater Arab Free Trade Agreement, which means full freedom of trade between 17 Arab countries since 2005;
- **Egypt, Tunisia and Morocco**: Jordan signed the Aghadir Agreement with these countries to establish an FTA. This has been done to create added value, in order to export duty-free to the EU.[188]

Since 2000, Jordan also witnessed a steady growth of FDI flowing in.[189] Main investors to Jordan have been Saudi Arabia, Kuwait, the US and the United Arab Emirates (UAE). As already described in Section 5.1, regional unrest and the economic crisis which affected the Gulf region as well, led to a major decrease in FDI between 2008 and 2011. In 2012, it was not yet certain whether and how these flows would recover – as the regional political situation deteriorated. For an illustration of the FDI inflow, see Figure 5.3 in Chapter 5. At the end of 2012, it was hoped that Jordan's relatively stable domestic political situation would support recovery of the FDI inflow.[190]

---

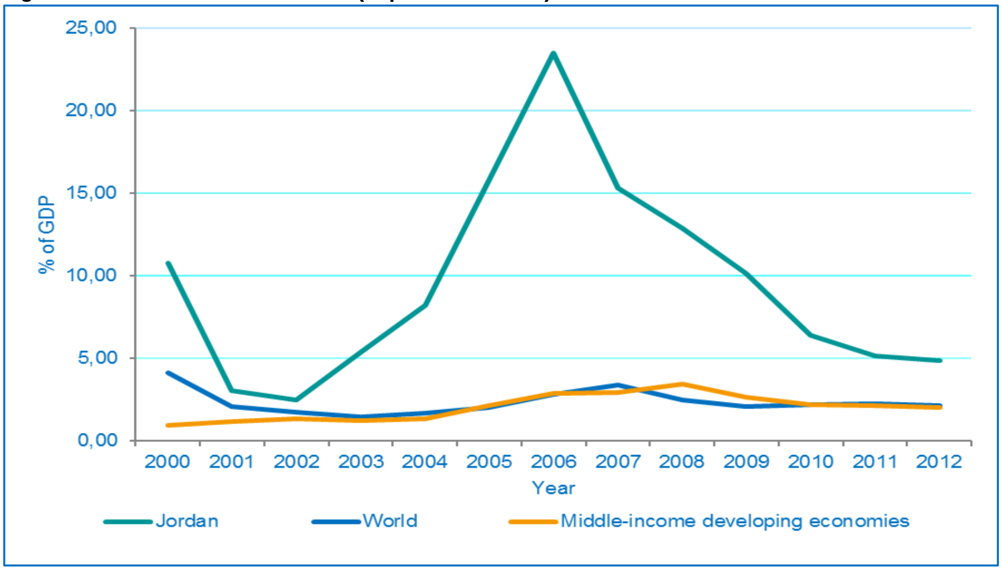
[188] Rethinking investment in Jordan, UK Government, Adam Smith International, Identity Center, http://www.identity-center.org/sites/default/files/Rethink%20Investment%20in%20Jordan_English.pdf.

[189] Al Jidara, Review of investor profile and main investment impediments in Jordan, submitted to the Delegation of the European Union, December 3, 2012.

[190] Ibidem.

In terms of FDI inflows as percentage of GDP, Figure A.7.1 shows that while an upward trend in FDI up to 2007/2008 and a subsequent decrease in FDI inflows was common worldwide and in middle-income developing economies, Jordan's increase and decrease in FDI inflow was more extreme. It is also noticeable that in 2012, Jordan still had a higher inflow of FDI in percentage of GDP than the average of the world economy and the average of middle-income developing countries.

Figure A.7.1 FDI inflows 2000-2012 (in percent of GDP)



Source: UNCTAD stats, http://unctadstat.unctad.org/.

Jordan ranked 96th out of 183 economies on the Doing Business list of 2012. Although Jordan worked towards a number of improvements to facilitate starting a business, the regulatory environment was as of 2012 challenging to entrepreneurs. Key obstacles were costly bureaucratic procedures to start businesses, obtain construction permits, register property, pay taxes and trade across borders. While the electricity connection network was relatively well developed, it was quite expensive. Improvements in legal protection of minority investors and establishing institutions such as courts and credit bureaus were also considered necessary.[191] In terms of Distance to Frontier (DTF)[192], a score which captures the distance between an economy's performance and a measure of best practice (with zero being the lowest score, and a score of 100 representing the highest score), Jordan does not belong to the best performers in the region.

Table A.7.1 Jordan's 2012 Distance to Frontier score compared to other countries in the region

Economy	Overall DTF (2012)
United Arab Emirates	71,2
Saudi Arabia	69
Tunisia	68,57
Oman	67,3
Bahrain	67,07
Qatar	65,99
Morocco	63,37
Malta	62,1

191 Ibidem.

192 The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of 41 indicators for 10 Doing Business topics. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

Economy	Overall DTF (2012)
Lebanon	62,03
Kuwait	61,43
Egypt, Arab Rep	59,08
Jordan	**58,02**
Yemen, Rep	57,71
Iran, Islamic Rep	57,08
Syrian Arab Republic	51,43
Algeria	50,9
West Bank and Gaza	49,64
Iraq	47,76
Djibouti	44,05

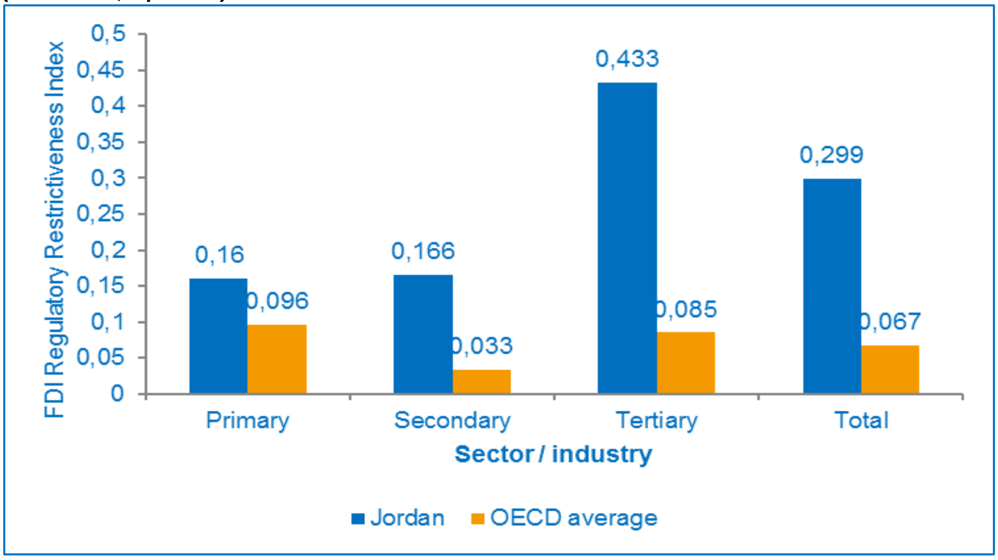
Source: Doingbusiness.org.

Structural impediments

A number of structural shortcomings could be identified, limiting the inflow of FDI and the ease of doing business.

The first challenge related to the applicable set of laws and regulations. In 2013, the OECD described Jordan's legal investment regime as 'rather complex' with overlapping and sometimes undisclosed legislation and regulation. While a range of benefits has been accessible to domestic and foreign investors, the incentive regime was complicated and income tax exemptions were restricted to activities in the designated preferential economic zones.[193] In addition, Jordan had a relatively high number of restrictions on foreign investment (see Figure A.7.2). The authorities recognized the need for restructuring of the framework and announced the revision of the investment law.

Figure A.7.2 FDI regulatory restrictiveness index Jordan and OECD average in 2012 (Closed = 1; Open = 0)



Source: OECD stats. http://stats.oecd.org.

