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EVALUATION

of the

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

{SWD(2018) 389 final}

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Glossary

Term	Meaning or definition
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

1. INTRODUCTION

Purpose of the evaluation

This Staff Working Document presents an assessment of the first Macro-Financial Assistance (MFA-I) programme to Jordan. It is largely based on an evaluation conducted by an external contractor and on a broad consultation process with different stakeholders including Commission specialists on this field. The aim is to assess whether the MFA-I programme delivered on its objectives of supporting this partner country in addressing its balance of payments problems as well as in implementing economic and structural reforms to stabilise its economy and to enhance the sustainability of its external position. Its purpose is to inform future work on the instrument and its actions.

Scope of the evaluation

The instrument of Macro-Financial Assistance (MFA) is a form of financial aid extended by the European Union (EU) to partner countries experiencing a balance of payments crisis. It takes the form of medium/long-term loans or grants, or a combination of these, and is only available to countries benefiting from a disbursing International Monetary Fund (IMF) programme. MFA is designed for countries geographically, economically and politically close to the EU. These include candidate and potential candidate countries, countries bordering the EU covered by the European Neighbourhood Policy (ENP) and, in certain circumstances, other third countries.

MFA is exceptional in nature and is mobilised on a case-by-case basis to help countries dealing with serious balance-of-payments difficulties. Its objective is to restore a sustainable external financial situation, while encouraging economic adjustments and structural reforms. MFA is intended strictly as a complement to IMF financing.

As a rule, MFA funds are paid to beneficiary countries' central banks and in general can be used however the government sees fit, be it for reserves, foreign exchange market intervention or as direct budget support. Unlike other forms of financial aid with macroeconomic objectives from the European Commission, such as the Instrument for Pre-accession, the European Neighbourhood Instrument and its predecessor (the European Neighbourhood and Partnership Instrument), or the European Development Fund, MFA is an emergency assistance measure that is not meant to provide regular financial support for economic and social development.

In December 2013 the European Parliament and the Council approved a EUR 180 million MFA operation to Jordan. The operation concluded in October 2015. The operational timeline, with key milestones, can be found at Annex 5.

Under its Financial Regulation (article 30 point 4), the European Commission (EC) is legally obliged to evaluate its main programmes, including MFA operations. More specifically in relation to the MFA-I programme to Jordan, Decision No 1351/2013/EU (OJ L 341, 18.12.2013, p. 4) states 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 objective of the evaluation of the MFA-I programme to Jordan is two-fold:

- to analyse the impact of MFA-I[1] on the economy of Jordan, and in particular on the sustainability of its external position;
- to assess the added value of the EU intervention. In general terms, the evaluation has aimed 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.

The evaluation was carried out by an external contractor and ran from 28 December 2016 until 31 October 2017; it assessed the implementation of the MFA-I programme to Jordan which covered the period December 2013 – October 2015.

The evaluation covered broadly three main areas of analysis:

Economic impact of the MFA-I operation on the economy of Jordan; with and without the involvement of the International Monetary Fund. 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 took 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) also touching upon the related social impact to specific programme conditions.

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 was to look at the net additional effects and benefits beyond what could have been achieved with other interventions by other international donors. For this reason, the scope of the analysis went beyond the pure economic impact analysed in the first area to reflect issues of complementarity and political support. As Jordan benefited from other EU financial instruments, the coherence and alignment of the MFA-I operation with them was assessed as well as the value added from implementing the MFA in addition to them.

Sustainability of the country's external position as a result of the assistance. The third focus of this evaluation was 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 position brought about by the negative shocks to the energy sector, the economic and political developments and regional 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 coherence**. In addition, following the Terms of Reference (TOR), the impact of the MFA-I on the social sector and on public debt sustainability was evaluated.

[1] 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.

2. BACKGROUND TO THE INTERVENTION

Description of the intervention and its objectives

Since early 2011, the Jordanian economy has been significantly affected by the ongoing regional unrest, notably in neighbouring Iraq and Syria. Combined with a weaker global environment, this regional unrest took a heavy toll on external receipts and strained public finances. Lower tourism and FDI inflows, blocked trade routes, and repeated disruptions to the flow of natural gas from Egypt, which forced Jordan to replace gas imports from Egypt with more expensive fuels for electricity generation, put a drag on growth and weighed on Jordan's external and fiscal position. In addition, the Syrian conflict caused an inflow of around 1.3 million[2] of Syrian refugees into Jordan. This increased pressure on Jordan's public services and infrastructure while it further deteriorated the country's balance of payments and fiscal position.

In view of the worsening economic and financial situation, the Government of Jordan requested MFA from the European Union in the amount of EUR 200 million in December 2012. The European Commission responded in April 2013 with proposing financial assistance of EUR 180 million in medium-term MFA loans with a maximum maturity of 15 years. The European Parliament and the Council adopted this proposal December 2013.[3] 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,[4] almost one year after the signature of the MoU due to delays of the Jordanian authorities in amending the Public Debt legislation. The second and final tranche of EUR 80 million was disbursed in October 2015.[5]

The assistance provided under MFA-I operation and the policy measures attached to them aimed at supporting the restoration of a sustainable external financing situation for Jordan and at enhancing structural reforms, thereby supporting its economic and social development. In parallel, the programme supported the EU agenda vis-à-vis the Jordan, notably by promoting macroeconomic and political stability in the EU's neighbourhood as well as by mitigating the spill-over effects of the Syrian crisis including the large refugee inflows.

To achieve these objectives, the MFA-I supported macroeconomic stabilisation, including as part of a coordinated international assistance package, by covering part of Jordan's external financing needs which in total amounted to USD 5.9 billion for the period 2013-2015 according to the IMF.

At the same time, MFA-I promoted comprehensive institutional and governance reforms that were needed for sustainable and balanced economic growth. In the short-term, during the lifecycle of the programme and shortly after its completion, the main expected effects were improved external and fiscal accounts and a build-up of official reserves.

2 Out of the 1.3 million only around 650,000 Syrian refugees are registered

3 See http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D1351&from=EN.

4 See http://europa.eu/rapid/press-release_IP-15-4321_en.htm.

5 See http://europa.eu/rapid/press-release_IP-15-5475_en.htm.

Jordan's External Financing Gap and Potential Financing Sources (USD mn)

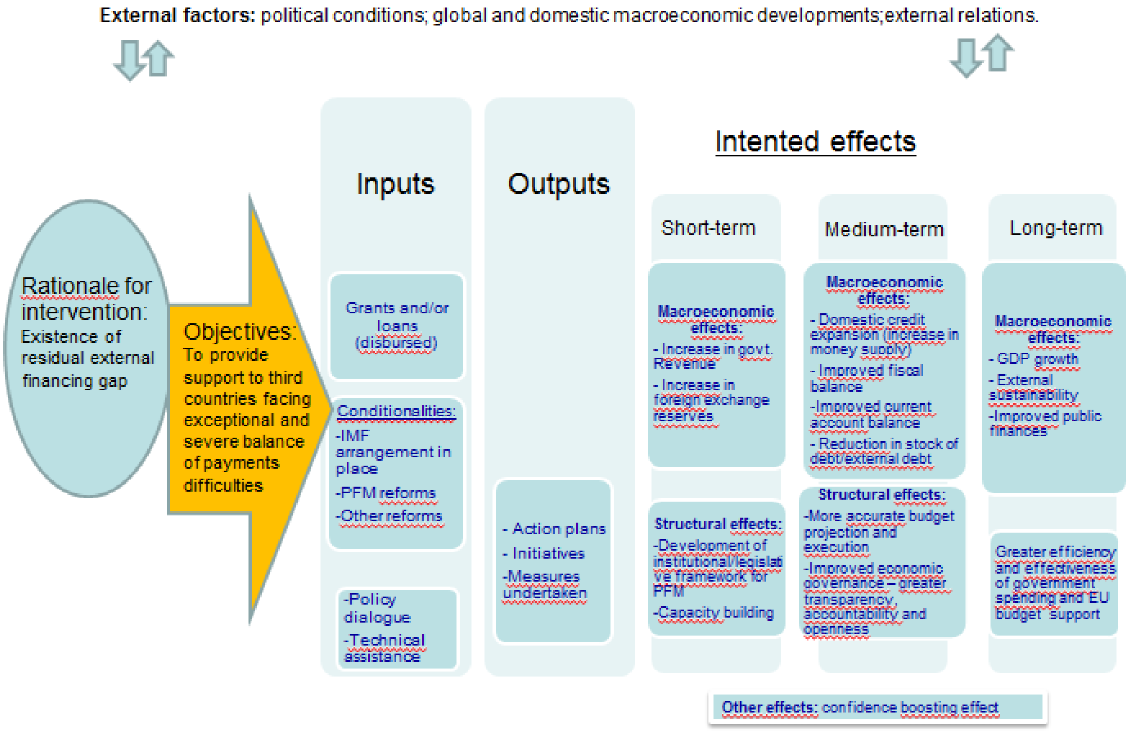
	2012	2013	2014	2015	Total 2013-15
1. Current Account Balance*	**-6,396**	**-5,317**	**-4,444**	**-3,314**	**-13,075**
2. Capital and financial account**	934	3,919	3,863	2,806	**10,588**
3. Overall balance (1+2)	-5,462	-1,398	-581	-508	**-2,487**
4. Reserves ("-" indicates increase)	3,546	-1,037	-1,222	-1,152	**-3,411**
5. Overall External Financing Gap (3+4)	**-1,916**	**-2,435**	**-1,803**	**-1,660**	**-5,898**
6. Exceptional Financing by IMF and WB					
Net IMF Disbursements	378	875	470	352	**1,697**
Disbursements of World Bank's DPL	250	100	0	0	**100**
7. Residual Financing Gap (5+6)	**-1,288**	**-1,460**	**-1,333**	**-1,308**	**-4,101**
Financing of the gap					
EU MFA	0	116	116	0	**232**
France	128	64	0	0	**64**
US bugdetary grants	334	195	184	184	**563**
Japan	65	85	25	0	**110**
GCC countries support	750	1,000	1,000	1,000	**3,000**
Arab Monetary Fund***	-22	0	0	0	**0**
Total	**1,277**	**1,460**	**1,325**	**1,184**	**3,969**
Total MFA as % of the residual gap for 2013-15					**4.4**

* Figures include EU grants financed by the ENPI and the SPRING programme and exclude US budgetary support grants and the USD 5 bn grants announced by the GCC in 2011 to be disbursed during 2012-2016 (approximately USD 1 bn per year).
** Figure for 2012 excludes disbursements under the World Bank Development Policy Loan.
*** The Arab Monetary Fund figure has been reported by the Central Bank of Jordan for past year and relates mostly to small guaranteed loans.
Source: European Commission staff estimates based on discussions with the IMF.

This was also meant to have an important confidence-boosting role. As for the medium - to long-term, the expectations were for a pick-up in economic activity, further improvement in the public finances and in external sustainability through adjustment of the current account as well as increase in capital inflows and debt reduction.

With regard to structural reforms, the overall objective was to address some of Jordan's structural and institutional weakness such as unsustainable energy sector, strengthening the capacity and governance of institutions, improving the business climate to encourage investments as well as fostering social cohesion. In this context, structural measures aimed at: improving the efficiency and independence in the external audit function, increasing fairness and revenue collection of the income tax, adopting new investment laws including a new law on public private partnerships, adopting a new energy strategy with increased energy efficiency and security of energy supply and improving the targeting of the social safety net.

The general intervention logic for MFA operations is detailed in the diagram below:



The MFA-I programme complemented a three-year Stand-By Arrangement (SBA) in the amount of USD 2 billion which was agreed between Jordan and the IMF in August 2012 and was successfully completed in August 2015.

Baseline and points of comparison

The external shocks stemming from the Syrian crisis combined with the weaker global economic environment in 2009, had grave and lasting consequences on the Jordanian economy. Following a period of relatively robust and stable growth, the real growth rate plunged from 7.2% in 2008 to 2.3% in 2010 and remained sluggish in subsequent years. On average, real growth rate declined from 7.6% in the period 2004-2009 to 2.6% in the period 2010-2016. The growth rate of GDP per capita suffered even more: by 2010 it turned negative, to -1.6 percent.[6] Unemployment, a long-standing structural problem especially in women and youth, was already in the high levels of 12.9% at the outbreak of the Syrian crisis in 2011.

On the fiscal front, tax revenues continued to shrink: Jordan's tax-to-GDP ratio has dropped by 5.5 percentage points (from 20.4% in 2007 to 14.9% in 2011) stressing the need for revenue mobilisation. On the other hand, total expenditures amounted to 33.2% of GDP in 2011 (with current expenditures being at 28% of GDP) and to 38% of GDP in 2014 (with current expenditures being at 26.4% of GDP). The three main drivers behind the hike in expenditures were: a) the lack of transparent pricing that would ensure cost-recovery and the low level of diversification in the energy sector which turned NEPCO (the electricity company) into loss-making and burdened excessively the energy-intensive Water Company of Jordan (WAJ). That led to a combined transfer of 7% of GDP in 2014 to both companies. b) the huge fuel subsidies bill which amounted to 3.1% of GDP in 2012 (last year of its implementation) and c) the cost for accommodating the Syrian refugees which was estimated to around 1%-2% of GDP according to IMF. All that contributed to fiscal deficit's surge from the pre-crisis (2000-

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

2007) average of 3.8% of GDP to an average of 7% of GDP in the period 2008-2012. In 2013, it peaked at 11.5% of GDP, making the need for fiscal consolidation urgent.

The external position of the country also deteriorated simultaneously with the increasingly heavier economic challenges that the country faced from 2011 onwards which were exacerbated by the hike in the oil prices. Thus, the current account deficit of Jordan widened from 5.2% of GDP in 2009 to 15.2% of GDP by 2012, indicating severe external imbalances. The energy imports amounted from 11.7% of GDP in 2010 to 19% of GDP in 2012 adding pressures on the balance of payments and eroding the financial position of the public utilities. FDI were severely affected by the regional instability and the slowdown of the Gulf countries which constitute a major source of investment for Jordan. On average, they declined from 12.7% of GDP in the period 2005-2010 to 4.9% of GDP in the period 2011-2016 indicating the need to improve the investment climate.

Following the rapid deterioration of the external position the foreign exchange reserves (FX reserves) of the country fell swiftly. In late 2012, FX reserves hardly covered 3 months of imports threatening the stability of the peg of the Jordanian Dinar with US Dollar. The ratio of deposit in foreign currency/total deposits amounted to 24.8% reflecting the lack of confidence in the local currency.

To prevent the unfolding balance of payment crisis the government of Jordan resorted to the SBA and MFA-I programmes as well as to other multilateral donors and to external borrowing to bridge its financing gaps and restore confidence to the economy under a negative external environment. As a result, Jordan's public debt increased from 60.1% of GDP in 2008 to 95.1% of GDP in 2016. At the same time Jordan launched an ambitious macroeconomic and structural reform agenda aiming to reduce the country's macro-economic imbalances and enhance growth.

During its implementation the MFA-I programme was constantly monitored by the Commission staff who was in close contact with the Jordanian authorities and the IMF staff. Macro-economic indicators were provided to the Commission by the relevant authorities, on a quarterly basis while information on the progress of structural reforms were shared on regular basis. The authorities provided before the release of second disbursement a report on the compliance with the structural reform criteria agreed in the MoU. The Commission staff was reporting progress in implementation following review missions. Last, the European Parliament and the Council were duly informed by a special note on the Commission's decision to execute the funds disbursements.

3. IMPLEMENTATION / STATE OF PLAY

Description of the current situation

The Jordanian authorities acknowledged the above economic challenges and through the MFA-I programme (and the IMF Stand-by Arrangement supported by it) implemented measures aiming at reducing economic imbalances, containing the country's financing needs and creating better opportunities for growth and employment.