A second challenge was the organisation of institutions in charge of business regulations. The institutional framework for investment was described as bureaucratic, complex and inconsistent, and did not facilitate doing business in Jordan. The Jordan Investment Board (JIB)

193 OECD Investment Policy Reviews: Jordan 2013, Executive Summary.

was created in 1995 as investment promotion agency. In 2013, some challenges in its operations were reported by the OECD, for example while a one-stop shop has been established for company registration, JIB was lacking full authority to issue approvals. JIB also faced a shortage in human resources and had no coherent strategic vision.[194]

Related to these two challenges, in its Policy review (2013), the OECD recommended Jordan to introduce a new law to:

- Reaffirm commitments to non-discrimination, transparency and investor protection in line with international and OECD high standards;
- Streamline FDI restrictions currently found in separate regulations and provides for their critical review; and
- Clarify responsibilities of the authorities for the many tax and other investment incentives, with a mandate to simplify the system, periodically assess its net benefit, and publicly report.[195]

A draft Investment Law was submitted to Parliament in June 2011, but not approved. In May 2013, the Council of Ministers submitted a new improved draft Law to the Parliament.[196]

A third area where institutional and legislative reforms were needed was the area of public-private investment, or public-private partnerships (PPPs). By 2013, Jordan had more or less completed the process of privatisation of state-owned enterprises. As the number and size of future privatisation projects would probably diminish, the government shifted its focus to public-private partnerships (PPPs).[197] PPPs were not new to Jordan – between 1994 and 2014 Jordan concluded 17 PPPs of a value of US$6.6 billion. However, to expand the PPP programme, reform of the institutional and legal framework was deemed necessary, to address certain legal ambiguities and create a firm environment for PPPs. PPPs had so far been executed under sector-specific laws or under Jordan's general privatisation law (2000).[198]

Several attempts for reform had been made up to 2013. In 2008, Jordan had already launched a PPP programme.[199] In 2011 a draft Law was approved by the Government but not adopted by Parliament. In 2012, the Minister of Finance announced to break the legislative standstill of PPPs by introducing an institutional reform: establishing a PPP unit in the MoF. In this context, Jordan received support from the PPIAF in reviewing of gaps in legislation, defining a mandate for the PPP unit, developing a draft PPP policy and identifying a PPP pipeline.[200] The draft PPP law was eventually withdrawn by the Government in June 2013, and resubmitted afterwards.[201]

The status of EU-Jordan trade

Table A.7.2 pictures the trade relation with Jordan from an EU perspective. The EU has a large positive trade balance, which has been widening since 2006. In 2012, the value of both imports from and exports to Jordan have increased as compared to 2006. Since the value of the EU's exports has increased more in absolute terms than that of imports, the EU trade surplus has become larger.

---

194 Ibidem.

195 Ibidem.

196 International Bank For Reconstruction And Development (IBRD), Program Document for a Proposed Loan in the Amount Of Us$250 Million to The Hashemite Kingdom Of Jordan for a Second Programmatic Development Policy Loan, February 18, 2014.

197 OECD Investment Policy Reviews: Jordan 2013, Executive Summary.

198 Public-Private Infrastructure Advisory Facility (PPIAF), PPIAF supports the institutional and policy environment for PPPs in Jordan, December 2014, http://documents.worldbank.org/curated/en/762281468329337061/pdf/938550WP0Box380rdan0PPP0ImpactStory.pdf.

199 OECD, Public-Private Partnerships in the Middle East and North Africa: a Handbook for Policy Makers, https://www.oecd.org/mena/competitiveness/PPP%20Handbook_EN_with_covers.pdf.

200 PPIAF, PPIAF supports the institutional and policy environment for PPPs in Jordan, December 2014.

201 IBRD, Program Document for a Proposed Loan in the Amount Of Us$250 Million, February 18, 2014.

Table A.7.2 EU – Jordan trade flows and balance (in EUR millions)

Year	Value of imports	Value of exports	Balance
2006	231	2,672	2,440
2007	221	2,654	2,433
2008	298	2,947	2,648
2009	179	2,603	2,424
2010	249	2,790	2,541
2011	314	3,266	2,952
2012	335	3,448	3,112

Source: EU, Trading goods with Jordan, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113404.pdf.

It would thus be beneficial for Jordan to increase its exports to the EU and reduce its trade deficit. In 2010, the EU and Jordan agreed on an "Advanced Status" for Jordan, meaning working towards closer ties in all areas. Negotiations started on a DCFTA; and these negotiations would also pursue the ACAA.[202] This is a specific type of mutual recognition agreement (MRA), in which a country aligns its legislation and infrastructure with those of the EC. The conclusion of an ACAA would be the end result of a process of harmonising technical regulations and standards for industrial products.[203] An ACAA would thus enable Jordanian products from selected sectors to enter the EU market without additional technical controls.[204]

In 2010, Jordan started working towards achieving the prerequisites to start negotiations on the ACAA. To create an ACAA, four conditions have to be fulfilled to formally start the negotiations:

- Adequate infrastructure in the fields of standardisation, accreditation, conformity assessment and metrology in the partner country;
- Adoption of the relevant part of the acquis by the partner country;
- Regulatory co-operation and technical assistance;
- Formal agreement between the EU and the partner country setting out the Relationship.

The Joint SWD "Implementation of the ENP in Jordan: Progress in 2011 and recommendations for action" (2012) indicated the preparations for negotiation of the ACAA continued. Jordan has chosen three sectors (electrical products, toys and gas appliances) as priority sectors. These priority sectors were chosen on the basis of different criteria: safety, bilateral trade volumes, technical capability to test, potential for exporters. Progress was being made on the technical side, but the necessary legislative reforms were not moving: adoption of amendments to the law on standards and metrology as well as a draft accreditation law was pending since 2008.[205] The SWD, in line with the ENP Action Plan 2012, thus invited Jordan to "pursue regulatory convergence to support efforts to increase exports and to prepare an Agreement on Conformity Assessment and Acceptance of industrial products and, eventually, a Deep and Comprehensive Free Trade Agreement".[206]

---

202 Mohammad F.A. Nsour, Abdullah Dmour and Lana Nimri, Trends in Free Trade: legal and policy perspectives on Jordan's Regional Trade Arrangements, https://journals.iupui.edu/index.php/iiclr/article/viewFile/18269/18364.

203 Commission SWD, Agreements on Conformity Assessment and Acceptance of Industrial Products (ACAAs), Brussels, 25.08.2004, SEC(2004)1071.

204 Annex to the Joint Proposal for a Council Decision on the Union position within the Association Council set up by the Euro-Mediterranean Agreement establishing an association between the European Communities and their Member States, of the one part, and the Hashemite Kingdom of Jordan, of the other part, with regard to the adoption of EU-Jordan Partnership Priorities and annexed Compact, Brussels, 19.9.2016, JOIN(2016) 41 final Annex 1.

205 Joint SWD, Implementation of the European Neighbourhood Policy in Jordan: Progress in 2011 and recommendations for action, accompanying the document Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and The Committee of the Regions, delivering on a new European Neighbourhood Policy, Brussels, 15.5.2012, SWD(2012) 116 final.

206 Ibidem.

The SWD provided an update in 2012. It noted progress in the transposal of sectoral legislation in the three priority sectors: 44 draft transpositions of EU directives were submitted to Commission services for assessment, including a horizontal framework for industrial products. The amended Law was however not yet adopted, which meant these transpositions could not be enforced.[207] Enforcement needed to be done by the JSMO. The JSMO was established in 1972 as part of MIT. It became an independent public entity in 1995. The MIT is chairman of the board. It has 550 people professional staff.

To summarize, at the end of 2012 the JSMO had made progress on the technical requirements, but action on the legislative prerequisites were at a stand-still.

Rationale for the condition(s)

The three conditions formulated on the submission of the PPP law (condition 6), the implementation of the Investment Law (condition 7) and the adoption of the amended standards and metrology law (condition 8) can thus be placed in the context of 2012-2013 as described above. The two conditions on improving the investment framework (condition 6 and 7) were already included in early drafts of the MoU (see Box 4). These conditions focus on improving the legislative framework for investments, by facilitating the passing of two laws. The condition related to trade standards was added later to the MoU, to advance the preparations of the negotiations towards deeper trade liberalisation between EU and Jordan.