Following an official request for Macro-Financial Assistance addressed by the Jordanian authorities to the Commission in December 2012, the Commission adopted on 29 April 2013 the proposal for the Decision to provide up to EUR 180 million in the form of loans. The Decision (No. 1351/2013/EU, O.J. L 341, 18.12.2013, p. 4-9) was adopted by the Parliament and the Council on 11 December 2013 while the Memorandum of Understanding and the relative Loan Facility Agreement were signed between the two parties in March 2014.

The release of the first tranche, of EUR 100 million, took place in February 2015 and was conditional on the IMF programme being on track, as well as on the fulfilment of the general EU political pre-conditions (transitioning towards a more democratic political system, enhancing 'parliamentary government', strengthening the rule of law and public participation and others). The delay in the release of the first disbursement mainly reflected the need for Jordan to amend its public debt legislation to ensure that public debt levels, following the disbursement of the MFA-I funds, would be compatible with the relevant legislation.

The disbursement of the second tranche (EUR 80 million) took place in October 2015 and was conditional on the IMF programme being on track in addition to the fulfilment of a set of policy conditions specified in the MoU signed by the EU and the Jordan. Eight out of nine MFA-I conditions (those on external audit, income tax law, national unified registry, investment law, public private partnership law, unemployment/maternity fund, the legislation on the Agreement on Conformity Assessment and Acceptance of industrial products and the adoption of a new energy strategy) were met. However, a waiver was granted for one condition (the adoption of the Audit Bureau law) following a consultation of the Member State Committee on MFA-I with regard to the waiver. The waiver was granted based on the fact that, while the Audit Bureau law had not been adopted, as agreed in the MoU, the authorities had taken other significant steps to strengthen external audit and the capacities of the Audit Bureau. Also, progress had been made in developing the Internal Control Units (covered by another MFA-I condition) which prepared the discontinuation of the Audit Bureau's involvement in pre-audit activities and its concentration on external audit, consistent with the provisions of the draft law on the Audit Bureau.

With regard to the rest of the MFA-I conditions, the authorities achieved a high degree of compliance. More broadly, they pursued stability-oriented macroeconomic policies and made good overall progress with structural reforms. More specifically:

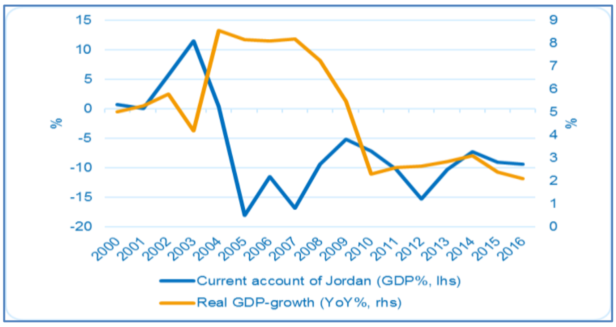
- Progress was made towards establishing a National Unified Registry (NUR) combining in a single database all potential beneficiaries of government social assistance programmes. This measure helped the selection of beneficiaries of the cash transfer scheme introduced at the end of 2012 to compensate households for the removal of fuel subsidies. However, it should be noted that despite this progress the development of NUR became relatively idle in 2014 due to steep fall of the oil prices which suspended the use of the cash scheme.
- A new income tax law was introduced although this reform could be more ambitious as the Jordanian Parliament adopted finally a watered down version of the government's draft law. Nevertheless, the new law increased progressivity and revenue collections, even though more modestly than initially envisaged, as it increased the tax rates and introduced new tax grids for individuals increasing revenue collection by 0.5% of GDP.
- The Unemployment Fund and Maternity Fund that were created in 2011 on a temporary basis became operational on a permanent basis through the adoption by the Parliament of the new social security law. This was expected to have a positive effect on Jordan's very low rate of participation of women in the labour force, even though other factors affecting it, such as low salaries and long working hours and others, remained unaddressed under the difficult economic environment.
- Jordan adopted a new law on Public Private Partnership (Law no. 31 of 2014) in line with international standards. It also adopted a new Investment Law (No. 30/2014) which unifies the regulatory framework for investments and merges the various bodies

responsible for investments. Moreover, a new legislation was adopted for granting of tax exemptions for investments and for establishing a one-stop-shop for investments.

- Also, the government adopted legislation as part of the preparations for the launching of negotiations between Jordan and the EU on the Agreement on Conformity Assessment and Acceptance (ACAA) of industrial products.
- With regard to energy efficiency and energy security, Jordan adopted the National Energy Efficiency Action Plan and several by-laws to support its targets. These measures reduced the cost of energy and diversified energy sources. The introduction of LNG fuel for electricity production along with the fall in oil prices contained the cost of energy imports to 6.2% of GDP in 2016 from 19% of GDP in 2012.

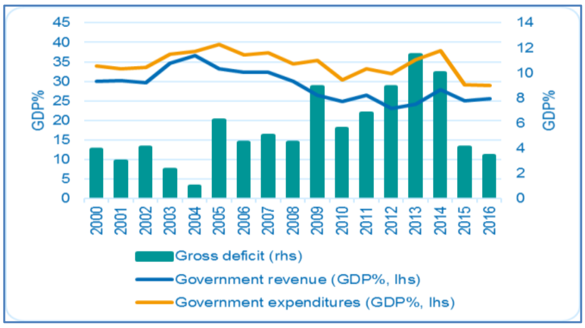
As a result of the above, the MFA-I programme had a positive contribution to the stabilisation of the Jordanian economy as it helped it to reduce its macro-economic imbalances and to increase resilience to shocks in a challenging economic environment. In 2016, the current account deficit narrowed down to 9.3% of GDP from 15.2% of GDP in 2012 helped by the fall in oil prices but also by the diversification of the energy sources (one of the targets of MFA-I conditions).

Current account balance and GDP growth



Source: IMF, CBJ.

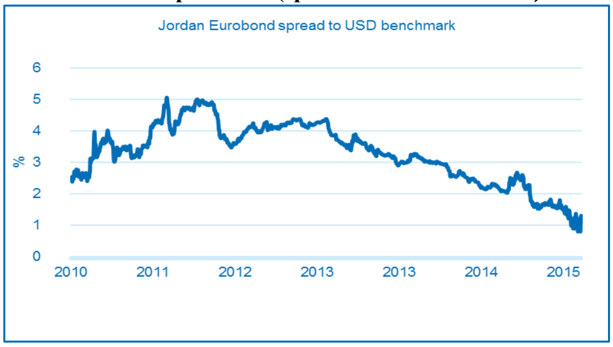
Government's revenues, expenditures and deficit



Source: MoF.

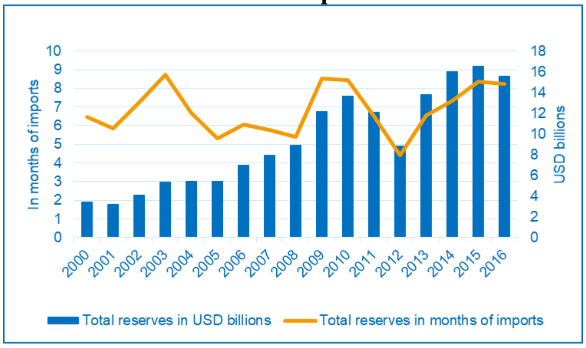
The fiscal deficit declined markedly to 3.2% of GDP in 2016 from 11.1% of GDP in 2013. Jordan's tax-to-GDP ratio improved to 15.5% of GDP in 2016 (from 14.9% in 2011) even though the need for tax reforms and further revenue mobilisation remains. Total expenditures declined markedly to 28.9% of GDP in 2016 and so did the current expenditures to 25.2% of GDP. This included a reduction of the wage bill in the public sector from 5.4% of GDP in 2012 to 5% of GDP in 2016. This reduction was based on the implementation of salary caps and employment caps in the public sector (with the exception of health, education, social security and defence sectors where more recruitment were permitted). NEPCO (electricity company) achieved a surplus of 0.4% of GDP in 2016 (first time since 2010) and WAJ's losses declined faster than planned (to reach 0.3% of GDP).

Jordan's risk premium (spread on its Eurobond[7])



Source: Bloomberg.

Total reserves in months of imports and in USD billion

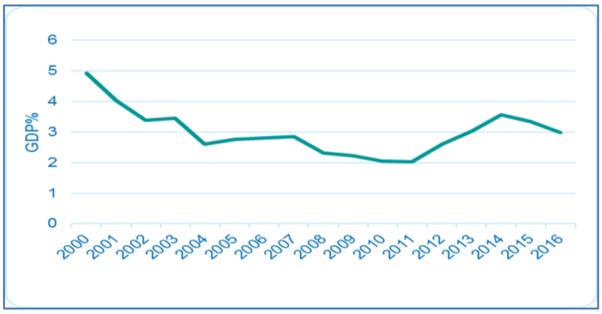


Source: CBJ.

At the end of 2016, one year after the implementation of the MFA-I programme, foreign exchange reserves were at comfortable levels around 8 months of next year's imports from 3 months in 2012. Furthermore, dollarization of the economy receded. The ratio of deposits in foreign currency/total deposits declined to 18.9% in 2016 from 24.8% in 2012 reflecting the growing confidence in the local currency.

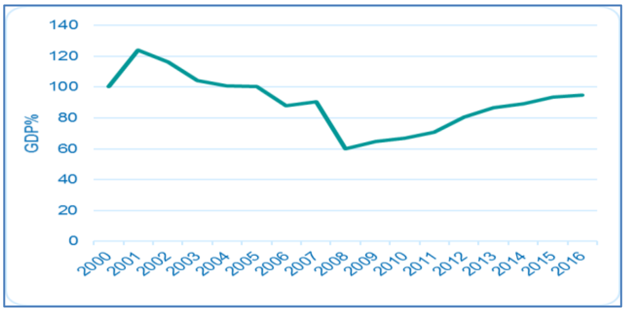
The pace of public debt accumulation had started to slow down reflecting progress in fiscal consolidation. It was estimated that public debt would start to decline from 2018 onwards. In the meantime, interest payments started already to decline reflecting the highly concessional interest rates of the MFA-I (an effective fixed weighted average interest rate of 0.97%) as well as the increase in other external financing.

Interest expenditures to GDP



Source: IMF, CBJ.

Public debt to GDP ratio



Source: IMF, CBJ.

As a result of the above, the MFA-I achieved its broad targets which were to contribute to Jordan's economic stabilisation by restoring its external position, improving the external and fiscal balances as well as replenishing its foreign reserves.

However, even though the MFA-I operation, in combination with other donors' programmes, averted a balance of payments crisis in Jordan, the economy continued to be constraint by an increasingly challenging external environment. Conflicts in Syria and Iraq intensified in 2016 keeping the borders closed and depriving Jordan from key export markets. Income from tourism, remittances as well as investments declined or remained at very low levels while the Syrian refugee inflows continued strong surpassing those of 2015. In addition, foreign grants declined mainly due to slowdown of the economic growth in Gulf countries. Unemployment surged to above 15% from around 13% in 2015 while tax revenues slowed down. In this context, improvements achieved during the MFA-I programme could not be sustained fully. Thus, growth rate fell to 2% - the lowest rate in ten years - while the current account deficit

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

recorded a slight increase creating new – but more moderate compared to the past – financing needs.

Jordan's macro-economic performance	2010	2011	2012	2013	2014	2015	2016	2017 (e)
Gross domestic product (constant prices, %)	2.3	2.6	2.7	2.8	3.1	2.4	2.0	2.3
Gross domestic product per capita (current prices, USD)	4,323	4,615	4,850	5,152	5,375	5,506	5,549	5,678
Inflation, average %	4.8	4.2	4.5	4.8	2.9	-0.9	-0.8	3.3
Unemployment rate (% of total labour force)	12.5	12.9	12.2	12.6	11.9	13.1	15.3	18.5
Population (million)	6.1	6.2	6.4	6.5	6.7	6.8	7.0	7.1
General government revenue (% of GDP)	24.9	26.4	23.0	24.1	27.9	25.0	25.6	27.9
Tax revenues (% of GDP)	15.9	14.9	15.3	15.9	16.5	15.9	15.5	15.2
Grants to the budget (% of GDP)	2.1	5.9	1.5	2.7	4.9	3.3	3.0	2.5
General government total expenditure (% of GDP)	30.4	33.2	32.0	35.3	38.0	30.1	29.0	28.6
Current expenditures (% of GDP)	25.3	28.0	28.2	25.4	26.4	24.8	25.2	24.9
Capital expenditures (% of GDP)	5.1	5.2	3.1	4.3	4.5	4.2	3.7	3.7
Transfers to NEPCO and WAJ (% of GDP)	0.0	0.0	0.3	6.0	7.0	0.1	0.0	0.0
General government balance including grants (% of GDP)	-5.6	-6.8	-8.9	-11.1	-10.3	-5.3	-3.2	-2.6
General government gross debt (% of GDP)	67.1	70.7	80.7	86.7	89.0	93.4	95.1	95.3
General government gross external debt (% of GDP)	24.6	21.9	22.5	30.0	31.6	35.3	37.5	41.5
Interest payments as % of total public debt	3.36	3.15	3.31	3.56	4.09	3.68	3.20	3.14
Exports of goods (% of GDP)	26.4	27.7	25.5	23.6	23.4	20.9	19.4	19.2
Imports of goods (% of GDP)	52.2	58.2	67.1	65.7	64.0	54.6	49.7	43.2
Oil and oil products (USD billion)	3.100	4.900	5.900	5.200	5.500	3.300	2.400	3.100
Oil and oil products (% of GDP)	11.7	17.0	19.0	15.5	15.3	8.8	6.2	7.7
Current account balance (USD billion)	-1.885	-2.960	-4.718	-3.509	-2.612	-3.415	-3.613	-3.412
Current account balance (including grants % of GDP)	-7.1	-10.3	-15.2	-10.4	-7.3	-9.1	-9.3	-8.4
Current account balance (exluding grants, % of GDP)	-11.3	-19.0	-22.1	-17.1	-12.6	-12.3	-12.6	-11.7
Foreign reserves (USD, billion)	12.449	10.755	5.299	11.449	14.973	15.678	14.499	14.778
Foreign reserves (months of prospective imports)	7.4	7.5	3.6	4.9	8.0	8.5	8.2	7.7
Short-term external public debt as % of foreign reserves	2.4	3.1	6.6	4.5	6.0	10.4	4.5	4.4
Foreign Direct Investments (USD, billion)	1.675	1.481	1.494	1.785	1.929	1.383	1.538	1.536
Foreign Direct Investments (% of GDP)	6.3	5.1	4.8	5.3	5.4	3.7	4.0	3.8
Total investment (% of GDP)	25.5	23.2	21.7	20.7	21.2	19.2	18.9	20.3
Foreign debt, private + public (% of GDP)	64.7	60.9	60.6	70.4	69.3	70.0	70.4	72.0

Source: IMF, CBJ, MoF.

In view of the deteriorating economic situation Jordan devised the 'Jordan Response Plan' to face the challenges created by the presence of the Syrian refugees and called at the international community for economic assistance. In this context, the Jordanian authorities requested a second MFA programme (MFA-II) on 3 March 2016. In line with the pledge made by the Commission at the ‘Supporting Syria and the Region’ conference held in London on 4 February 2016, the Commission adopted a proposal for a decision on a second MFA operation to Jordan on 29 June 2016 for an amount of EUR 200 million in loans. The MFA-II programme was adopted by the co-legislators on 14 December 2016. The first disbursement (EUR 100 million) of the MFA-II programme was released on 25 October 2017. The MFA-II programme complemented a follow-up IMF programme under its USD 723 million (150% of quota), 36-month Extended Fund Facility (EFF) arrangement, approved in August 2016.

4. METHOD

The methodology for evaluating the MFA-I operation was guided by the Commission’s Better Regulation Guidelines[8] and the Guidelines for the Ex-Post evaluation of Macro-Financial Assistance Operations (2015)[9] which provided a specific methodological framework.