Box 4 - Development of the conditions

Initially, **condition 6** encompassed the *adoption* of the PPP law. In the final version of the MoU, this was changed into *submission* of a PPP law. The requirement in condition 6 to clarify the new central institution and its mandate was added to further specify what was needed, as mergers of institutions in this regard had been mentioned by the Government, but no visible steps had been made yet.

Early in the negotiations**, condition 7** on the Investment Law was only related to the adoption of the new Law and by-laws. In later drafts of the MoU, the condition was further refined to include specific aspects which should be reflected in the new Law. Also, the formulation of the condition moved from *adoption* towards *implementation*, as the Law was already drafted and submitted to Parliament mid-2013. After discussions with Jordan, it was agreed to soften the requirement to address all OECD recommendations, by replacing it with 'substantial progress'. Deliberately, the EU did not establish a link between the Law and the by-laws, so that the latter would not be conditional upon the adoption of the first.

Condition 8 related to trade liberalisation was included in a later draft. The EU deliberately chose for a stricter formulation, as it did not accept *submitted* instead of *adopted'*. As the amended law had been in Parliament since 2008, the effect of the MFA would be to add pressure to adopt the law.

In addition, private sector development has been central in EU-Jordan relationships since the 2002 Association Agreement. In the EU-Jordan National Indicative Programme (NIP) 2011-2013 'Trade, Enterprise and Investment Development' was identified as a priority area. In the Single Support Framework (SSF) 2014-2017 'Employment and private sector development' is one of the three priority sectors for intervention. The conditions on investment and trade in the MFA thus fitted within the priorities set in the NIP 2011-2013 as well as the SSF 2014-2017. Furthermore, on the investment framework the EU had been providing Technical Assistance to Jordan in the field of PPPs as a complementary action to one of its SRCs, and the investment law was also part of the set of demands for the disbursement of the GGDC (see Annex 3).

[207] Joint SWD, Implementation of the European Neighbourhood Policy in Jordan: Progress in 2012 and recommendations for action, accompanying the document Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and The Committee of the Regions, European Neighbourhood Policy: Working towards a Stronger Partnership, Brussels, 20.3.2013, SWD(2013) 92 final.

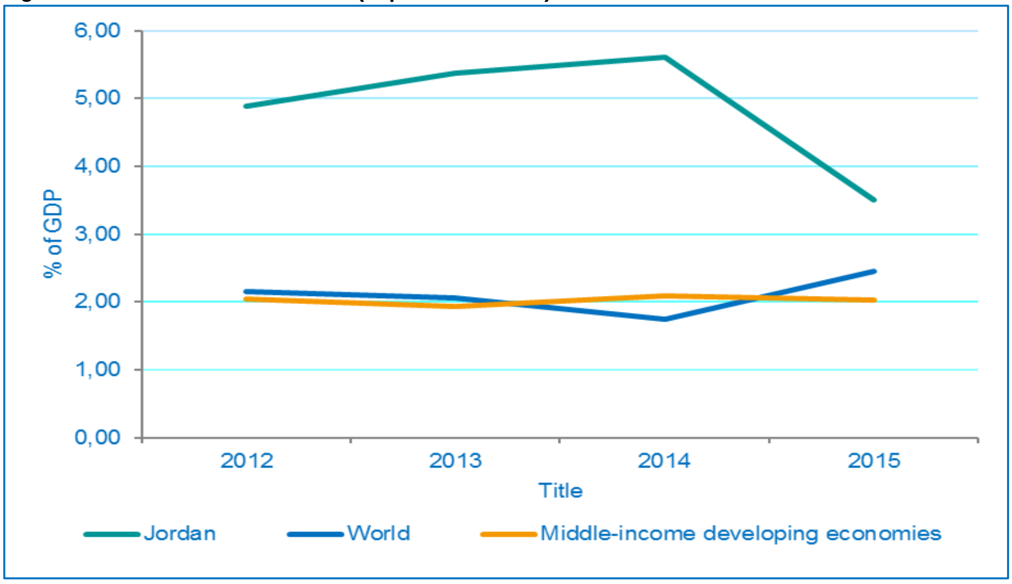
Developments 2013-2016

This section gives a brief overview of the main developments in FDI, Doing Business, private investment and EU-Jordan trade relations from the situation in 2012-2013, as described in the background section, to 2016.

Foreign direct investment

An upward trend was noted for 2012-2014, with FDI inflows being at US$2 billion in 2014 (Figure 5.3). However, in 2015 the inflow dropped to US$1.3 billion – which is lower than in 2011. In Figure A.7.3, which displays the FDI inflow in percentage of GDP, it can be seen that this decline is not in line with the global average in FDI inflow.

Figure A.7.3 FDI inflows 2012-2015 (in percent of GDP)

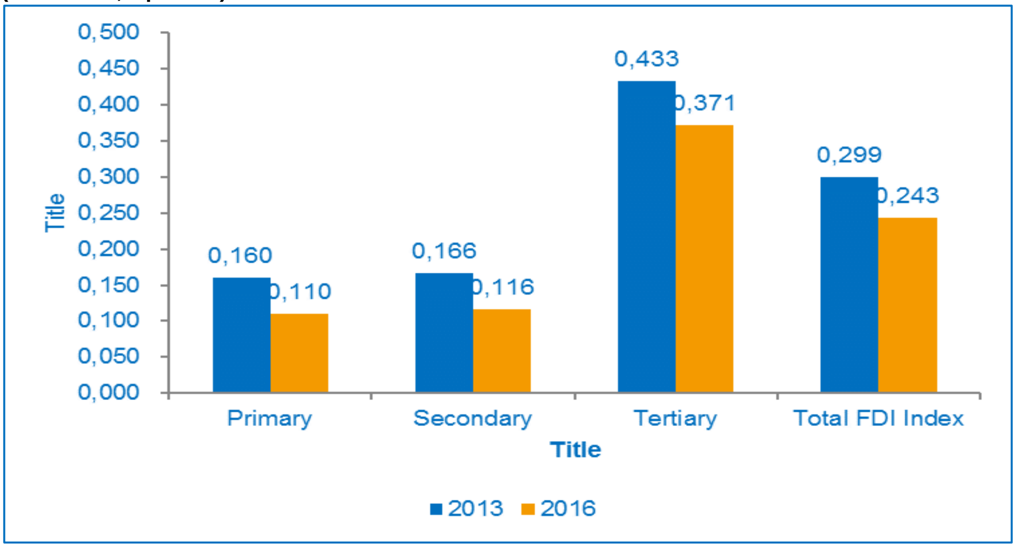


Source: UNCTAD stats, http://unctadstat.unctad.org/.

The restrictions on FDI have been reduced since 2013 (see Figure A.7.4), which could be one of the factors which have stimulated increased FDI in the country between 2012 and 2014. However, Jordan still remains a country with high restriction on FDI flows compared to other non-OECD countries.

Figure A.7.4 FDI regulatory restrictiveness index Jordan in 2013 and 2016

(Closed = 1; Open = 0)



Source: OECD.

Doing Business

In 2016, Jordan ranked 119 out of 190 on the World Bank's Ease of Doing Business list. In terms of DTF[208], the level of regulatory performance over time has slightly decreased in 2016 compared to 2013. Significant lower performance was recorded for getting electricity, which is understandable considering the disruptions in energy provision, but also for paying taxes. A noticeable improvement was made in the area of trading across borders. Progress was also made in protecting minority investors, but the DTF score for this indicator remains far from the best practice (= score of 100).

Table A.7.3 Distance to Frontier indicators 2013 and 2016

Year	DB2013	DB2016
Overall DTF	58,07	57,02
Starting a Business - DTF	84,49	84,84
Dealing with Construction Permits - DTF	64,27	68,32
Getting Electricity - DTF	83,38	77,88
Registering Property - DTF	63,46	62,18
Protecting Minority Investors - DTF	30	35
Paying Taxes - DTF	81,67	73,28
Trading across Borders - DTF	77,56	86,06
Enforcing Contracts - DTF	54,04	52,42
Resolving Insolvency - DTF	29,32	30,17

Source: World Bank Doing Business, www.doingbusiness.org.