8 See http://ec.europa.eu/smart-regulation/guidelines/docs/swd_br_guidelines_en.pdf.

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

This evaluation was supported by an assessment carried out by an external contractor from December 2016 to October 2017. The external evaluation report was supported by an Inter-Service Steering Group (ISG) through the following steps - an inception report (which explained how the evaluation design would deliver the information required), field visits to Jordan, Belgium and the United States for discussions with key stakeholders, an interim and a final report (providing responses to evaluation questions).

A mission to Washington D.C. to interview relevant IMF and World Bank representatives was conducted in March 2017. The interviews in Washington D.C. took place during the data collection phase of the evaluation. During the first field visit to Jordan, also in March 2017, the external contractors carried out 17 interviews with 39 interviewees in total. During the second field visit in Jordan (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 were treated confidential and anonymously reported to achieve the best result. At the end of the evaluation, a workshop was organised with the participation of the Jordanian authorities (through video-conference) relevant Commission services and EEAS staff to ensure the dissemination of the evaluation conclusions to the parties involved.

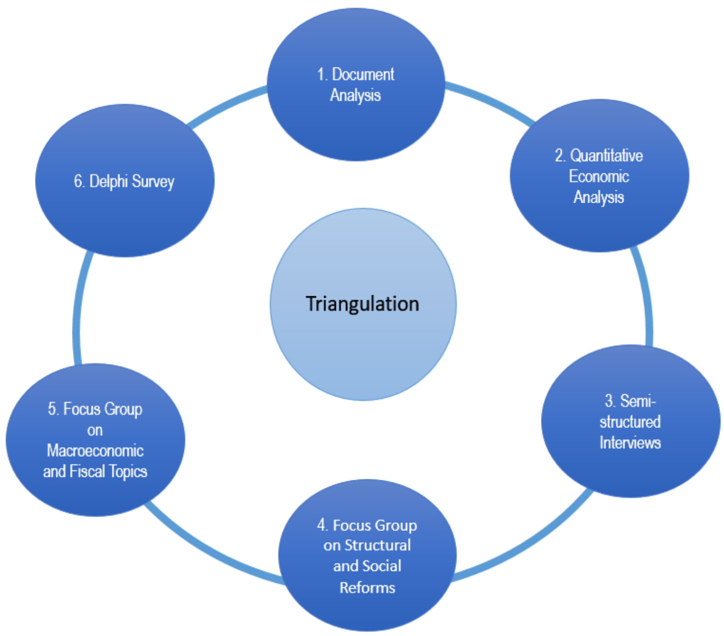
The evaluation report prepared by the contractor complies with the requirements laid out in the Terms of Reference, and follows the Better Regulation Guidelines as well as the general Commission guidelines for the ex-post evaluation of MFA. The methodology employed was comprehensive and responded to the very specific and unique nature of the MFA operation.

Overall, the quality of the collected evidence (data, documentation, interviews and survey results) for this evaluation can be assessed as very good, within the limitations mentioned below. The quantitative fieldwork was based on reliable statistical data, while purposeful sampling was used for the interviews, the Delphi survey and the focus group discussion. The techniques used in the evaluation can be further elaborated as follows:

The evaluation was 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.

The following graph presents the techniques that were used in carrying out this evaluation:

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).

At the same time, the evaluation used the triangulation method that is, the parallel use of several tools and different information sources to allow the findings of the evaluation to be systematically triangulated. The following graph presents the techniques that were used in carrying out this evaluation.

Document analysis

The main documents were provided[10] to the evaluators by Commission staff in relation to the decision-making process and implementation of the MFA-I programme. Some were publically available while others were internal files. Other documentation and data were collected from Commission services, the IMF, the World Bank, the Central Bank of Jordan (CBJ), the Ministry of Finance and other relevant ministries, and the Department of Statistics of Jordan. The quality, coverage and reliability of economic data available for Jordan were acceptable to support the evaluation analysis and conclusions.

Quantitative economic analysis

In addition to the use of descriptive quantitative analysis ('stylised facts analysis') the evaluation used a structured macroeconomic tool developed by the IMF, in particular with regard to the external and fiscal sustainability analysis. The IMF's framework for external and public debt sustainability analysis (DSA) [11] for emerging market economies (See Annex 6) was taken into account. This framework is widely used as the guiding methodology for conducting public and external debt sustainability analyses (DSAs). It is also the established framework used by the IMF and the World Bank to detect, prevent, and resolve potential debt crises as well as to determine whether a debt relief is necessary for a heavily indebted poor country. A

[10] For the full list of documents provided to the evaluators by DG ECFIN/DG NEAR please see Annex 1.

[11] 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".

small-scale macroeconomic model was used to ensure the provision of more consistent macro-economic inputs to the debt sustainability analysis.

Semi-structured interviews

Semi-structured interviews were conducted with a range of stakeholders who had an understanding of the MFA instrument and its implementation. All interviews were treated confidential and anonymously reported to achieve the best result.

- Jordanian authorities: the officials who were involved in preparing and implementing the MoU (in Amman);
- International Financial Institutions: the IMF and the World Bank
- In addition, semi-structured interviews with other donors involved USAID, the United Kingdom, France, and the Netherlands.

The Delphi technique

It was used to gaining insight into the value added of the MFA-I operation by considering what would have happened in different areas of reform if the MFA-I loan would not have been granted. Eleven questions were used. From a panel of twenty-six individuals, seventeen responses were received, sixteen of which completed the exercise. For more information in this regard, please refer to Annex 4 on the Results of the Delphi Questionnaire.

Focus groups

The evaluation used the results from two focus group sessions:

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 Annex 2). 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 Annex 2).

Limitations and robustness of findings

While the quality coverage and reliability of economic data available for Jordan was acknowledged in the evaluation, access to data (in the necessary frequency and breakdown) on international grants and to data related to the refugee inflow and its economic impact was not as detailed as desired. Also, coverage of some social indicators was not sufficient, or where data was available it presented long time lags.

The time-lag between the adoption of the Commission decision in April 2013 and the final disbursement in October 2015, led to the use of a short time series (2013-2015) as time base for the operation instead of a single year. This required the use of estimates by external sources, in particular those of the IMF.

The occurrence of important external events during the MFA-I life-span such as the closure of the Iraqi borders or the high volatility in the oil prices made it sometimes more challenging to disentangle the effect of the followed policies from the effect of these powerful factors. Similarly, the rapidly changing external environment during the timeframe of the MFA programme added complications to the effort to disentangle from the MFA programmes the impact of other financial support (IMF, WB, US), of domestic policy response and of geopolitical factors when assessing the effectiveness/efficiency of the MFA programme.

The objectives of the MFA-I programme are expressed in broad terms in the legislative Decision without reference to concrete social outcomes. Moreover, the MoU does not provide specific guidance with respect to relevant social indicators. To address this, the evaluation analysed the social targets which appeared to be the most relevant to the broad terms of the legislative Decision. As a consequence, the social indicators analysed in the evaluation might not fully correspond to the intended social effects (the targets) of the MFA-I operation.

Also, the number of participants at the second Amman based Focus Group was less than anticipated.

According to the evaluators, the use of assumptions or different scenarios to account for the above limitations (e.g. lack for consensus data for the cost of hosting the refugees, unforeseen powerful external events like the closure of Iraqi borders) have not drawn into question the overall reliability of the evaluation analysis. Accordingly, the conclusions made on the aforementioned challenging fields can be considered valid.

The Commission acknowledges the limitations identified and supports the analysis that the conclusions of the evaluation remain robust and reliable.

5. ANALYSIS AND ANSWERS TO THE EVALUATION QUESTIONS

Evaluation Framework

The evaluation covered all the ***five evaluation criteria*** typically used in the assessment of EU programmes, namely: (i) relevance; (ii) effectiveness; (iii) efficiency; (iv) EU added value; (v) coherence. In addition the evaluation also considered two additional criteria: (vi) social impact; and (vii) debt sustainability. In particular:

- With respect to ***relevance***, the exercise reviewed the rationale of the programme with regard to the objectives, priorities, target groups, and actions;
- The assessment of ***effectiveness*** focused on the programme's ability to achieve the intended results in terms of outputs, outcomes, and impact;
- The analysis of ***efficiency*** involved a review of the management and policy-related arrangements put in place for programme implementation;
- With regard to ***EU added value***, the evaluation focused primarily on the net additional effects and benefits beyond what could have been achieved with other interventions by other international donors;
- The analysis of ***coherence*** considered the complementarity of MFA-I policy conditions with other initiatives implemented at the national and EU/international levels;
- With respect to ***social impact***, the evaluation observed the effects of the assistance on key ***social indicators*** to identify the contribution of the MFA-I programme; and
- The assessment of ***public debt sustainability*** focused on the impact of the MFA-I operation on Jordan's medium to longer term fiscal sustainability.

The specific aspects analysed by the evaluation were detailed in a set of ***15 Evaluation Questions*** (EQ) listed in the Terms of Reference (TOR) and linked to the seven evaluation criteria. In addition, a further sub-set of questions were developed as part of an evaluation framework to address the EQs.

Evaluation Question 1: Relevance

To what extent were the MFA-I operation design and outcomes appropriate in relation to the outputs to be produced and the objectives to be achieved?

i) To what extent can the MFA-I design and outcomes considered to have been appropriate?

ii) Were the amounts and terms of the financial assistance provided to Jordan adequate?

iii) Was the conditionality of the MFA-I operation appropriate in relation to the objectives to be achieved?

One of the primary objectives of the MFA-I operation that was achieved was to help Jordan to cover acute external and budgetary financing needs created by the regional conflict in Syria and Iraq, by negative shocks to the energy sector and by the presence of around 1.3 million of Syrian refugees in Jordan. Restoring the sustainability of the external position supported other important but less pressing economic policy and social development goals such as:

- achieving medium-term fiscal consolidation,
- strengthening the efficiency transparency and accountability of the public finance management systems,
- promoting structural reforms aimed at supporting sustainable and inclusive growth and employment creation.

More specifically, the MFA-I programme:

- enhanced the efficiency and transparency of public finance management,
- promoted fiscal reforms to increase tax collections and improved the progressivity of the tax system,
- supported efforts to strengthen the social safety net and to promote labour market reforms (to reduce unemployment and raise participation rates, notably among women),
- facilitated the adoption of measures to improve the regulatory framework for trade and investment and
- supported measures that enhance energy efficiency and energy security. This created considerable energy savings leading to fiscal benefits for the budget.

Although the primary objective of the MFA-I was economic stabilisation, the programme did have a positive social impact in the sense that by contributing to a more sustainable balance of payments situation the country could implement a more gradual fiscal adjustment without hurting growth and without incurring excessive economic and social hardships that it would otherwise.

The design of the MFA-I programme in two disbursements (the first depended on the IMF programme and the second depended, in addition to the IMF programme, to MFA-I conditions) was very relevant to Jordan's economic challenges as well as to the instrument's objectives to provide emergency financing in the form of short-term balance of payments support. That was important for Jordan's economic policy making as the MFA-I was one of the few sources of un-earmarked, low-cost donor support to the budget. The implementation of the MFA-I could have been faster though, especially as regards the first disbursement which was delayed by at least six months mainly due to the delay of the Jordanian authorities to amend Public Debt legislation.

With regard to the form of the assistance the decision to provide the full amount of EUR 180 million in the form of a medium-term loan was consistent with the EU methodology for determining the use of grants and loans in the EU MFA-I operations as endorsed by the Economic and Financial Committee in January 2011. It also took into account other donors support, Jordan's good access to international bond markets and the country's untapped potential for increasing tax revenues. Even in this case, as the evaluation concluded, the MFA-I was a pronouncedly favourable form of debt financing for Jordan as it offered considerably lower interest-rate than the market financing or the IMF programme, longer maturity and extensive grace period.

The structural conditions of the MFA-I covered the four important reform areas: PFM, social safety and labour market, investment framework and trade and energy. From the nine MFA-I conditions included in the MoU, four (income tax law, national unified registry, investment law, energy strategy) were assessed as relevant or very relevant at the moment of preparation of the MFA-I in 2013[12] in relation to the primary economic objectives, while the other five (audit bureau law, external audit, unemployment/maternity fund, PPP law, legislation on standardization and metrology legislation) were seen as more relevant in terms of and consistent with the structural reform objectives.

In general, the evaluation confirmed that the MFA-I conditions were well-designed, within the programme objectives and discussed extensively with the authorities during MFA-I preparation. The pace and timing in their implementation was considered reasonable for most of the conditions while the Commission showed some flexibility in the design and implementation of the conditions also considering the difficult economic, social and regional context of the country.

The mix between the size of the structural reforms requested in each condition was considered as balanced as both larger and smaller reforms were covered in the MoU. However, due to the relatively long time elapsed between the design and implementation phase of the programme, a limited number of respondents in the Delphi survey (3 out of 14) expressed the view that some conditions were already mature-enough for implementation.

Overall, the first Macro-Financial Assistance for Jordan appeared fit for purpose at the moment it was set out. The overall objectives and the design of MFA-I responded to EU priorities and beneficiary needs. MFA-I was in line with the European Neighbourhood Policy which sets out the EU's core interests and principles for engaging with the EU Neighbouring countries. In addition, MFA-I encouraged efforts by 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.

Evaluation Question 2: Effectiveness

To what extent have the objectives of the MFA-I operation been achieved?

[12] 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).

i) To what extent has the MFA-I operation been effective in improving macroeconomic conditions (with focus on the Balance of Payments (BOP))? ii) To what extent has the MFA-I operation been effective in terms of fiscal consolidation? iii) To what extent have the short and medium-term expected structural effects of the assistance occurred as envisaged?

According to the evaluation, the programme's actions were implemented effectively and achieved the intended objectives of improving macro-economic conditions. In line with the methodological orientation from the Commission, the evaluation study used the debt sustainability analysis (DSA) [13] framework of the IMF to quantify the effect of the SBA from the IMF and the MFA-I which complements it on external debt sustainability for the period of 2013-2018 (medium term) and beyond (longer term). Empirical results showed that the MFA-I programme contributed to stabilizing external debt to GDP however, a much more beneficial effect comes when the MFA-I programme is combined with the IMF assistance. This is not surprising, given the small magnitude of the MFA-I programme (EUR 180 million) compared to the IMF loan (USD 2 billion).

The results of the above quantitative analysis were also in line with the responses to the Delphi questionnaire which suggest that in the absence of either the SBA or the MFA-I, Jordan would have resorted to attracting more domestic or external loans.[14] Some of the respondents (5 out of 16) were of the opinion Jordan could have de-pegged its currency in the absence of the SBA and one respondent indicated this scenario in the absence of the MFA-I. There was a wide recognition that MFA-I made a significant contribution to easing the balance-of-payments pressures in Jordan. However, it is interesting to note that 10 out of 14 respondents considered that the positive impact of the MFA-I would have been larger if it was disbursed in 2013 and not in 2015.

The MFA-I programme also had a positive impact through the channel of risk perception and market confidence which are revealed in the changes in financing costs. This figure revealed that the market risk perceptions about Jordan had indeed started to decrease sharply after the IMF agreement (end of 2012) and had continued to follow the declining trend throughout the programme years as well as when the MFA-I programme (complementary and similar in nature with the SBA) was decided and implemented. This result was supported by qualitative data of the evaluation. The Central Bank of Jordan 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 was despite the fact, that the IMF’s monetary contribution was lower than that of the Gulf Cooperation Council countries at the time. The reason for this was 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. Nevertheless, while the effect on market confidence was visible, it was very hard to fully disentangle the effects and attribute precisely the drop of the risk premium between the IMF and the MFA-I programme.

[13] See: Staff Guidance Note for Debt Sustainability Analysis for Market-Access Countries (https://www.imf.org/external/np/pp/eng/2013/050913.pdf) The IMF's DSA framework is widely used as the guiding methodology for conducting public and external debt sustainability analyses (DSAs). It is also the established framework used by the IMF and the World Bank to detect, prevent, and resolve potential debt crises as well as to determine whether a debt relief is necessary for a heavily indebted poor country (See more details in Annex 6)

[14] See Annex 4 for further details.

The effect of the MFA-I programme to the balance of payments even though positive, was considered as weaker than the one on public debt and risk perception. This happened because the trade balance and external inflows were strongly influenced by regional developments and the demand of regional partners. In particular, we have to mention the increased level of imports due to the large number of Syrian refugees in the country and the hiked oil prices, the steep decline to exports due to the closure of the Iraqi trade route as well as the significant fall of remittances, FDI, tourist income and foreign grants.

The impact of the MFA-I to Jordan's fiscal position was considered to be the most prominent one as the MFA-I funds were un-earmarked and they could alleviate fiscal pressures in an immediate and flexible manner. This was pointed out by the majority of the respondents in the Delphi method. Public finance management–related conditions could also have a benign impact on the fiscal position through the improvement of the fiscal governance. The MFA-I had a significant impact on the magnitude and pace of fiscal consolidation both through complementing the IMF programme (sole condition for the first MFA-I disbursement) and through its own condition in the MoU (subsidies reform/cash transfer scheme, new income tax law, strategy for energy efficiency and diversification).

The short and medium-term structural effects of the MFA-I conditions were clearly positive. In general, the MFA-I conditions 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 exception was the Audit Bureau law (Jordan's Supreme Audit Institution), for which a waiver was given, because the law was not adopted. Moreover, implementation could be stronger for the conditions of the income tax law (condition 3) and the National Unified Registry, because ultimately a watered down version of the income tax law was adopted by the Parliament while the National Unified Registry became relatively idle in late 2014 when the abrupt fall of the oil prices mitigated the need for cash transfers. While the structural effects of the MFA-I conditions were clearly visible some of the respondents argued that the effect of some conditions was somehow limited due to cross-conditionality with other donors.

Some of the respondents did argue that MFA effectiveness could have been reinforced if its policy conditions were not mutually-shared with other donors. It is worth mentioning though, that MFA programmes have a successful track record of conditions-sharing with other donors especially with the World Bank and the IMF programmes to which they complement by design. In this way the implementation of the condition is being reinforced as it is monitored by more closely.

On another point, some of the respondents argued that the effect of some conditions would be more prominent if technical assistance had been provided during their implementation. With regard to the technical assistance, the Commission staff believes that it could have been provided, if the beneficiary country had requested so. However, this would entail the risk of undesired delays to the release of the funds which were programmed by the Ministry of Finance to cover pressing financial needs.

In general, the respondents confirmed the MFA's positive impact on the fiscal position while the effect of the programme was found to be more modest with regard to the balance of payments. The programme also had a positive effect to structural reforms which varied depending on the nature of each condition.

Overall, the programme's actions were implemented effectively and achieved the intended objectives of easing the balance-of-payments pressures and improving macro-economic conditions in Jordan.

As noted more analytically in section 3, despite the considerable adjustment reflected in improved in macro-economic conditions, the escalation of conflicts in 2016 in Syria and Iraq combined with increased refugee flows and continuous decline in external inflows, affected the Jordanian economy and constrained its growth potential. Thus, in 2016, the country resorted to new IMF and MFA programmes as well as to other creditors to cover its emerging external financing needs.

Evaluation Question 3: Efficiency of the operation

To what extent did the MFA-I operation design and implementation allow to carry out the intervention efficiently?

i) In what way has the design of the MFA-I assistance conditioned the performance of the operation in respect to its costs and its objectives?

ii) Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in Jordan?

During the designing phase of the programme, there was mutual leverage between the MFA-I on the one hand and on the other hand the SBA provided by the IMF and to a lesser extent with the DPLs of the World Bank. Therefore, impact was significant compared to its cost. Moreover, in negotiating specific policy conditions, the Commission was able to draw on the expertise of those institutions and their programmes and keep the preparation cost of the MFA-I relatively low. Furthermore, as pointed out in the evaluation, for the authorities, the number of conditions focusing on different reform areas and the comprehensiveness of some of them was sometimes found as challenging. In the interviews, the authorities underlined that cross-conditionality improved the efficiency of the operation, because it leveraged the conditions and reduced the administrative and managerial burden for the authorities.[15]

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

The MFA-I was provided in the form of loans and therefore the budgetary impact for the Commission was smaller than in the case of grants. For the authorities of Jordan, it was the opposite. The impact of the MFA-I loans on the Jordanian budget was more than if grants would have been provided. Nevertheless, the soft conditions of the MFA-I were particularly attractive compared to most alternative funding sources. The highly concessional terms, i.e. relatively low interest rates (an effective fixed weighted average interest rate of the whole loan equalling to 0.97%), long maturity (15 years) and long grace period, made the MFA-I highly

[15] 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.

attractive in comparison to other loan operations such as the SBA of IMF, and also compared to US guaranteed Eurobonds and T-bills.

The MFA-I 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-I was not replacing bilateral support of Member States. Some of them still provided substantial amounts of bilateral support to Jordan.

Overall, the MFA-I operation was implemented efficiently and in close coordination with the Jordanian authorities and most importantly with the IMF and the World Bank with which some conditions were mutually shared. Due to the sharing of these interventions, the Commission was able to draw on the expertise of these institutions and could keep the preparation cost of the MFA-I relatively low. This also contributed to the efficiency of the operation.

Evaluation Question 4: EU added-value of the operation

What was the rationale for an intervention at EU level? To what extent did the MFA-I operation add value compared to other interventions by other international donors?

i) To what extent have the expected benefits of the EU intervention been attained?

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

iii) To what extent has the sharing of roles between the European Commission services, the IMF, Member States and others contributed to optimise the impact of the assistance?

Overall, the MFA-I operation had considerable added-value for the EU as it supported macroeconomic stability in a neighbouring partner country enhancing economic cooperation with the EU. This enabled the country to deal in an orderly way with pressing economic issues and social challenges some of which affected the EU such as the Syrian refugee flows to the EU Member States. In addition, the programme encouraged structural adjustments in the Jordanian economy which would help the country to sustain economic stability in the medium-term.

The MFA-I loan, released in 2015, contributed to covering Jordan's financing gap. Even though the size of the MFA-I programme (EUR 180 million or 0.5% of GDP in 2015) was relatively small compared to the IMF programme, it made a significant contribution in terms of financial value added. A clear strong point of the MFA-I 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 (0.97% yearly fixed), long maturity (15 years) and long grace period. As pointed out in the evaluation, significant fiscal savings were created for the beneficiary country as a result of the favourable financial conditions.

The MFA-I operation was one of the few sources of un-earmarked support and therefore it helped Jordan to deal with the most immediate and pressing budget constraints. While it was clear that Jordan would embark on a substantial fiscal consolidation programme, the economic, social and political situation was not conducive to fast-paced fiscal adjustment. In this regard, the MFA-I allowed the Jordanian government to implement a more gradual fiscal adjustment while sustaining key social spending and improving the targeting of social safety net. This added value of the MFA-I was confirmed by an ample majority of the experts in the evaluation.

While a number of international donor agencies focused on various social development areas in Jordan, certain short and medium-term social aspects of the MFA-I operation (social safety net/cash transfer, unemployment/maternity fund) were relatively unique for this type of instrument. They offered a significant value added to the MFA-I operation among other general balance-of-payments and budget support instruments.

The MFA-I programme supported the Jordan authorities to deal with the implications of the Syrian crisis and to manage these challenges in an organised and effective manner. As such, it provided considerable added-value to the EU as by supporting macro-economic stability it mitigated to some extend the spill-over effects of the Syrian crisis including the Syrian refugee's inflows to the EU. By complementing the resources made available by the international financial institutions, bilateral donors and other EU financial institutions, the MFA-I programme contributed to the overall effectiveness of the package of financial support agreed by the international donor community in the aftermath of the Syria crisis.

Overall, the MFA-I operation for Jordan provided considerable added value in relation to other actors involved in promoting socio-economic development of the country. This was achieved mainly by offering a highly concessional loan with more favourable financing terms compared to IMF or market financing. This generated significant fiscal savings for the Jordanian government, thus increasing the financial value added of the instrument. In addition, contrary to other general balance-of-payments and budget support instruments MFA-I focused, among others, on short and medium-term social aspects. Moreover, the programme provided significant value-added to the EU as it enabled Jordan to deal more effectively with economic and social challenges affecting also the EU such as the refugee's flows. The EU highlighted the EU's solidarity and confidence to Jordan but also Jordan's geo-political importance for the EU in the light of the Syrian refugee crisis.

As noted more analytically in section 3, despite the considerable adjustment reflected in improved in macro-economic conditions, the escalation of conflicts in 2016 in Syria and Iraq combined with increased refugee flows and continuous decline in external inflows, affected the Jordanian economy and constrained its growth potential. Thus, in 2016, the country resorted to new IMF and MFA programmes as well as to other creditors to cover its emerging external financing needs.

Evaluation Question 5: Coherence of the operation

Were the measures of the MFA-I operation in line with key principles, objectives and measures taken in other EU external actions towards Jordan?

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-I was part of this comprehensive package.

In the period 2011-2017 the EU has allocated more that EUR 1.6 billion to Jordan through various instruments. The entire allocation with regards to the European Neighbourhood Instrument 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-I, 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-I conditions were in line with what had been agreed and achieved in earlier EU budget support operations. The following four budget support contracts contained comparable conditions to the MFA-I (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-I were closely aligned with the three priority sectors and the challenges that occurred in these sectors.

Along with the EU, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) have also increased their financial assistance to Jordan in response to the escalation of the Syrian crisis.

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

Evaluation Question 6: Social impact of the operation

What was the social impact of the MFA-I operation?

i) What were the expected short and medium-term social effects of the assistance?

ii) 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?

iii) What has been the contribution of the MFA-I (financial assistance, conditions) to the occurrence of expected social effects?

MFA is a balance of payments support instrument aiming primarily at covering external financing needs and at restoring the sustainability of the external position. As such, it is not directly targeting at specific social outcomes, like other programmes do (humanitarian aid programmes, programmes for increasing access to education or to labour markets). Nevertheless, the target of social development mentioned, among else, in the legislative Decision (No 1351/2013/EU) was served by the MFA-I through preserving macro-economic stability. This is because a protracted balance of payments crisis could lead to the depletion of foreign reserves and increase the lack of confidence making, in turn, the currency peg with the US Dollar difficult to preserve. A depreciation of the currency, under these circumstances, would have grave social consequences and negative implications for the country's standard of living, growth potential, inflation, incoming investments and unemployment.

In addition to the above, MFA funds ensured a more gradual consolidation of public finances mitigating the social cost of economic adjustment and preserving more public resources for financing the social reform agenda in the face of the Syrian refugee crisis.

Furthermore, apart from alleviating Jordan's short and medium-term external financial needs, MFA-I also increased the resilience of the economy to future shocks by achieving a significant build-up of foreign reserves from 3 months of imports in 2012 to 8 months of imports at the end of 2016. Combating a balance of payments crisis and restoring foreign reserves reduced 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-I supported in this way macro-economic stability and purchasing power while allowed the country to restore competitiveness through other structural and fiscal policies.

Having the above in mind, the MFA-I for Jordan featured certain design elements (conditions on unemployment/maternity fund and on national unified registry, creating fiscal savings, through the new energy strategy, which would avert excessive increases in electricity tariffs) 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 need for 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-I with a high value added, as recognised by the evaluation report.

Identifying and analysing the social impact of the assistance over the subject years (2013-2016) was challenging due to data limitations. For example, at the time of the evaluation, the IMF did not engage in modelling and forecasting the unemployment rate (or any other key labour market indicator), or poverty. Also, the Jordanian Department of Statistics had not published data on poverty rate since 2010. Thus, in the absence of completed data sets or of reliable external assessments, the analysis had to rely as well on the use of qualitative assessments (surveys and interviews) derived from target group interviews, as time series data analysis alone did not provide enough evidence to determine the exact contribution of the MFA-I in the aforementioned social aspects.

The analysis of these methods showed that in the short-term the impact on the above-mentioned social aspects is marginally positive as it helped to sustain wage growth and employment, thus alleviating the social strife resulting from the slowdown of the economy, the decline of the external inflows, the accommodation of the Syrian refugees and the on-going 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.

Progress in the medium-term social indicators was less easily identifiable, a not surprising result given the low-growth environment, the weak investment and external inflows and the enormous effort to reduce macro-economic imbalances. As an example, the primary fiscal deficit was narrowed by more than 8 percentage points in 2013 to reach close to zero in 2016, while electricity and water tariffs were repeatedly increased to make public utilities financially viable. These put much strain on preserving the welfare levels of the Jordanians, especially considering that the public sector is the most relevant employer and wage-setter.

The most promising MFA-I socially-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 latter was 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 and by offering a reliable tool for the selection of appropriate social policies. Meanwhile, the improvements in the social integration of 1.3 million of Syrian refugees and the related investments made by the Jordanian government and the international community should not be overlooked and they will contribute decisively to reducing further the social strain experienced by the population in recent years.

Overall, even though MFA was not directly targeting at specific social outcomes, it did have a positive contribution on social cohesion through various channels. By preserving macro-economic stability, MFA-I supported Jordan's currency and its peg with the US Dollar thus protecting citizens' standard of living. It also allowed a more gradual fiscal consolidation and created fiscal savings, through its concessional financing terms, easing social stress during the economic adjustment process. Moreover, through its two socially-oriented structural benchmarks (the national unified registry and the maternity/unemployment fund) it strengthened the social safety net and protected the most vulnerable from the abolition of energy subsidies avoiding higher levels of poverty

Evaluation Question 7: Public Debt Sustainability of the operation

What was the impact of the MFA-I operation on public debt sustainability?

i) To what extent has the MFA-I/IMF assistance contributed to returning the fiscal situation of Jordan to a sustainable path over the medium to longer-term?

The MFA-I operation made a clear contribution to Jordan's public debt sustainability through various channels. This was confirmed by the results of the evaluation study which used the IMF's Debt Sustainability Analysis (DSA) [16] framework to quantify the effect of the IMF and MFA on public debt sustainability for 2013-2018 (medium term) and beyond (longer term). The IMF's DSA framework is widely used as the guiding methodology for conducting public and external debt sustainability analyses (DSAs). It is also the established framework used by the IMF and the World Bank to detect, prevent, and resolve potential debt crises as well as to determine whether a debt relief is necessary for a heavily indebted poor country (See more details in Annex 6). To this end, different macroeconomic scenarios were constructed and compared within the DSA framework. Additionally, the evaluation explored the magnitude of savings that can be attributed to the favourable financing conditions of the MFA-I compared to other lenders.

[16] The IMF developed in 2002 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. To account for country-specific circumstances two types of frameworks have been designed: those for market-access countries and those tailored for low-income countries. The DSA framework is used by the IMF and World Bank to examine whether a debt relief is necessary under the Heavily Indebted Poor Countries (HIPC) Initiative launched in 1996 by the IMF and World Bank. The DSA frameworks have been regularly refined with a view to—among other elements—bringing a greater discipline to the analysis and responding to the changing economic and financial environment. For more details see: https://www.imf.org/external/pubs/ft/dsa/.

With the fiscal adjustment envisaged under the SBA and the MFA-I programmes, Jordan's public debt peaked-up at around 95% of GDP in 2016-2017 before declining from 2018 onwards. However, without the joint financial assistance and related adjustment of the SBA and MFA-I programmes (both aimed at economic stabilisation), Jordan's public debt was projected to increase substantially, reaching 102.8% of GDP at the end of 2018. This is almost 8 percentage points higher than the actual public debt levels at the end of 2017. The results clearly showed that the joint resources and policy intervention significantly contributed to returning Jordan's fiscal position to a sustainable path in the medium-term. Furthermore, analysis confirmed that the positive effects of the MFA-I both through the confidence channel (reduction in risk premium[17]) and the growth channel (enhancing growth potential).