When looking in more detail to one of the indicators, to see what has been achieved in terms of decreasing the bureaucracy burden, it can be concluded that doing business in Jordan has not become more efficient. Jordan is on the 98th position on Starting a Business in 2016 and when looking at specific indicators, only small progress has been established between 2013 and 2016 (Table A.7.4). The costs of starting a business expressed in the percent of income per capita for men decreased, but the other indicators remained the same. This suggests administrative challenges for entrepreneurs still persist.

208 The distance to frontier score captures the gap between an economy's performance and a measure of best practice across the entire sample of 41 indicators for 10 Doing Business topics. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier.

Table A.7.4 Starting a Business indicators for 2013 and 2016

Year	DB2013	DB2016
Starting a Business - Procedure – Men (number)	7	7
Starting a Business - Time – Men (days)	12	12
Starting a Business - Cost – Men (% of income per capita)	23,4	20,7
Starting a Business - Procedure – Women (number)	8	8
Starting a Business - Time – Women (days)	13	13

Source: World Bank Doing Business, www.doingbusiness.org.

Public-private investments

As described in Chapter 5.3, a new PPP law was adopted, which improved the legislative framework for closing PPPs. In addition, progress has been made in the institutional framework surrounding PPPs. The PPIAF has benchmarked PPP procurement globally, to assess how well governments prepare, procure and manage PPPs. The benchmarking of PPP Procurement 2017 demonstrates that Jordan scored relatively well on procuring PPPs (78 out of 100), but improvements are still to be made in the areas of PPP contract management (43 out of 100) and preparation of PPPs (29 out of 100).[209]

In terms of PPP contracts, since 2013 up to 2016, all conditions of a financing agreement have been fulfilled for 15 PPPs (see table 3). All but one are linked to the energy sector. The PPPs for 2013 and 2014 would have been part of the old regime. A large number of PPPs (8) were agreed upon in 2015. They are all linked to solar power plants.

Table A.7.5 Overview financially closed PPPs 2013-2016

Year	Month	Project
2013	January	Al Manakher Tri-Fuel Power Plant (IPP3)
2013	November	Tafila Wind Farm
2014	November	EJRE Solar PV Plant
2014	November	Oryx Solar PV Plant
2014	June	Queen Alia International Airport – Phase II
2014	October	SunEdison Ma'an Solar Power Project
2015	May	Al Ward Al Joury Solar PV Plant
2015	May	Al Zahrat Al Salam Solar PV Plant
2015	May	Al Zanbaq Solar PV Plant
2015	May	Arabia One Solar PV Power Plant
2015	May	Falcon Ma'an Solar PV Plant
2015	May	Jordan Solar One PV Power Plant
2015	January	Shams Ma'an PV Solar Power Plant
2015	April	Shamsuna Solar PV Power Plant
2016	June	Mafraq FRV 50MW solar

Source: World Bank Private Participation in Infrastructure (PPI) database, http://ppi.worldbank.org/data.

Ten projects are said to be in the pipeline, of which two smaller ones (under JD 15 million) and eight large ones. The database about the projects is still under construction and seemingly cover a wider range of projects, such as a bridge to West Bank, community colleges and hospitals.

[209] World Bank PPIAF, Benchmarking Public-Private Partnerships Procurement 2017: Benchmarking PPP Procurement: Assessing Government Capability to Prepare, Procure and Manage PPPs.

Trade EU-Jordan

Since 2012, it can be witnessed that the value of EU imports, i.e. goods and services from Jordan to the EU, has hardly changed. In contrast, the value of exports has grown with EUR 600 million. This has led to a further increase in the trade surplus of the EU towards Jordan.

Table A.7.6 EU – Jordan trade flows and balance (in EUR millions)

Year	Value of imports	Value of exports	Balance
2012	335	3,448	3,112
2013	353	3,714	3,361
2014	338	3,678	3,341
2015	386	3,984	3,599
2016	338	4,058	3,719

Source: EU, Trading goods with Jordan, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113404.pdf.

While some progress has been made towards preparations of the ACAA negotiations, it was expected that the fulfilment of these actions would not have a short-term result. On July 19th 2016, the EU and Jordan reached an agreement on the relaxation on the regime for rules of origin. The rules specifically target products which involve the employment of Syrian refugees. These products can now be exported more easily to the EU under very generous tariff rates or even without any tariffs. On 19th December 2016 the decision was formally taken to temporarily relax the rules of origin between Jordan and the EU at the EU-Jordan Association Council. A launch event on the "Relaxation of the EU-Jordan Rules of Origin Agreement" was held in May 2017.[210] The temporary relaxation is planned for a duration of ten years, and expires on 31 December 2026.[211]

Role of the structural reforms targeted by the conditions

The conditions related to the investment framework specifically targeted legislative reforms in order to make the regulatory and institutional investment regime more efficient and centralised.

The implementation of the Investment Law, largely taking into consideration the recommendations of the OECD, was considered fulfilled, although it was recognized that the law was not yet perfect. A research study done by the UK Government, Adam Smith International and Identity Center pointed at some weaknesses of the Investment Law, which may partly explain why the FDI inflow as well as doing business indicators have not shown major improvements yet. The law may focus too much on offering tax exemptions to attract investments rather than improving overall investment climate. The Government tends to grant these favours without sufficient linkage to the performance of the investor.[212] Another assessed shortcoming in the investment law is that the law grants incentives to particular sectors, not taking into account company size. This crowds out smaller investors from these sectors. Improvements have been made in streamlining the industrial and free economic zones in Jordan, implementing a 5 percent flat income tax for all zones. However, the advantages of the zones to the local communities remain disputable.[213] The WTO Trade Review 2016 mentioned both the Investment Law and PPP Law as key reforms since 2008. The WTO Trade Review confirmed the Investment Law brought all agencies responsible for investment issues under one umbrella, which has simplified the process; but the Review also pointed out that the Law still contains some restrictions on FDI or even prohibits foreign investments in some areas.[214]

210 Euromed Invest, Launch Event on Business Opportunities in Jordan, http://www.euromedinvest.eu/en/trade-business-opportunities-jordan.

211 European Commission: Jordan, https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/jordan_en.

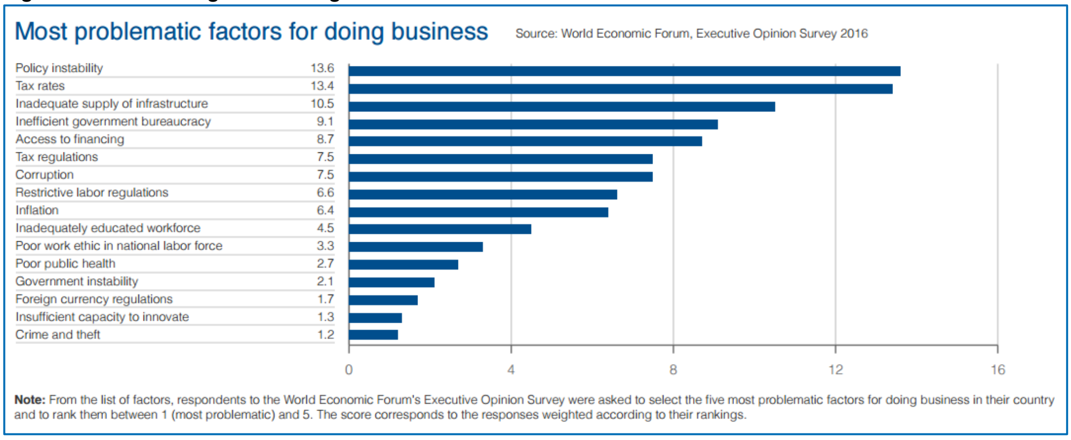
212 Rethinking investment in Jordan, UK Government, Adam Smith International, Identity Center, http://www.identity-center.org/sites/default/files/Rethink%20Investment%20in%20Jordan_English.pdf.