With regard to the long-term effects of the MFA-I on public debt sustainability they are expected to continue to be positive. However, their real magnitude would depend on the evolution of growth, fiscal balance and interest-rates which present higher-uncertainty in long-term time horizons.

A crucial aspect of the MFA-I contribution to public debt sustainability was the significantly lower annual interest-rate of 0.97% (fixed) that it entailed compared to IMF or market financing. By comparison, the coupon rate of a 10-year Eurobond that Jordan issued at the end of 2016 was 5.75% while the interest rate of the IMF programme was above 3% (although interest rates are not directly comparable due to different maturities). Other financing terms of the MFA-I programme were also very favourable, such as the 15-year maturity and the 3 years grace period of the MFA-I programme compared to the 5-years maturity of the IMF programme. This specification ranked the MFA-I among the cheapest sources of financing at that time based on the Ministry of Finance collection of debt items.[18]

The evaluation study calculated that a saving of approximately EUR 101 million was created by the financing terms of the MFA-I loan compared to the prevailing market rates at the time of the disbursement for 15 years maturity.[19] This practically means, that if Jordan was borrowing from the market, instead of the MFA-I loan, at the prevailing interest rates for 15 years, it would have to pay around EUR 101 million more in discounted terms during the entire period of the market-based debt instrument.

In conclusion, MFA's contribution in Jordan's public debt sustainability was clearly positive especially when combined with the IMF programme which it complemented. The positive effects of the joint assistance worked both through the confidence channel (reduction in risk premium), and through the real growth channel (upward revision of growth outlook due to improved macro-economic conditions and increased growth potential on the account of structural reforms). The financing terms of the MFA programme were highly concessional and more favourable that the IMF or market financing. This created significant fiscal savings and the longer-term outlook for Jordan's public debt was more favourable.

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[17] This was based on the information obtained from the second Focus Group meeting and interview with the CBJ during field visit in Joradn in July 2017.

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

[19] 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.

6. CONCLUSIONS

Consistent with the European Neighbourhood Policy framework, the MFA-I provided an emergency financing of EUR 180 million to help Jordan cover part of its external financing needs created by a challenging regional environment and unanticipated shocks to the economy.

The main objective of the evaluation was to analyse the impact of MFA-I on the economy, and in particular on the sustainability of the country's external position examining at the same time whether MFA's design and terms were appropriate, taking into account the economic, political and institutional context. Limitations encountered by the lack for consensus data on the cost of hosting the refugees, or by unforeseen powerful events such as the closure of Iraqi borders which hampered trade flows or by the non-availability of high frequency social indicators, have not drawn into question the overall reliability of the evaluation analysis as they were mitigated by the use of relevant assumptions or alternative scenarios.

Overall, the MFA-I programme for Jordan met its objectives. Its design was **relevant** with Jordan's economic challenges and in line with EU priorities. It contributed substantially to the **effective** stabilization of Jordan’s external and fiscal financial position as well as to enhancing structural reform efforts to sustain economic stabilisation in the future. The programme was assessed to have a considerable **added-value for the EU** as it supported macroeconomic stability in a neighbouring partner country enhancing economic cooperation with the EU and mitigating the impact of the refugee crisis. It was designed and implemented in a **coherent** way to other EU policies or instruments. Even though it is a crisis instrument, the programme had a positive **social impact** while it also made an impactful contribution with regard to **public debt sustainability** by offering extremely favourable financing conditions and establishing confidence in the economy.

More analytically, the external evaluation found that MFA-I was **overall relevant** and fit for purpose. Its objectives and design were in line with EU priorities and beneficiary needs. Jordan made substantial progress in restoring the sustainability of its external and fiscal position by implementing the programme's structural reform agenda designed for that purpose. The programme contained a mix of nine key reforms aimed at enhancing Jordan's structural adjustment which, in turn, helped the country to sustain economic stabilisation. During its design and implementation, the programme demonstrated some flexibility to face emerging priorities taking into account Jordan's difficult economic and social context. The form and the terms of financing were found to be relevant and appropriate. The MFA-I 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 had access to the financial markets at the time. Moreover, the financing terms were extremely favourable and way more advantageous compared with the market or IMF financing terms at the time of the disbursement. The long maturity and extensive grace period also implied a very low rollover risk.

The MFA-I was **effective** in achieving its objectives. It contributed substantially to the effective stabilization of Jordan’s external and fiscal financial position as well as to enhancing structural reform efforts to sustain economic stabilisation in the future. In 2016, the first year following the implementation of the MFA-I programme, the current account deficit had been narrowed by 6 percentage points while the fiscal deficit declined by 8 percentage points. Foreign currency reserves were replenished, the public debt was expected to stabilise and start declining gradually while the banking system remained sound. Preserving macro-economic and external stability would enable Jordan to accelerate reforms to address existing economic challenges such as below-potential economic growth, high unemployment, and difficult social conditions including accommodating 1.3 million of Syrian refugees or around 20% of the country's population.

Broadly, the MFA-I policy conditions have been achieved without serious implementation deficits. The only real exception was the Audit Bureau law (condition 1), for which a waiver was given, because the law was not adopted. The implementation of the conditions on the income tax law (condition 3) and on the National Unified Registry (NUR, condition 4) was weaker than expected for reasons beyond the Commission's control as ultimately a watered down version of the income tax law was adopted by the Jordanian Parliament while the NUR became relatively idle in 2014 due to steep fall of the oil prices.

The effects of most MFA-I conditions on the implementation of the structural reform agenda have been positive. As noted by some of the respondents, in the future, the implementation of the MFA programmes could be enhanced by the provision of technical assistance if the beneficiary country requests so. However, the provision of technical assistance should be designed in a way that does not entail the risk of undesired delays to the release of the MFA funds which are expected by the Ministry of Finance to cover pressing financial needs.

Despite the adjustment achieved, external conditions remained extremely challenging following the completion of the programme. The escalation of conflicts in 2016 in Syria and Iraq combined with increased refugee flows and continuous decline in external inflows, affected further the Jordanian economy and constrained its growth potential. Thus, in 2016, the country resorted to new IMF and MFA programmes as well as to other creditors to cover its emerging external financing needs.

The MFA-I operation was implemented **efficiently** and in close coordination with the Jordanian authorities and most importantly with the IMF and the World Bank with which some conditions were mutually shared. Due to the sharing of these interventions, the Commission was able to draw on the expertise of these institutions and could keep the preparation cost of the MFA-I relatively low. This also contributed to the efficiency of the operation. Last, the operation was provided in the form of loans and therefore the budgetary impact for the Commission was smaller than in the case of grants. For the Jordanian authorities, it was the opposite, but the soft financing terms (i.e. relatively low fixed interest rate, long maturity and extensive grace period) made the MFA-I very attractive compared to alternative funding sources. This increased the efficiency of the overall intervention in terms of the resources committed by the Commission and the financial cost incurred by beneficiary country.

However, mainly due to the Jordanian authorities’ unfamiliarity with the MFA instrument and the six-month period that was finally required for Jordan to amend certain aspects of its public debt legislation, disbursements were delayed. This reinforced the views that the implementation process of the MFA-I to Jordan appeared to be lengthy. In the future, closer cooperation with the authorities through enhanced communication and further guidance on operational legal and policy aspects could eliminate the risk of time delays and increase efficiency.

The MFA-I operation was assessed to have **considerable added-value** for the EU as it supported macroeconomic stability in a neighbouring partner country enhancing economic cooperation with the EU. In addition, the programme encouraged structural adjustments in the Jordanian economy which would help the country to sustain economic stability in the medium-term (even though worsening external conditions would necessitate in 2016 the deployment of follow-up IMF and MFA programmes). Compared to other programmes, the MFA-I programme offered extremely favourable financing conditions for the country and focused on short and medium-term social aspects. This enabled Jordan to deal in an orderly way with pressing economic issues and social challenges as well as to boost structural adjustment to preserve macro-economic stability in the future. In addition, the programme mitigated to some extend the spill-over effects of the Syrian crisis including the Syrian refugee's inflows to the EU. In this way, the programme highlighted the EU's solidarity and confidence to Jordan but also Jordan's geo-political importance for the EU in the aftermath of the Syrian crisis.

The programme's operation was **coherent** with other EU policies or instruments. With regard to the preparation of the MFA-I, there was close coordination within the Commission and with the European External Action Service, especially between the Commission services and the EU Delegation in Amman. As a result, a number of the MFA-I conditions were aligned with other EU policies and in particular with Budget Support operations.

The programme made a positive contribution as far it concerns the **social impact** even though by design the MFA instrument does not explicitly target at particular social outcomes. It did so by preserving macro-economic stability, supporting the currency and its peg with the US Dollar thus protecting citizens' standard of living. It also allowed a more gradual fiscal consolidation and provided confidence to the economy. Moreover, the programme focused on two socially-oriented structural benchmarks (the national unified registry and the maternity/unemployment fund) which strengthened the social safety net and protected the most vulnerable from the abolition of energy subsidies avoiding higher levels of poverty. Nevertheless, the long-term social impact was less clearly visible as Jordan continued to operate in a very challenging regional environment with closed borders, weak growth, declined investments and continuous refugee inflows.

The MFA-I programme made an impactful contribution with regard to **public debt sustainability** especially if combined with the IMF programme which it complemented. Without the joint intervention and the fiscal adjustment they entailed, Jordan's public debt was projected to be at the end of 2018 around 8 percentage points higher than its actual 2017 levels. The positive effects of the joint assistance worked through various channels: ensuring fiscal consolidation through lowering fiscal deficits, increasing confidence through the reduction in risk premium, and enhancing growth potential as economic stabilisation, a pre-requisite to growth, consolidates. The financing terms of the MFA-I were very favourable at the time of disbursement, and have contributed to significant fiscal savings (amounting to EUR 101 million, or 0.3% of GDP cumulatively) when compared borrowing using market based alternatives.

Lessons learnt

The MFA-I programme mobilised a highly concessional loan to help Jordan addressing its financing needs while taking into account debt sustainability issues. In the future, if macro-economic conditions deteriorate rapidly and the country is faced with increasingly pressing challenges which could undermine economic and social stability, the Commission could consider providing, on extraordinary basis a grant element, along with a loan component as other donors did.

The design of the MFA-I programme, namely the inclusion of a limited number of realistic, and yet ambitious reforms as well as close cooperation with other creditors, was important for its success.

There could be margin for future MFA operations to follow a faster pace of execution. Without overlooking the relatively lengthy decision-making process from the EU side, the highest risk of delays lies during the negotiation of the conditions to be agreed in the MoU as well as during the implementation of those conditions by the beneficiary country. Closer cooperation with the authorities and further guidance on operational issues could eliminate the risk (weak capacity or lack of ownership) of time delays and could increase efficiency.

The provision of technical assistance to facilitate and steer reforms' implementation more effectively would be desirable. It would be important though to be provided upon request by the beneficiary country, to ensure that the country has adequately diagnosed capacity gaps that need to be bridged, otherwise it could undermine the reform process. Moreover, the design of the technical assistance should eliminate the risk of undesired delays to its implementation.

The visibility and public perception of this specific EU intervention could be improved by pro-active efforts to communicate with a wider audience on the potential benefits from specific reforms supported with the MFA programme, in particular ones related to social policies transparency in public finance management and energy efficiency.

Annex 1: Procedural information

Organisation

This evaluation assessed the first programme of Macro-Financial Assistance (MFA-I) to Jordan, as set out in Article 30 of the Financial Regulation and in the Decision No 1351/2013/EU (OJ L 341, 18.12.2013, p. 4) by the European Parliament and the Council.

The evaluation provides information on the following key evaluation criteria: relevance, effectiveness, efficiency, EU added-value, and EU coherence. In addition, following the TOR, the impact of the MFA-I on the social sector and on public debt sustainability is evaluated.

The Staff working document is based on the independent assessment carried out by an external contractor and complemented by further internal analysis.

The lead DG to carry out and manage this evaluation has been DG ECFIN. On the basis of the Better Regulation Guidelines, COM(2015)215, an Inter-Service Steering Group (ISG) was established to ensure that the above evaluation was conducted collectively and in a coherent way with other relevant services. This ISG was chaired by DG ECFIN and was composed of members from DG ECFIN, DG NEAR, SG and EEAS.

The ISG for the MFA-I evaluation was set up in September 2016. The roadmap for the evaluation of the MFA-I to Jordan was published in September 2016. A Tender for selecting the contractors to carry-put the evaluation, the specific ECFIN framework contract, was launched on 28/10/2016 while the specific contract was awarded on 19 December 2016 to ECORYS BV. The evaluators started their work on 6 February 2017.

All foreseen deliverables were discussed in depth by the ISG, under the coordination of the evaluation manager in DG ECFIN D. During the evaluation process from February 2017 onwards the ISG met all in all 5 times, in addition the members were consulted through email several times on draft and revised draft reports.

The draft final evaluation report was concluded on 10 October 2017 while on 24 October 2017 it was presented in a Workshop to the ISG, the Jordanian authorities and other stakeholders. Following their comments, the final evaluation report was submitted on 31 October 2017 to the ISG. On 21 November 2017 the ISG approved the final evaluation report.

Evaluation Design

The evaluation design was guided by the Commission's Better Regulation Guidelines.[20] The 'MFA Guidelines' from 201521 provided also methodological guidance that shaped the design of this evaluation. The evaluation design was also adjusted to reflect the evaluation mandate as set out in the TOR (ECFIN 2016 019/D). Based on the above the evaluation design aimed to largely cover three main areas of analysis:

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

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

Economic impact of the MFA assistance operation on the economy of Jordan.
This area concerns the macroeconomic, fiscal and structural policy developments and achievements that can be linked to the provision of MFA (also in conjunction to IMF assistance). The analysis took into account the relevance of the intervention with its objectives and the efficiency in implementation. Besides the economic impact, an effort was made to assess the related social impact to specific programme conditions even though the MFA's primary purpose is not related to specific social outcomes but is to cover external financing gaps arising from temporary and acute difficulties in the balance of payments.

Value added of EU intervention provided through the operation.
This area concerns 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 went beyond the pure economic impact analysed in the first area and touched upon the issues of complementarity and political support. 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 was also assessed.

Sustainability of the country's external position as a result of the assistance.
This area examined how the programme contributed to covering the external financing needs of Jordan and to restoring the sustainability of the country's external position in a challenging external environment.

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. Moreover, two additional topics, the impact of the MFA-I on the social sector and on public debt sustainability, were assessed following guidelines in the ToR.

Methodology and data

The evaluation was based on a mixed-methods approach. A variety of quantitative and qualitative techniques were 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.

List of documents provided to the evaluator by DG ECFIN

1. Mission Staff report from the Economic Dialogue - October 2012
2. Information Note to the Economic and Financial Committee: Proposal for Macro-Financial Assistance to the Hashemite Kingdom of Jordan – February 2013

3. Commission Proposal a Decision of the European Parliament and of the Council providing Macro-Financial Assistance to the Hashemite Kingdom of Jordan – March 2013
4. Commission Staff Working Document: Ex-ante evaluation statement on EU Macro-Financial Assistance to the Hashemite Kingdom of Jordan – March 2013
5. 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 – December 2013
6. Memorandum of Understanding (MoU) between the EU and Jordan – March 2014
7. Loan Facility Agreement (LFA) between the EU and Jordan – March 2014
8. Mission Staff Report from the Economic Dialogue - March 2014
9. Report from the Economic Dialogue and the Review Mission in Amman – May 2015
10. Letter from DG ECFIN Director General to the General Secretary of the Ministry of Planning and International Cooperation – May 2015
11. Information Note to the European Parliament and to the Council: Review of Compliance with Policy Conditions – Disbursement of the Second Tranche – August 2015
12. Information Note to the European Parliament and to the Council: Disbursement of the First Tranche – February 2015
13. Mission Staff Report on the negotiations between EU and Jordan for the Memorandum of Understanding and on the Loan Facility Agreement – June 2013
14. Operational Assessment of the financial processes and procedures in the Hashemite Kingdom of Jordan – October 2013
15. Compliance Statement for the conditions of the second tranche in October 2015
16. List of stakeholders for the MFA-I to Jordan

List of documents provided to the evaluator by DG NEAR (continued)

17. Information for the programme "Support to public finance and public administration reforms (PFPA)" " - ENI/2014/033-664
18. Information for the programme "EU Support to the Private Sector Development in Jordan" Programme, CRIS decision number: ENPI/2015/038-127 and ENPI/2016/039-911.
19. Information for the programme "Good Governance and Development Contract" (ENPI 2012-24-396)

Limitations and challenges

Despite the multiple approaches used, 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 other international financing instruments encumbered the disentangling of the different factors behind the developments. Despite these difficulties, the conclusions were well founded.

The ISG as well as other staff from DG NEAR, EEAS and ENI delegations actively participated in providing missing data to the evaluators. The multiple rounds of commenting also mean that facts have been verified and this facilitated the triangulation of data.

Overall, the quality of the collected evidence (documentation, interviews, data and survey results) for this evaluation can be assessed as good, demonstrating a satisfactory degree of confidence regarding the various findings of this evaluation.

The main challenge appeared to be the timeline of the evaluation as initially envisaged. Given the number complexity and depth of the data treatment, the organisation of several missions, the availability of the persons to be interviewed and the impact of religious holidays in Jordan, the time line of the evaluation proved tight, despite the efforts of the external evaluator's team. Therefore to address these pressures an extension of the evaluation time line by 3 months was deemed necessary.

Annex 2: Stakeholder Consultation

Introduction

Stakeholder consultation was a key element to successfully carry out the ex-post evaluation of first Macro-Financial Assistance (MFA-I) to Jordan and Commission minimum standards have been met. Implementation of the stakeholder consultation strategy followed publication of the ex-post evaluation roadmap of MFA-I assistance to Jordan in December 2016.

The design of the MFA I operation effectively already started in late 2012, when the first discussions 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.2.1).

Table A.2.1 General timeline of MFA I operation

TIMELINE OF MFA-I					
End 2012	2013	2014	2015	2016	First half 2017
MFA design		MFA implementation		Post-MFA	

This stakeholder consultation strategy was 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 focused 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 completed (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.2.2 presents a detailed timeframe for the implementation of this consultation. The items listed in this timeframe are elaborated in the following sections.

Table A.2.2 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 colspan="2" rowspan="2"></td><td>Jordan authorities</td><td>Semi-structured interviews</td><td colspan="2"></td><td>Jordan authorities</td><td>Semi-structured interviews</td></tr>
<tr><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 was 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. Stakeholders were consulted 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 currently 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 opinions which can be made with the benefit of hindsight. A deeper understanding was gained on the decision-making process at the time of the design and implementation of the MFA-I operation. Also, the actual relevance and impact of the operation were identified.

While stakeholders were asked to make (subjective) assessments and express their personal opinions, they were encouraged to refer to written sources wherever possible. Eventually, the result of the stakeholder consultation was 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 target directly 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-I operation or persons with expert knowledge in the areas related to the objectives of the MFA-I 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 was 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 expressed a high interest in the consultation process and had a significant high influence on the MFA operation and its evaluation.

After thorough review of documentation provided and collected and in cooperation with DG ECFIN staff, the following institutions of the Jordanian administration were identified by the external contractors for discussing 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, a distinction between high-level policy makers and the technical staff working on actual implementation was made. The latter group was able to specifically comment on the efficiency of the implementation of the MFA I operation.

Furthermore, a number of other key stakeholders within the Government of Jordan (GoJ) were approached and interviewed in order to be consulted 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 the World Bank were key stakeholders for the 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 provided useful inputs to all key aspects of the evaluation. They did not exhibit the largest interest in this MFA-I evaluation (larger than the beneficiary), but they did have a significant influence.

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

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

- **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 post-MFA-I position, they were able to give a more external view on these issues;
- **NGO, academics and other interest groups**: they were 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 were able to provide an external view on the economic and financial developments in Jordan and on the post-MFA-I macroeconomic and fiscal situation.

For the first focus Group, which was concerned with structural reforms, the first two target groups, mainly NGOs, (ex-) Parliament members and academics were combined.

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 unfortunately only two of them showed up.

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 staff. Some of them were interviewed during the contractor's missions to Amman.

Consultation methods

Related to the four groups of key stakeholder above, the evaluators adopted a targeted consultation approach based on three key tools:

1. Semi-structured interviews

The objectives of the interviews were 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 were thus carried out in particularly with the first two groups of stakeholders, who were well-aware of the MFA instrument and its implementation.

The format of semi-structured interviews was chosen on purpose: on the one hand, this format offered the possibility to discuss a few set topics with the interviewees. Details were asked on events which happened in the past; therefore the intention of the contractor was to send out pre-interview questionnaires. These questionnaires contained a brief overview of key bullet points that the evaluators could discuss, to enable the interviewee to prepare him/herself by collecting information in advance. On the other hand, semi-structured interviews left room for the interviewer to raise other relevant issues, also in feedback to answers of the interviewee.

Interviews with the fourth group (other donors) were also conducted 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 was to gain information of the MFA in a wider context: what its relevance and its impact would have been if the operation was put in a broader perspective. The Focus Groups were particularly useful to the questions on effectiveness, which discussed the current trends in Jordan's macroeconomic and fiscal policy, and ongoing social reforms. These Focus Groups helped also to understand the current paradigm of reforms and enhanced the evaluator's understanding on the local situation in Jordan.

This instrument was used particularly for the third stakeholder group: these experts might have been or might were at greater distance to the MFA operation to conduct detailed one-on-one interviews, but their participation in a group discussion was very useful to gain deeper understanding of the macro/fiscal developments and the structural/social reforms in Jordan. The ideal number of invitees was between 3 and 10 people. The discussion was restricted to approximately three hours, to encourage active participation of participants and to assure the participants that Chatham House rules are applied. These rules elicited the maximum amount of input from the participants and therefore provided the best opportunity to contribute to addressing the evaluation questions with valuable stakeholder insights that may not have been possible in a more open forum.

As discussed above, two focus group sessions were organised, 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 was an evaluation methodology that relied on judgmental estimates of experts based on their insights and collective knowledge. A light version of the Delphi method was applied as an additional consultation tool. The objective of using this tool was to gain further insight into the added value of the MFA operation. In April 2017, after the evaluator's first mission, a few possible scenarios were identified related to Jordan’s macroeconomic and fiscal developments and structural reforms. The main question to the participants in the Delphi survey was to what extent 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 (see the questions and the feedback of the Delphi questionnaire in Annex 4).

A selection of persons of the first two stakeholder groups was targeted, as well as EC staff. Also, a selected group of 26 experts was approached 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 filled the questionnaire together with a colleague. The evaluators assessed the feedback from the respondents and approached them again by sharing the results of the first round and asking them if they would like to 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.2.5 combines the different groups of stakeholders and the consultation methods, and shows how they are intended to contribute to answering the evaluation questions. Other sources were also mentioned which provided information that were triangulated with the information collected from stakeholder consultation.

Table A.2.5 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 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:

EU Budget Support operations with cross-conditionality

GGDC Jordan (EUR 39.7 million[22], 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)

[22] The value is the committed value, not the disbursed amount.

- 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):

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).

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 and of other consultation methods

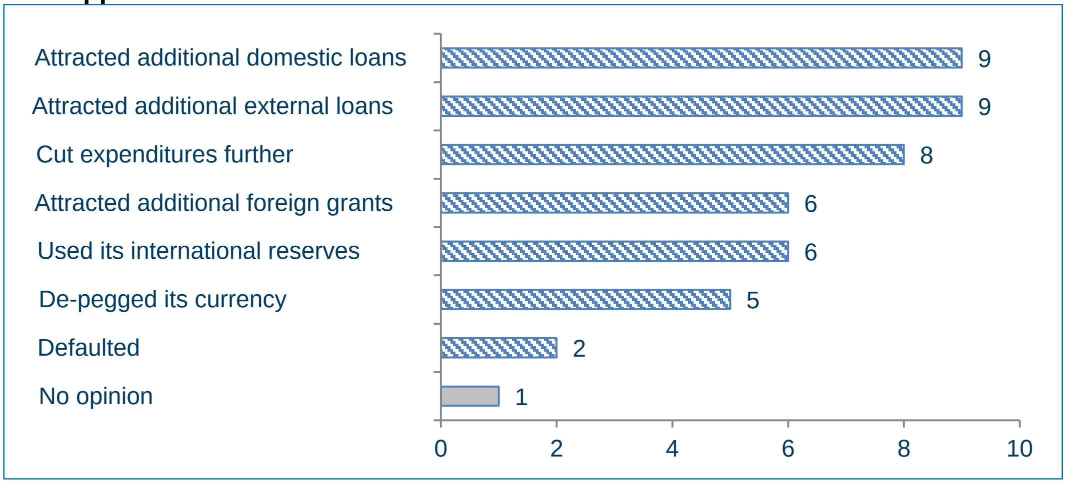
Start date:	09-05-2017
End date:	14-08-2017
Live:	98 days
Questions:	11
Panelist count:	26
Total responded:	17 (65,4%)
Reached end:	16 (61,5%)

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).

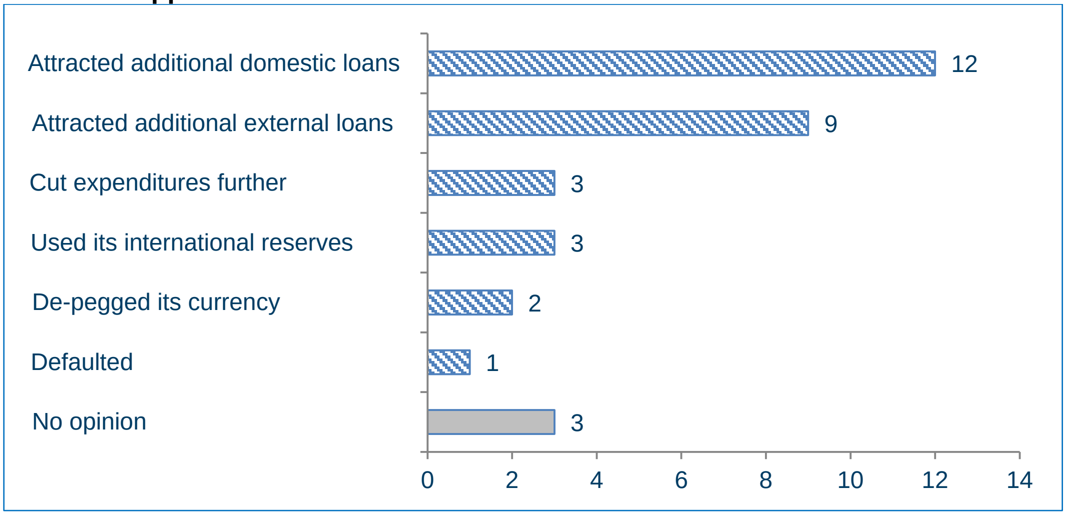
Macro-economic/ Fiscal Situation

1. **If the IMF Stand-By Arrangement (SBA) was not provided in 2012, what would have happened?** Jordan would have:



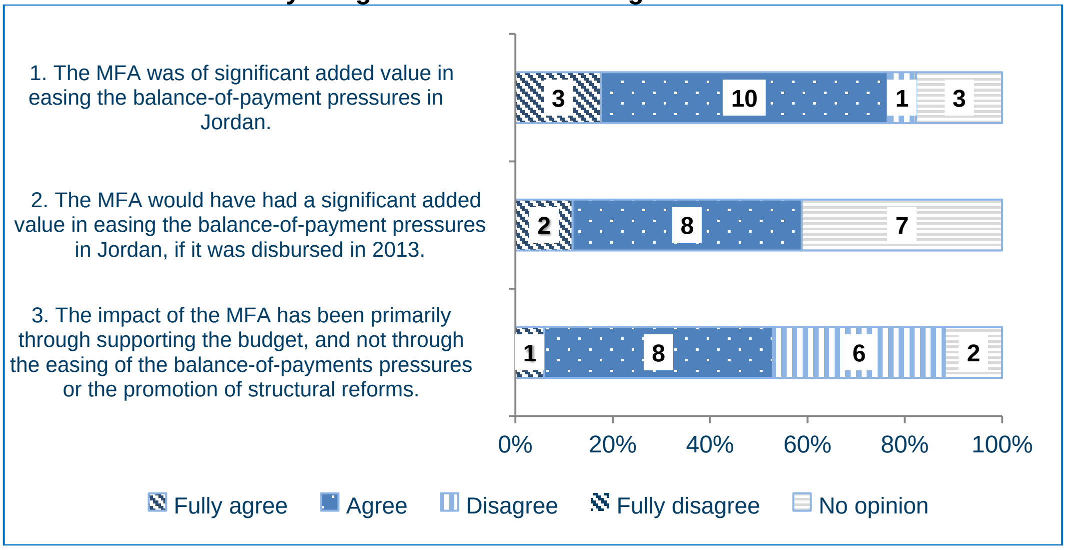
Respondents: 17 (multiple choices possible).

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?

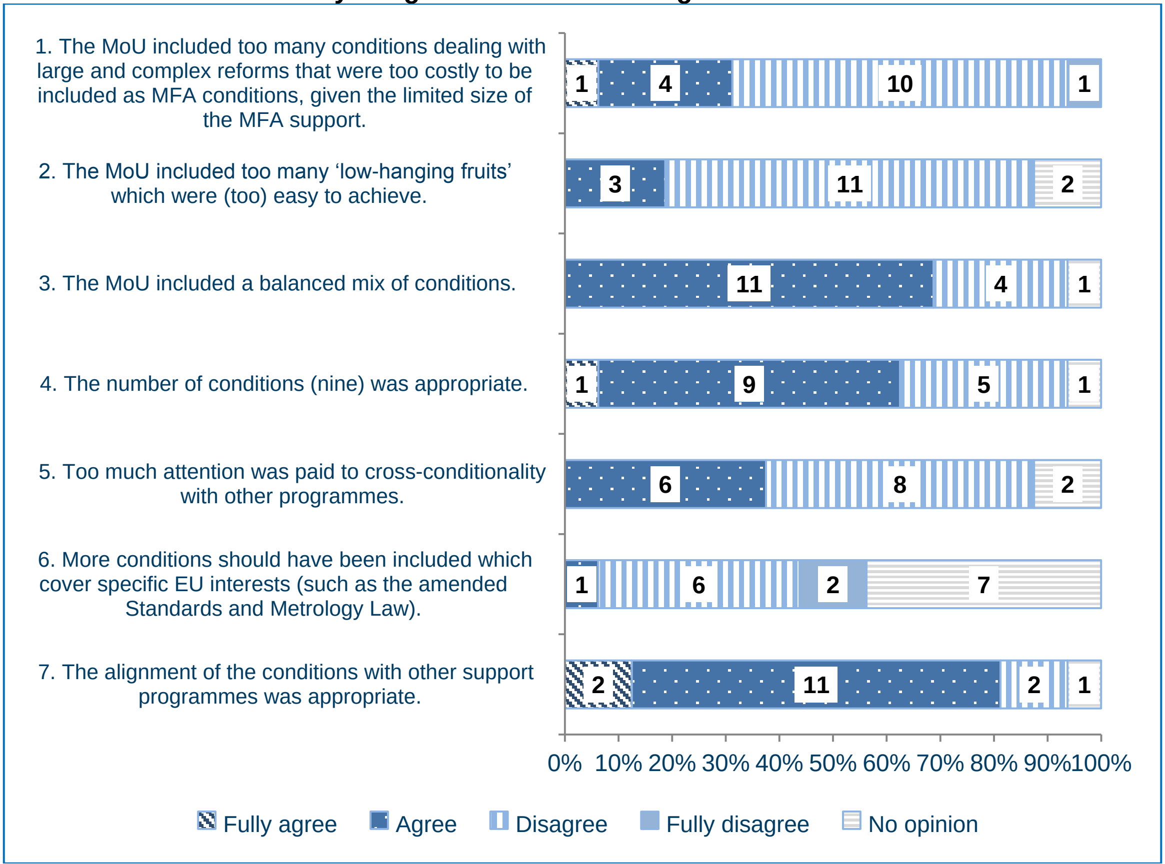


Respondents: 17.