213 Ibidem.

214 World Trade Organization, Trade Policy Review: Report by the Secretariat: Jordan, WT/TPR/S/325, 13 October 2015.

In addition, while the legislative reforms were deemed necessary, and the adoption of the Investment Law is seen as a step in the right direction, issues with transparency and little public access to information remain a problem, as well as the hidden costs of doing business, caused by bureaucracy and conflicting procedures.[215] The Global Competitiveness report indicates also that policy instability is still one of the main factors that hinder doing business in Jordan (Figure A.7.5). This is partly the effect of regional instability, but investors also specifically point at insecurities surrounding legislation.[216] In this regard, the Investment Law tackles one of the main obstacles by being a positive step towards more clarity, but other relevant regulations, such as the pending income tax law leads to insecurity. Tax rates still seem to be an obstacle, regardless of the incentives available. Participants in the research carried out by the UK, Adam Smith and the Identity Center also stated that the main problem was the lack of clarity in tax legislation rather than the value of the tax imposed.[217] The importance of infrastructure is also emphasised by Figure A.7.5. A lower score on getting electricity affects investor's appetite. Investors are worried as well about the availability of trained labour and bureaucracy.[218]

Figure A.7.5 Challenges for doing business in Jordan



Source: Klaus Schwab, The Global Competitiveness Report 2016–2017, World Economic Forum, http://www3.weforum.org/docs/GCR2016-017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf.

During the first focus group meeting in March 2017, a similar conclusion was reached that legislation is relatively satisfactory, but implementation less so. The investment law is perceived as good, but key bottlenecks exist in creating access to finance and mismanagement of resources. Government intervention should be more based on gap identification.

As regards to PPP, follow up of the legal reforms has been slow. Although the legislation is now in place, little tangible progress had been made in 2016.[219] The World Bank Independent Evaluation Group (IEG) reported in June 2016 that "the PPP law, by-laws, and implementing regulations are in place and the PPP unit has been established. However, the PPP law has not been applied as envisaged because a pipeline of projects has not yet been identified."[220] The World Bank's objective to establish a suitable legal environment to regulate PPPs was considered partially achieved.

At the time of the negotiations about the MoU, the PPP law did not appear to be a key current priority of the Jordanian Government. The need for private capital was at the time of adopting the PPP law also relatively low, since large amounts of support of the GCC were flowing in. The IMF

---

215 Rethinking investment in Jordan, UK Government, Adam Smith International, Identity Center.

216 Omar Obeidat, "Foreign Investors Interested in Jordan, but want more stable legislation", Jordan Times 16-01-2016.

217 Rethinking investment in Jordan, UK Government, Adam Smith International, Identity Center, http://www.identity-center.org/sites/default/files/Rethink%20Investment%20in%20Jordan_English.pdf.

218 Ibidem.

219 Partnerships Bulletins, Country Watch: Jordan, 1 March 2016, http://www.partnershipsbulletin.com/features/view/1320.

220 Completion and Learning Review Jordan, June 2016, https://ieg.worldbankgroup.org/Data/reports/clr_jordan_0716.pdf.

also warned Jordan in its seventh and final review of its SBA (August 2015) to take PPP's risks and contingent liabilities into account.[221] The IMF stated that a strategic partnership with the private sector is important and should go beyond PPP. In the context of debt sustainability, encouraging PPPs does entail certain risks and may not be entirely in line with the objective of fiscal consolidation.[222]

Condition 8 targeted a very specific area, in order to facilitate the preparations of the negotiations for the ACAA. The Annex to the Joint Proposal for a council decision on the Union position with regard to the adoption of EU-Jordan Partnership Priorities and Compact of 2016 states that Jordan "has advanced well in the ACAA preparations and approximation to EU legislation in the selected sectors, even if some technical support might still be needed". It recommended expert level stock-taking to be done, after which ACAA negotiations could be launched.[223]

However, the ACAA process is moving very slowly. It is considered heavy and complicated, and lighter options are being considered. This amended law is only a part of the preparations for launching of the ACAA negotiations, so there is still a long way to go. So far, they have hardly any effect on the volume of export. ACAA negotiations can still not be launched, as further preparation measures have to be taken. At the time of formulation of the MoU, it was decided not to include a condition to adopt a complementary law on the establishment of an independent accreditation body. That may still be necessary, as well as other pre-conditions.

Moreover, new EU legislation has been endorsed and other legislation amended; as a result Jordan needs to update its approximated horizontal and vertical legislation relevant to the scope of the ACAA. Another round of harmonization needs to take place. Due to the fact that Jordan does not have access to information on the revision process of EU legislation, there will always be a gap in the approximated legislation.[224]

Lastly, the perception of relevance of the ACAA to Jordan is not very strong. Initially, it was proposed by the Government to eliminate this condition. This may also be related to the fact that the Parliament, and not the Government, was the main actor to take action – and thus achievement of this condition was to some extent outside the Government's authority to act upon. It should also be remembered that the amendments took years to be approved.

Conclusion

While the MFA conditions in the area of investment framework and trade were relevant in the light of the background context in Jordan, they did not yet lead to major outcomes yet. Many challenges in the investment framework are yet to be addressed, as the investment law – while being a step in the right direction – only covers part of the issues. The adoption of the PPP law became less important in 2013, as grants from GCC were received – which were preferred above PPPs as they do not include a liability and risk element. However, an increased number of PPPs was signed in 2015 – although limited to one sector (solar power). All the above took place in a difficult context for investments due to regional instability and the fall of oil prices which reduced significantly the appetite for investments by the oil producing countries of the Gulf, Jordan's traditional trade and investment partners.

[221] IMF, Seventh and Final Review under the Stand-By Arrangement and Proposal for Post-Program Monitoring—Press Release; Staff Report; and Statement by the Executive Director For Jordan, IMF Country Report No. 15/225, August 2015.

[222] Comments on MoU by EUD.

[223] Annex to the Joint Proposal for a Council Decision on the Union position within the Association Council set up by the Euro-Mediterranean Agreement establishing an association between the European Communities and their Member States, of the one part, and the Hashemite Kingdom of Jordan, of the other part, with regard to the adoption of EU-Jordan Partnership Priorities and annexed Compact, Brussels, 19.9.2016, JOIN(2016) 41 final ANNEX 1.

[224] Jordan's Progress Report 2016, State of Play on Agreement on Conformity Assessment and Acceptance of Industrial products (ACAAs).

The MFA led to a concrete action in the process towards starting negotiations on the ACAA – but in the meantime, the significance of this result became less strong, as EU legislation has changed in the meantime which requires Jordan to take additional steps. It was not foreseen that the condition related to the ACAA would lead to direct effects with regard to trade between the EU and Jordan, as this is a multi-year process. The changes in the rules of origin potentially have larger effects on the expert of Jordan to the EU.

Case study 2: Energy reform

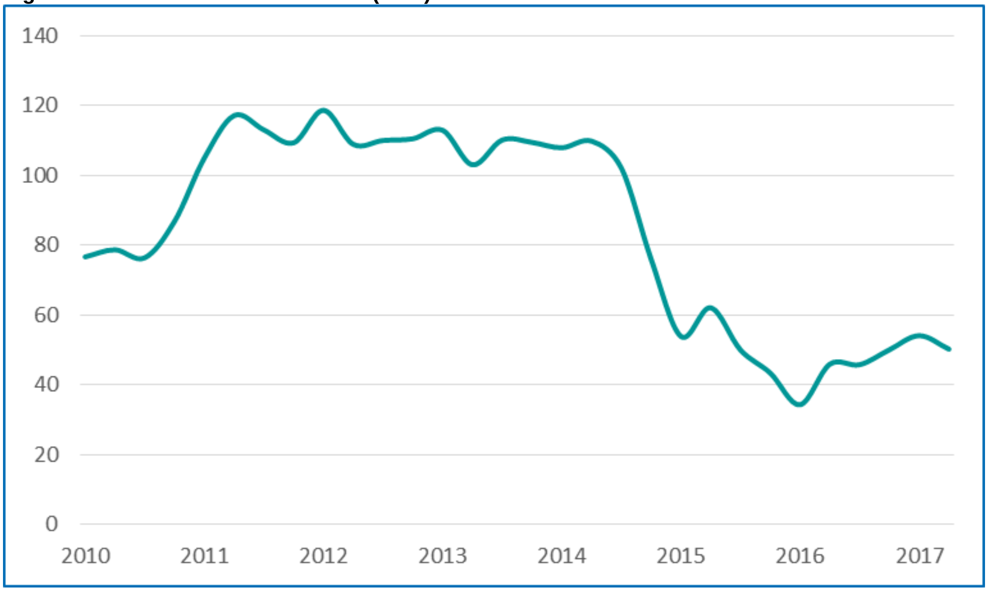
The second case study of this evaluation deals with Jordan's energy sector and its reform process, which is related mostly to the fourth and the last condition of the MoU (the National Unified Registry and the National Energy Efficiency Action Plan). The first part of the case study deals with the initial conditions affecting the country's energy sector up to 2012, then it continues with the list of various government and IFI initiatives for the energy reform, in particular the adoption of the first NEEAP, which is also examined in this section. This case study also puts an emphasis on NEPCO's situation, and examines the social aspects of the energy reform process, giving an overview of the measures aimed at mitigating the unwanted consequences of the energy reform.

List of challenges in Jordan's energy sector

Jordan's energy sector constitutes an important public service, which has been challenged heavily in the past decade. Prices in the country's energy sector have long been subsidized, which made the public finances particularly vulnerable to fluctuations in energy prices. Developments in the energy sector have become major drivers of the country's fiscal position, making the energy reform process a fiscal issue in essence.[225] At the same time, however, the aim of removing these subsidies has also given rise to a list of social challenges, which can be considered a secondary, but still a major theme of the energy reforms.

The fiscal unsustainability of Jordan's energy policy became most apparent in 2011 with the outbreak of the Arab Spring. First, this was a time, when energy prices were high, as the Brent crude traded above USD 100 per barrel (see Figure A.**7.6**.)

Figure A.7.6 Price of Brent crude oil (USD)

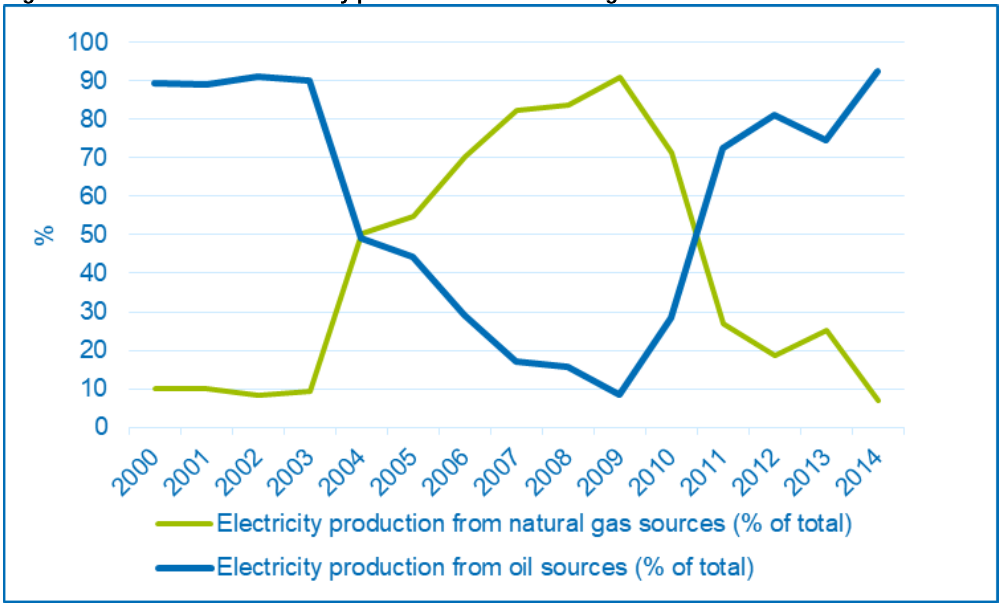


Source: Bloomberg.

[225] This statement was also supported by the first focus group session.

Furthermore, the events in Egypt led to frequent disruptions to the flow of piped natural gas. This was a major issue, as the natural gas coming from Egypt was the primary source of Jordan's power generation in 2011, and this situation forced the country to substitute this with more expensive and less efficient diesel and heavy fuel oil (see Figure A.7.7). This situation put additional strain on the budget by increasing the fiscal deficit as detailed in Section 5.2. Further exacerbating this issue was the large influx of refugees, leading to an increased consumption of energy and water, which led to additional strain on the energy sector and the budget.

Figure A.7.7 The shift of electricity production from natural gas to oil sources[226]



Source: World Bank.

Initially, the authorities decided not to pass-through the higher costs to the public in fear of its imminent social consequences. As a result, the losses at NEPCO, which is the primary and state-owned supplier in the electricity sector, have risen sharply. Its annual deficits were as high as 4-5 percent of GDP between 2011 and 2014, and the accumulating debt reached JD 4.7 billion by end-2014. The associated debt service was covered by the general public budget.

The situation at the time looks even more challenging, when the situation of the Water Authority of Jordan (WAJ) is taken into consideration as well. The WAJ is one of the largest consumers of electricity in Jordan and was exposed to similar shocks as the energy sector. Similarly to the electricity sector, the water sector was generating large losses at the time: its deficit amounted to about 1.2 percent of GDP in 2014.

The root problem with Jordan's energy sector was a lack of a transparent and sustainable pricing mechanism, which could reflect the changing external conditions in retail prices. The sector also had a low level of diversification in the sources of energy, which pronounced its vulnerability to fuel price shocks, as the option for alternatives was very limited. The unsustainability of the energy price subsidies was obvious by 2012, and the IMF estimated that the fiscal costs of fuel price subsidies would have amounted to close to 4 percent of GDP in the coming years, if no actions were taken. Thus, it was made clear by these projections that the GoJ must embark on a subsidy reform programme.

[226] Recent data was unavailable at the time of the evaluation.

Government objectives

In response to the long-standing issues in Jordan's energy sector, both the GoJ and the IFIs have set up a list of goals and benchmarks to achieve in the medium term. The reform program's primary objective was to address the vulnerabilities of the energy sector and to ensure its sustainability. In this respect, the key elements of the structural reform program were the following:

- Adjusting electricity tariffs and managing NEPCO's financial situation;
- Diversification of the fuel supply;
- Utilizing domestic resources to diversify the mix for power generation;
- Advocating energy efficiency.

To reach these objectives, the government's energy strategy was formulated in a way that it not just aimed to provide a reliable source of energy, but also to reduce costs, since the financial situation of the sector was under pressure. In terms of advocating energy efficiency, they set a quantitative target of 20 percent improvement by 2020, while also naming the need to reduce greenhouse gas emissions.[227]

The GoJ operationalized these objectives in terms of short-term and medium-term action plans in its first NEEAP[228], which included 11 main energy efficiency measures to achieve the goal of a 7.1 percent reduction in energy consumption through the programme years. Its results will be discussed in Section 7.2.3.

IFI conditions

The government's conduct of energy policy was also determined by the conditions set by the supporting IFIs. The IMF's SBA had set up two structural benchmarks related to Jordan's energy strategy:

- Announcing a medium-term electricity and energy strategy;
- Implementing the announced tariff increases as outlined in the medium-term energy strategy.

In particular, the IMF asked for the following measures in relation to the energy and water sector reforms:

1. The authorities needed to set up an exact timetable and a list of measures to bring NEPCO back to cost recovery, while incorporating the inputs provided by the Word Bank;
2. They needed to sign a leasing agreement for a floating storage unit;
3. They were required to sign a liquefied natural gas (LNG) supply contract;
4. They needed to announce publicly their plans to reduce the losses of the water company; and
5. They were required to implement the tariff increases as per the medium-term strategy.