Structural Reforms

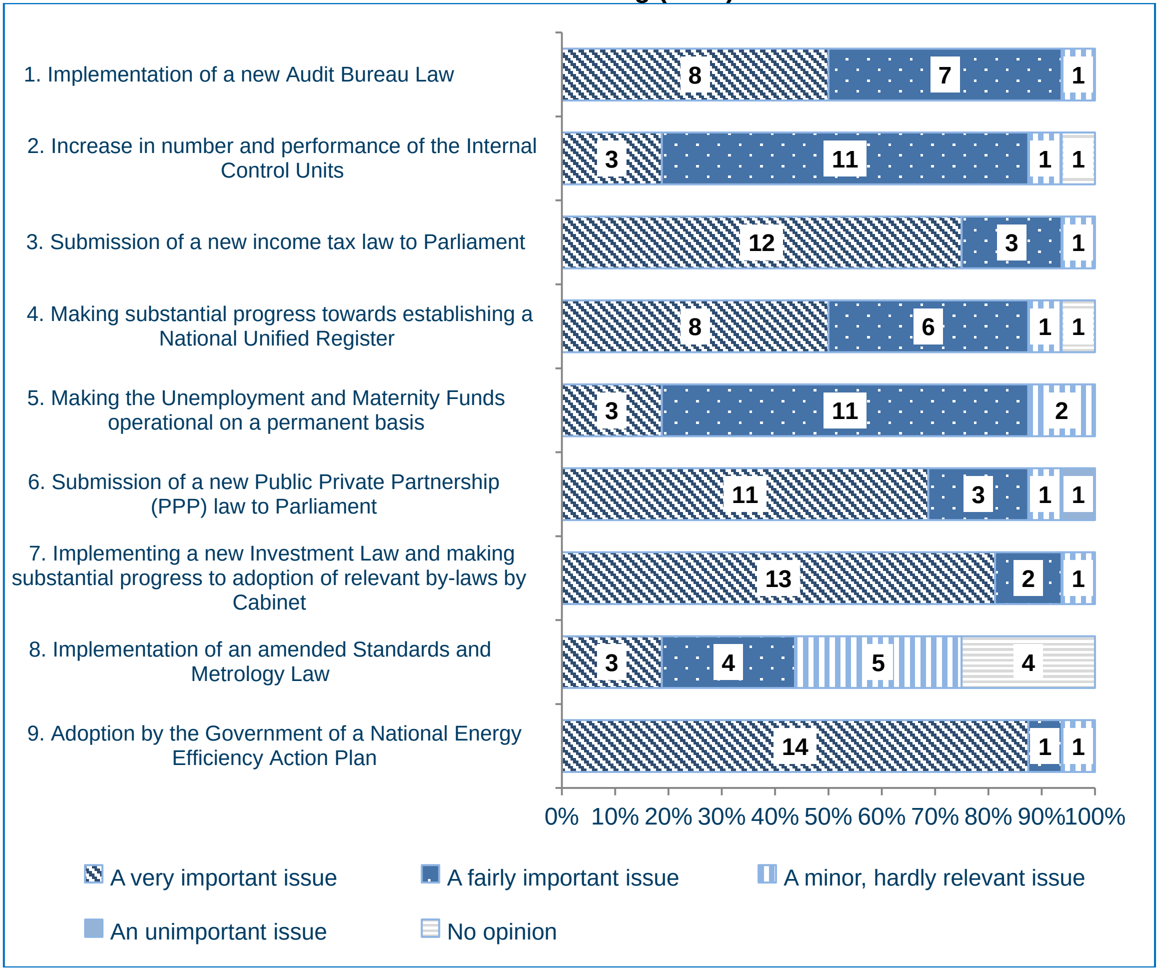
The condition for disbursement of the first tranche of the MFA was a satisfactory track record in the implementation of the SBA between Jordan and the IMF. For the second tranche, besides a satisfactory track record in the implementation of the SBA, nine specific conditions were introduced. Some of them were cross-conditioned with IMF structural benchmarks.

4. To what extent do you agree with the following statements?



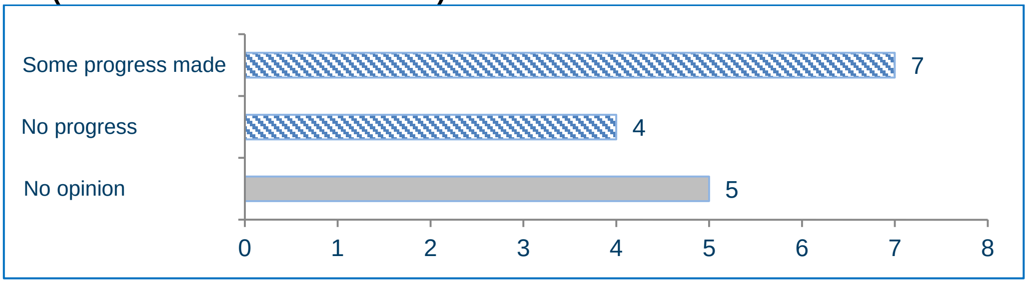
Respondents: 16.

5. How do you assess the relative importance of these reforms at the time they were included in the Memorandum of Understanding (2014)?



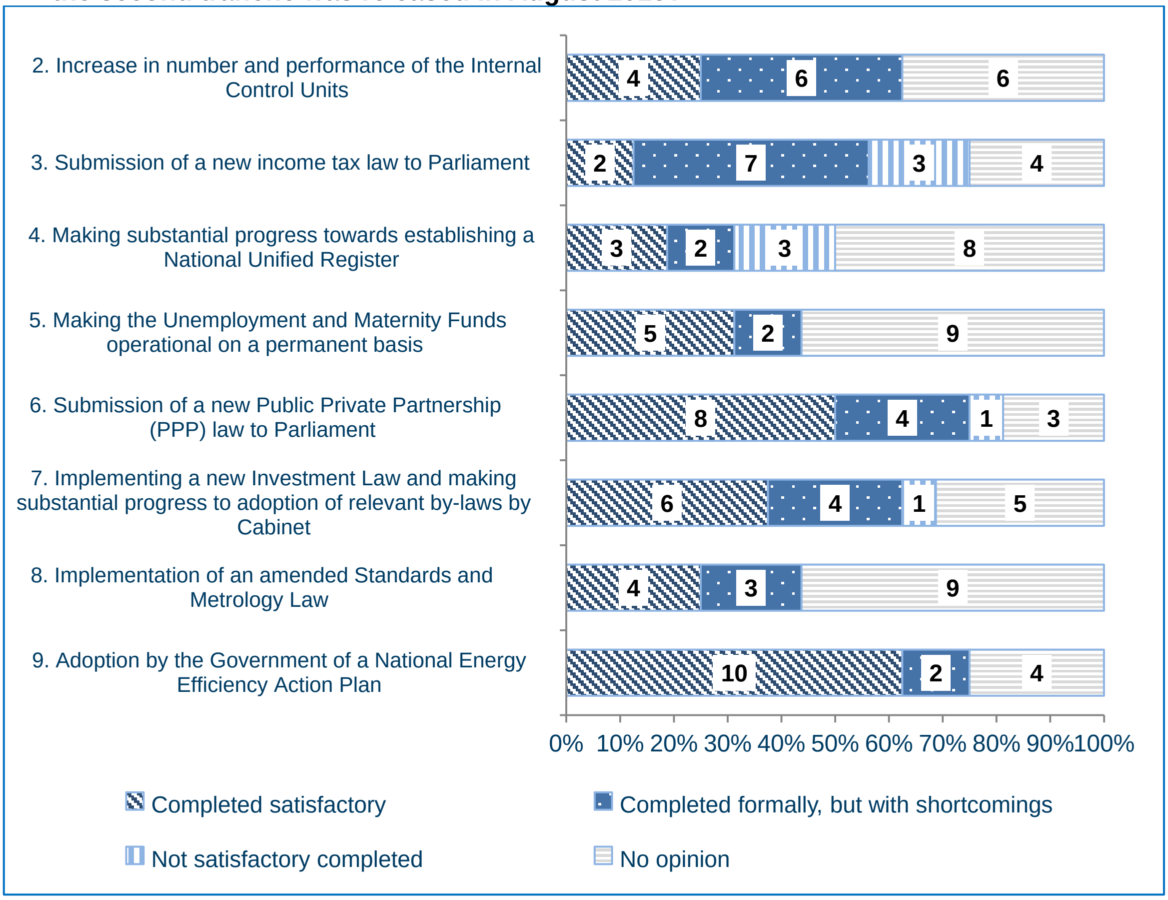
Respondents: 16.

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)?**



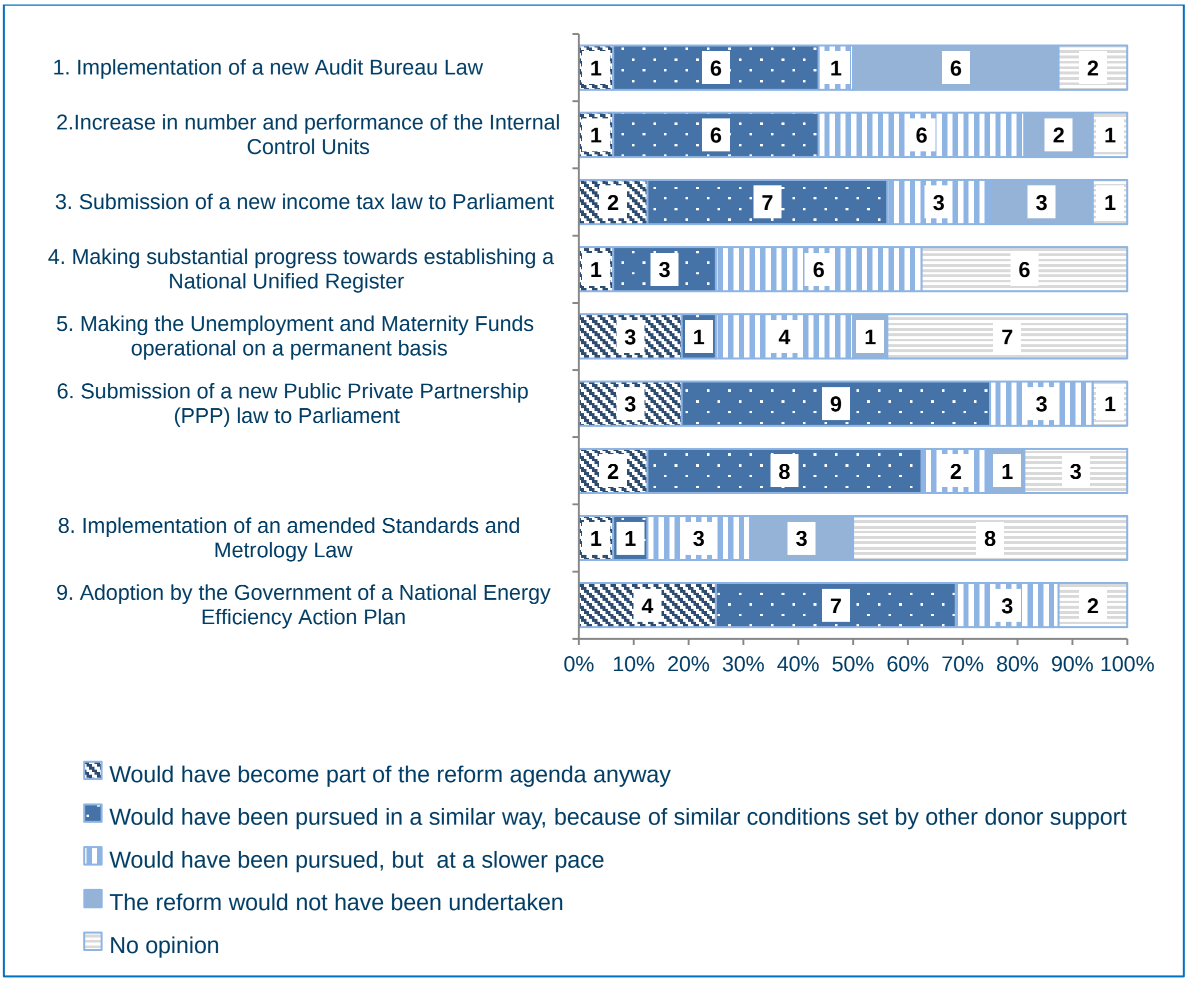
Respondents: 16.

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.

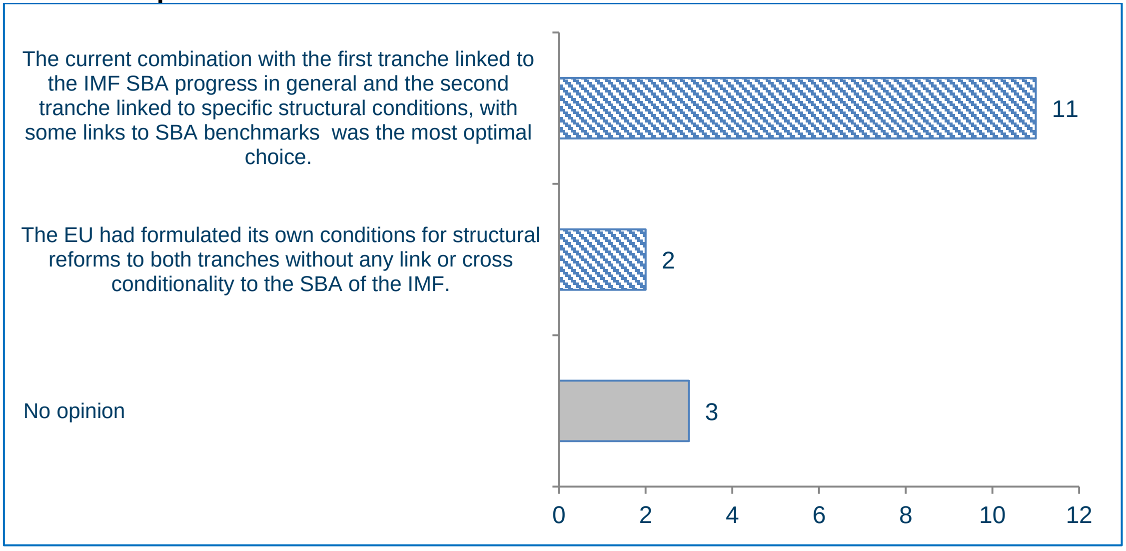
8. **What would have happened to the following reform conditions if the MFA support had not taken place?**



Respondents: 16.