These goals aimed to put the country's energy sector back on a sustainable path by bringing NEPCO and other utilities, like the WAJ, back to cost recovery. The IMF's conditions overlapped with those of the EU's MFA and budget support operations in terms of energy efficiency goals and renewable energy, as discussed earlier in relation to the MFA's cross-conditionality and coherence.[229]

Returning NEPCO to cost recovery

By November 2012, the GoJ eliminated subsidies on petroleum products, except for the liquefied petroleum gas (LPG), which was deemed essential for household cooking, and was thus exempted on social concerns. The electricity price increases were envisioned to happen gradually over a period of five years (2013-2017), with the plan of bringing NEPCO's wholesale electricity tariff back

---

227 See, the Jordan Energy Efficiency Action Plan, 2013; and the Second National Energy Efficiency Action Plan (NEEAP) for the Hashemite Kingdom of Jordan, 2017-2020.

228 The first NEEAP was adopted in 2013.

229 For a detailed discussion of cross-conditions, see Annex 3.

to full cost recovery in 2017. The GoJ implemented annual tariff increases of 15 percent in 2013 and 2014, then a 7.5 percent increase followed in 2015. The halved pace of tariff increase in 2015 was a deviation from the initial plans (of 15 percent), which the GoJ justified by the fall in oil prices, citing that it eased the pressure on the sector.

In addition to the tariff increases and the more favourable oil and gas price environment, Jordan shifted to use LNG as its primary source of energy in mid-2015. Shortly after these measures, NEPCO reached operational cost-recovery in the second half of 2015, ahead of the initially planned schedule. It also maintained its operational balance in 2016, however our discussions with the MoE indicated that in 2017, NEPCO might again produce losses owing to unexpected infrastructure breakages, which require additional investment.[230]

In the years ahead, additional reforms are needed to reduce NEPCO's vulnerability to external shocks. Based on the developments of NEPCO's operational budget, the IMF estimated that its cost recovery threshold for the price of oil is at USD 51-53 per barrel.[231] Since, the price of Brent curde oil was hovering around USD 50 per barrel in 2017 (see Figure A**.7.6**), NEPCO may not be able to produce profits even if the unforeseen investments mentioned by the MoE are not accounted for. The IMF staff estimated that given the current tariff structure, its losses may reach 1.3 percent of GDP cumulatively in the coming five years.[232] To address this issue, an Automatic Tariff Adjustment Mechanism was proposed, and it is currently under implementation by the Energy and Minerals Regulatory Commission (EMRC). This mechanism regularly tracks the fuel costs and other electricity sector costs, and proposes electricity tariffs for different categories of consumers on a monthly basis.

Achievements in energy efficiency

A key theme of the GoJ's energy reform was to improve energy efficiency, and the first NEEAP was primarily concerned with this field. Its analysis can be based on two different sources: the results of an EU-funded evaluation project, and our own discussions with the MoE. The first NEEAP's evaluation was carried out in two steps: a preliminary evaluation in 2015 and a full analysis published in March 2017. The latter was an EU-funded project called "Renewable Energy & Energy Efficiency II-Technical Assistance", and this more detailed evaluation was built on the preliminary evaluation carried out by the Regional Center for Renewable Energy and Energy Efficiency. The evaluation included a quantitative assessment, which looked at various fields of the energy sector, quantifying the extent to which the original aim of attaining a 7.1 percent reduction in energy consumption by 2014 had been achieved.

On purely quantitative grounds, the main findings of the formal evaluation project show that the total completion rate of the first NEEAP's 11 measures was 40 percent.[233] Only two indicated measures were fully completed, and three others were completed partially. Six of them, however, were not implemented successfully according to the evaluation's defined thresholds. For a full overview of these measures, and their respective completion rates, refer to the table below.

---

[230] Interview with MoE during the second field visit in Amman, July 2017.
[231] IMF (2017): 2017 Article IV Consultation – Country Report No. 17/231.
[232] Ibidem.
[233] See, the Second National Energy Efficiency Action Plan (NEEAP) for the Hashemite Kingdom of Jordan, 2017-2020.

Table A.7.7 Completion rates of first NEEAP's 11 measures

#	Sector	Name of the measure	Average of 2006-2010 (GWh)	Target by 2014 (%)	Target by 2014 (GWh)	Completion rate (%)	Completion rate (GWh)
	Total Residential		**4,447**	**5.6%**	**509**	**34%**	**172**
1	Residential	Replacement of 1.5 million incandescent lamps with energy efficient lamps (CFL)			246	20%	49
2	Residential	Energy Label program for four home heaters			91	100%	91
3	Residential	Installation of 30000 Solar water heaters			147	10%	15
4	Residential	Survey of energy consumption in Residential sector by the end of 2012				100%	
5	Residential	Installation of 5162 Solar water heaters in cooperation with the Jordan River Foundation			25	70%	17
6	Industrial	Mobile Energy and Environment Clinic	3,013	3.3%	100	80%	80
7	Commercial	Replacement of conventional Ballasts by Electronic Ballasts for fluorescent Lamps	1,875	2.7%	50	30%	15
8	Water Pumping	Phase 1 - Improvement of Energy Efficiency of the Water Authority of Jordan (IEE) & Phase 2 (EEP)	1,668	5.1%	85	40%	34
9	Street Lighting	Replacement of Mercury lamps by efficient lamps & use of Automatic street lighting contros & voltage regulators	288	6.6%	19	60%	11
10	Public sector	Reduce the consumption of public buildings by 10%			33	30%	10
11	Public sector	Replacement of 50000 of incandescent lamps with compact fluorescent lamps (CFL)			9	10%	1
	Total of 11 measures		**11,291**	**7.1%**	**806**	**40%**	**324**

Source: Jordan Renewable Energy and Energy Efficiency Fund.

However, in addition to the aforementioned results, qualitative tools were also employed in the analysis of the first NEEAP, such as surveys for assessing the subjective quality of the measures. Based on these sources, the evaluation noted that many energy efficiency policies had in fact been implemented successfully, even if these did not appear in the quantifiable measures. Of particular relevance was the adoption of specific laws on energy efficiency and renewable energy, as well as the launch of the Jordanian Renewable Energy and Energy Efficiency Fund (JREEEF).

The evaluation document summarized the key achievements in Jordan's energy sector with the following milestones:

1. Total elimination of all subsidies for oil products;
2. Adoption of the first NEEAP;
3. Formulation of minimum energy performance standards for household appliances.

It was also noted, however, that the implementation has room for improvement, and the GoJ should make steps to strengthen the process. They should strive to better capitalize on the energy efficiency policies, and ensure a better coordination among the stakeholders.

In contrast to these findings, our second source for assessing the first NEEAP draws a more positive picture of these achievements. Our discussions with the MoE showed that the local authorities considered the first NEEAP to be broadly successful. The MoE praised the cooperation between the various ministries and other agencies, and stated that this first phase also included the necessary learning curve, which will mostly bear fruit in the second NEEAP.[234]

Social aspects of the energy reforms

As detailed in Section 5.4, poverty is a long-standing social issue in Jordan, and a large portion of the population is concentrated near the national poverty line. Accordingly, any reforms involving the elimination of subsidies relating to energy and water can have far-reaching effects, if not mitigated properly.

To minimize the adverse social effects of the elimination of energy subsidies, the authorities introduced a number of mitigating social policies. First, it put in place a cash transfer scheme in 2012 – the fuel compensation cash transfer programme to households, which involved around 70 percent of the population. Second, the GoJ set a ceiling for electricity price increases for household consumption below 600 kWh,[235] which means that only 9 percent of households (who consumed

[234] We acquired this information from our second interview with the MoE on July 25, 2017 in Amman.

[235] See http://documents.worldbank.org/curated/en/553841468185044324/pdf/94786-PGD-P154299-R2015-0165-1-Box393189B-OUO-9.pdf.

more than the threshold) were fully affected. Finally, in addition to these measures, the authorities also introduced the NUR with the aim of improving the targeting of these transfers, and better mitigating the social impact of electricity and water tariff reforms.

However, the potential of these mitigating measures cannot be fully evaluated, because they hardly became effective during the analysed years. For instance, the fuel compensation cash transfers were only available to households when the price of oil exceeded USD 100 per barrel. Accordingly, no payments were actually made from late 2014 onwards due to the drop in oil prices. Therefore, the NUR was not actively used for its initial purpose.

Many of the GoJ's first NEEAP's social policy initiatives were pilot projects that targeted the vulnerable groups. Our discussions with the MoE revealed that more broad-based measures are only in the process of formalization for the second NEEAP.[236]

Conclusion

High energy prices, unsustainable subsidies and disruptions to the flow of natural gas during 2011-12 made a far-reaching energy reform in Jordan inevitable. This process was primarily motivated by fiscal concerns, as the deficit of NEPCO strained the budget heavily up to 2014. Jordan had to bring NEPCO back to cost-recovery by increasing energy prices. However, eliminating the energy subsidies gave rise to social protests as well. Fortunately for Jordan, the external conditions changed favourably in the second semester of 2014, when energy prices tumbled, enabling for a smoother energy reform process with less severe social strains than originally anticipated.

In addition to ensuring financial sustainability in the near-crisis period, the GoJ had to take steps to reduce the likelihood of the situation recurring by reducing the energy sector vulnerabilities through elevating the sector's efficiency and diversifying the sources of energy. In this respect, Jordan's energy sector has become a lot more diversified than it was in 2013, as more sources were utilised. This has greatly contributed to making the economy more resilient to energy supply shocks.

The IMF SBA set clear goals in all of the aforementioned aspects, which largely overlapped with the conditions of the EU programmes, including the MFA. However, the NEEAP was evaluated to have only reached 40 percent of the 2014 targets. On the other hand, the IMF's structural benchmarks were broadly met on time, and the MoE praised the accomplishments so far. The remaining challenges are expected to be addressed in the second NEEAP, which is to be implemented during 2017-2020.

[236] We acquired this information from our second interview with the MoE on July 25, 2017 in Amman.

Annex 8: MFA-I operation timeline

Table A.8.1 Timeline and milestones with the corresponding documents from EC

Date	Event	Comment	Corresponding document from European Commission
2012 December	Official request for MFA from Jordan to EU	Original request: EUR200mn, mid-term loans	Annex in Note to the EFC (see below)
2013 February	ECFIN Proposal prepared, presented to and endorsed by the Economic and Financial Committee (EFC)	EFC endorsement of EUR180 (as in Note), no changes proposed	Proposal for Macro-financial assistance to the Hashemite Kingdom of Jordan for 2013-2014, note for the Economic and Financial Committee, 11 February 2013.
2013 April	The Commission adopted the proposal and submitted it to the Parliament and the Council on 29 April 2013.		Proposal for a Decision of the European Parliament and of the Council providing macro-financial assistance to the Hashemite Kingdom of Jordan, 29 April 2013 (COM(2013) 242 final). Commission Staff Working Document (SWD): Ex-ante evaluation statement on EU macro-financial assistance to the Hashemite Kingdom of Jordan, 29 April 2013 (SWD(2013) 151 final).
2013 April – December	Decision adopted by the European Parliament and the Council under the ordinary legislative procedure	The Committee on International Trade (INTA) of the European Parliament approved the Commission proposal before the vote of the Parliament plenary and the Council approval.	
2013 December	The Presidents of the EP and the Council signed the decision to provide MFA to Jordan on 11 December 2013, the decision was published in the Official Journal of 18 December 2013 and entered into force three days later.	With the entry into force of the decision, the negotiations on the MoU EU-Jordan could officially start.	Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 on providing macro-financial assistance to the Hashemite Kingdom of Jordan, 18 December 2013.
2013 April – 2014 March	After the adoption of the decision by the European Parliament and the Council in December 2013, the official negotiations on	In parallel to the legislative procedure regarding the adoption of the decision, the Commission started informal negotiations with	

Date	Event	Comment	Corresponding document from European Commission
	the MoU could start. The MoU was signed by the Commission and Jordan following an inter-service consultation within the Commission and a subsequent consultation of the Member State Committee on MFA.	the Jordanian authorities on the MoU.	
2013 June	ECFIN mission to Amman to negotiate MoU	In parallel with adoption procedure of the MFA proposal Proposed conditions are almost the same as in the final	ECFIN mission to Amman to negotiate the Memorandum of Understanding and Loan Facility Agreement for the proposed MFA to Jordan (9-13 June 2013), 28 June 2013.
2013 October	Independent ex-ante assessment of the PFM system in Jordan	By BDO, PFM is broadly in line, no major risks posed	Operational Assessment of the financial processes and procedures in the Hashemite Kingdom of Jordan, October 2013.
2014 March	Loan Facility Agreement (LFA) and MoU signed.	The MoU was signed by Commission Vice-President Rehn on behalf of the EU and the Minister of Finance and the Governor of the National Bank on behalf of Jordan.	Macro-financial assistance for the Hashemite Kingdom of Jordan: Loan Facility Agreement 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, 18 March 2014. Memorandum of Understanding between the European Union as Leader and the Hashemite Kingdom of Jordan as Borrower and the Central Bank of Jordan as Agent to the Borrower, 18 March 2014.
2014 May	The Jordanian Minister of Justice sent a letter (so called Legal Opinion) to the Commission confirming that the LFA is in compliance with Jordanian law.	The Legal Opinion by the Jordanian Minister of Justice is necessary for the entry into force of the LFA.	
2014 June	Independent legal expert hired by Commission has reservations (no	Jordan internal legislation prohibits public debt to go beyond 80% of GDP (has been exceeding the threshold since 2012,	

Date	Event	Comment	Corresponding document from European Commission
	positive legal opinion provided)	overlooked by IMF and other creditors),	
		In view of the threshold for public debt, the Commission asked the Jordanian government for more clarifications.	
2014 October	The Jordanian Government modifies the public debt threshold.	The modification of the public debt threshold causes a delay of 6 months.	
2014 November – 2015 February	The Commission Release Decision and the Commission Borrowing Decision on the first instalment of MFA to Jordan (EUR 100 mn) were adopted on 10 February 2015. Commission consults the market on borrowing terms, communicates with MoF in Jordan about conditions, and disburses on the agreed terms.	ECFIN (L4) needs 3 weeks to explore the market (Christmas period!), tries to merge borrowings to get better rates (if agreed by MFA recipients).	Macro-financial assistance to the Hashemite Kingdom of Jordan: Disbursement of the First instalment, information note to the European Parliament and to the Council, 12 February 2015
	Release of first instalment in February 2015 (EUR100 mn).	ECFIN informs EP & Council about disbursement through a Note	
2015 May	ECFIN visit to Amman to review compliance with conditions for the disbursement of the second instalment.	Concluded that Jordan's compliance with the policy conditions was not satisfactory as the fulfilment of two out of nine were still pending: adoption of the Audit Bureau law and the amended law on Standardization and Metrology.	Report on ED and MFA review mission Amman May 2015 Ares, 10 July 2015.
	Letter from Commission to MoF Jordan about the second instalment.	Official communication about the non-compliance with MoU conditions	Letter to Mr Al-Kharabsheh, 27 May 2015.
2015 June	Jordan Parliament adopted the amended law on Standardization and Metrology during	All but the Audit Bureau Law is missing from conditions, but IMF	

Date	Event	Comment	Corresponding document from European Commission
	its extraordinary session	programme review sees SBA on track	
	Following the review by the Commission of the compliance with the specific conditions of the MoU, the Member State Committee does not object to the waiver for the condition on the Audit Bureau and an information note on the release of the second instalment is sent to the European Parliament and the Council		Macro-financial assistance to the Hashemite Kingdom of Jordan: Review of Compliance with Policy Conditions Disbursement of Second Tranche, 7 August 2015.
2015 August	The Commission Release Decision and the Commission Borrowing Decision on the second instalment of MFA to Jordan were adopted on 7 August 2015. Subsequently, the second instalment is disbursed in October 2015.	EUR80mn, after the same procedure as with the first tranche (exploring the market, communicating terms with MoF Jordan etc.)	

P.O. Box 4175
3006 AD Rotterdam
The Netherlands

Watermanweg 44
3067 GG Rotterdam
The Netherlands

T +31 (0)10 453 88 00
F +31 (0)10 453 07 68
E netherlands@ecorys.com
Registration no. 24316726
W www.ecorys.nl

Sound analysis, inspiring ideas