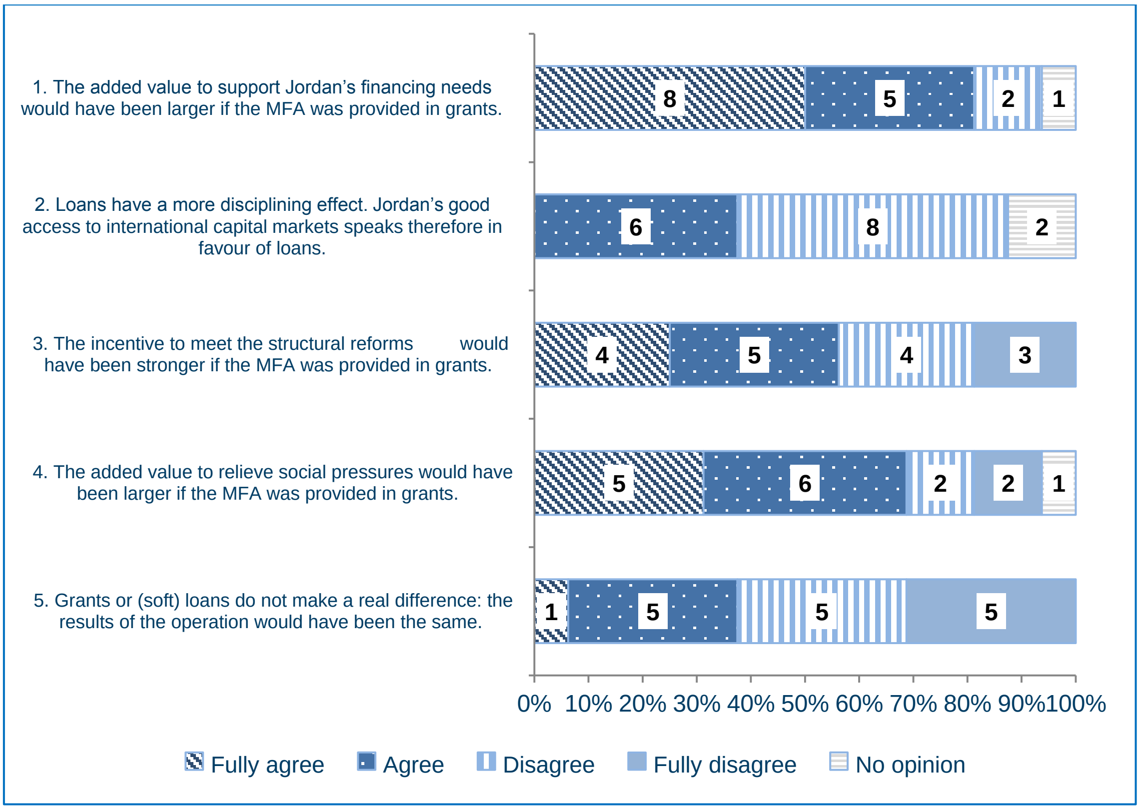
Design of MFA

9. The impact / added value of the MFA would have been increased if:



Respondents: 16.

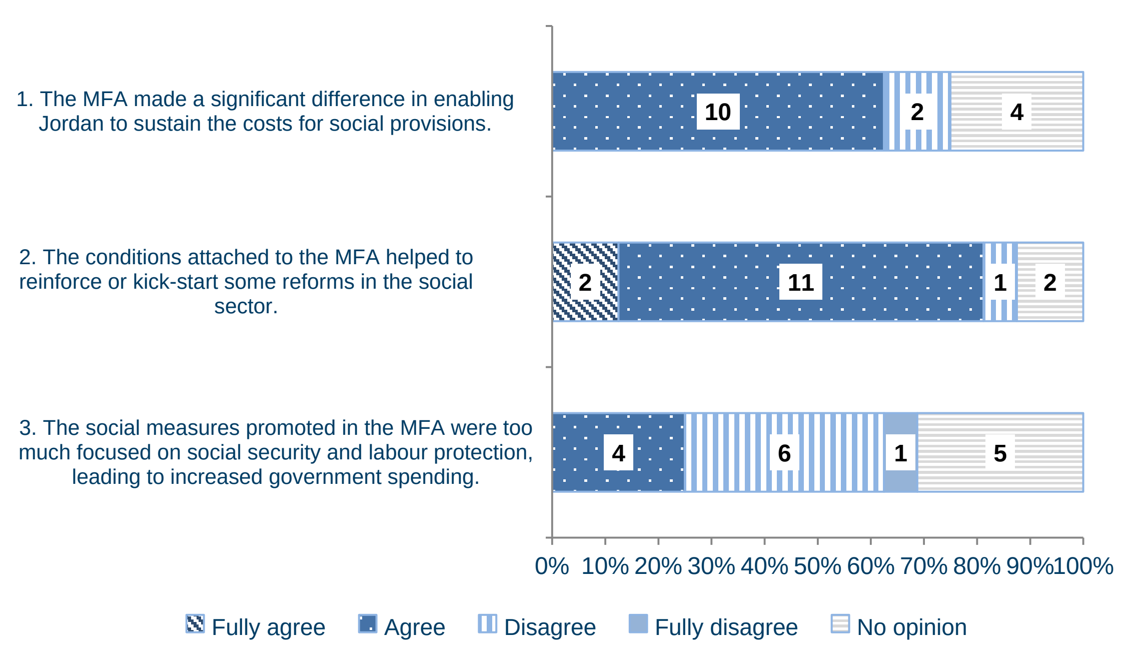
10. If the MFA had been provided in grants instead of loans, what do you think the difference would have been?



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: MFA-I Operation Timeline

Table A.5.1 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 the MoU could start. The MoU was signed by the Commission and Jordan following an inter-service consultation	In parallel to the legislative procedure regarding the adoption of the decision, the Commission started informal negotiations with the Jordanian authorities on the MoU.	

Date	Event	Comment	Corresponding document from European Commission
	within the Commission and a subsequent consultation of the Member State Committee on MFA.		
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 positive legal opinion provided)	Jordan internal legislation prohibits public debt to go beyond 80% of GDP (has been exceeding the threshold since 2012, 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	ECFIN (L4) needs 3 weeks to explore the market (Christmas period!), tries to merge borrowings to get better rates	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

Date	Event	Comment	Corresponding document from European Commission
	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.	(if agreed by MFA recipients).	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 its extraordinary session	All but the Audit Bureau Law is missing from conditions, but IMF 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	EUR80mn, after the same procedure as with the first tranche (exploring the market, communicating terms with MoF Jordan etc.)	

Date	Event	Comment	Corresponding document from European Commission
	October 2015.		

Synopsis Report of the results in other consultation methods

In addition to the Delphi Method, the consultation strategy included other consultation methods such as the Semi-Structured Interviews with stakeholders and the discussions in Focus Groups. For more details on how the above consultation methods were organised please see Annex 2.

Semi-Structured Interviews

Interviews with key stakeholders indicated that the MFA-I design was relevant for Jordan's macro-economic challenges. The objectives and the financial envelop of the programme were also found to be adequate. The general perception was that the number of MFA conditions was reasonable and that the reform areas were well covered by relevant conditions. Some conditions were found to be more relevant for Jordan's economic objectives while other conditions respondent to Jordan's structural needs. Flexibility exhibited from the Commission side during the implementation phase was generally acknowledged from stakeholders.

The programme was widely considered by the stakeholders as effective both on the fiscal and on the structural side. However, impact on the structural side could have been enhanced, according to some of the stakeholders, by providing technical assistance. The programme was found to be coherent with the actions of other donors and other EU assistance instruments.

The stakeholders' overall view was that the design of the MFA-I had significant implications on its efficiency both from the EU perspective as well as for the Jordanian government, mainly due to its complementarity and cross-conditions with other donors. They also acknowledge the programme's value-added for the EU side.

With regard to the social impact stakeholders indicated overall that the programme was positive mainly through the relaxation of the overall budget constraint but also through the implementation – on permanent basis – of the Unemployment and Maternity Funds.

Last, the stakeholders had a positive view on the programme's contribution on Jordan's debt sustainability mainly attributed to its favourable financing terms.

Focus Groups

Results from the discussions in the two Focus Groups confirmed the overall relevance and efficiency of the programme with regard to its selected objectives as well as with regard to the social cohesion and debt sustainability.

More particularly, the Focus Groups participants acknowledged interconnection and overall effectiveness in some of the programme's reforms (such as NEPCO's loss with fiscal position). There was also a wide recognition of the importance of the new investment law but also some concerns were expressed regarding its implementation mainly with regard to its tax benefits.

Also, a number of group participants pointed to the high relevance of sustaining the income levels and social cohesion amidst the fiscal consolidation required by the IMF’s SBA. They also pointed out the persistent nature of unemployment and of the informal economy in Jordan.

Last, many Focus Group members highlighted the positive effects of the MFA work in Debt sustainability both through the confidence channel (reduction in risk premium) and the real growth channel (upward revision of the growth outlook).

Annex 6: Methodology of the DSA calculations

The evaluation study used the IMF's Debt Sustainability Analysis (DSA) framework to quantify the effect of the IMF and MFA programmes on Jordan's public debt sustainability for 2013-2018 (medium term) and beyond (longer term).

IMF's DSA framework was formally developed as guiding methodology for conducting public and external debt sustainability analyses (DSAs) in order to better detect, prevent, and resolve potential crises. The DSA framework became operational in 2002.

The objective of the DSA framework is threefold:

- Assess the current debt situation, its maturity structure, whether it has fixed or floating rates, whether it is indexed, and by whom it is held;
- Identify vulnerabilities in the debt structure or the policy framework far enough in advance so that policy corrections can be introduced before payment difficulties arise;
- In cases where such difficulties have emerged, or are about to emerge, examine the impact of alternative debt-stabilizing policy paths.

The framework consists of two complementary components: the analysis of the sustainability of total public debt and that of total external debt. Each component includes a baseline scenario, based on a set of macroeconomic projections that articulate the government's intended policies, with the main assumptions and parameters clearly laid out; and a series of sensitivity tests applied to the baseline scenario, providing a probabilistic upper bound for the debt dynamics under various assumptions regarding policy variables, macroeconomic developments, and financing costs. The paths of debt indicators under the baseline scenario and the stress tests allow to assess the vulnerability of the country to a payments crisis.

To account for country-specific circumstances two types of frameworks have been designed: those for market-access countries and those tailored for low-income countries. In both cases, the frameworks have been regularly refined with a view to—among other elements—bringing a greater discipline to the analysis and responding to the changing economic and financial environment.

The framework for public debt sustainability analysis for advanced and emerging market economies was reformed in 2011 and guidance to staff on the implementation of the new framework was introduced in May 2013. A new public DSA template was published in March 2014. The assessment of external debt sustainability continues to be anchored by the framework introduced in June 2002 (see "Assessing Sustainability"). This framework was subsequently refined in June 2003 and July 2005 (see "Sustainability Assessments-Review of Application and Methodological Refinements" and Information Note On Modifications to the Fund's Debt Sustainability Assessment Framework For Market-Access Countries).

The Heavily Indebted Poor Countries (HIPC) Initiative was launched in 1996 by the IMF and World Bank, to ensure that no poor country faces a debt burden it cannot manage.

Until March 2018, debt reduction packages under the HIPC Initiative have been approved for 36 countries, 30 of them in Africa, providing USD 76 billion in debt-service relief over time. Three additional countries are eligible for HIPC Initiative assistance.

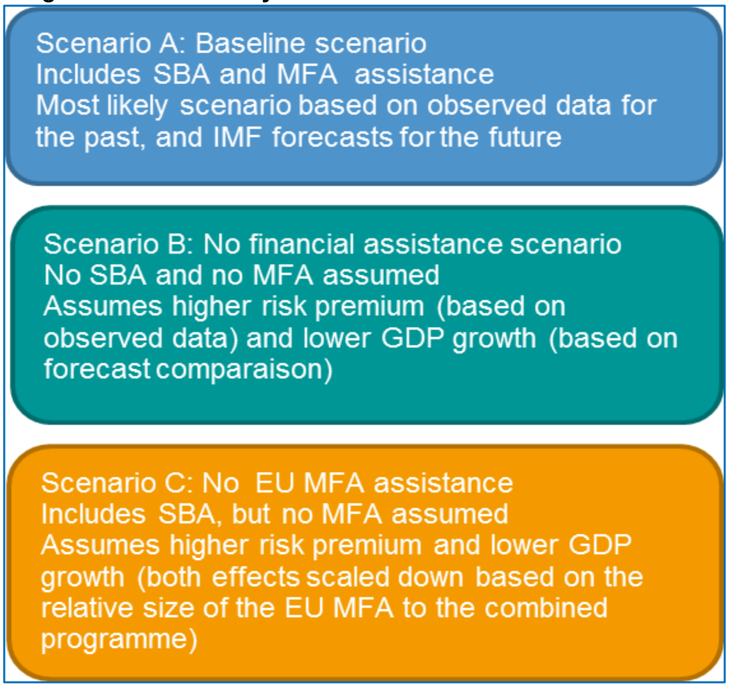
Assessing the impact of financial assistance on the sustainability of the external (EQ2.1.1) and public debt (EQ 7.1) requires a set of realistic and consistent assumptions to create the different scenarios. The baseline scenario (Scenario A) incorporates the financial programme both from the SBA of 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.[23] For the longer term[24], assumptions on the long-term equilibrium values of the main driving forces were used consistently with the latest DSA calculations published by the IMF (see Table 6.1 and Table 6.2).

The following two alternative scenarios were constructed:

- 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



[23] See http://www.imf.org/external/pubs/cat/longres.aspx?sk=44267.0.

[24] 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.

The quantification of the alternative scenarios (B-C) is being done in three steps:

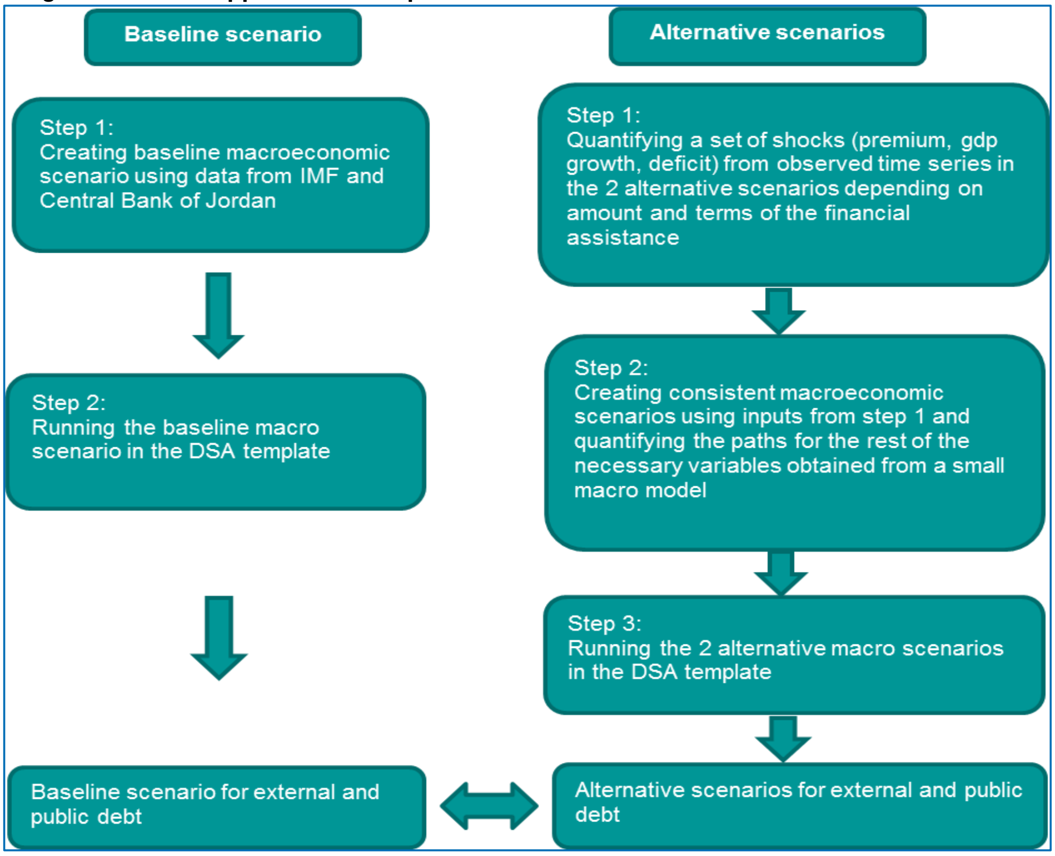
1. First, based on the observed dynamics in Jordan's financing conditions and the IMF's growth forecasts shortly before and immediately after the approval of the SBA programme, we quantify the underlying shocks to the risk premium and GDP growth attributable to the financial assistance from the IMF. 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 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;[25]
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[26] 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.

25 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.

26 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.

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

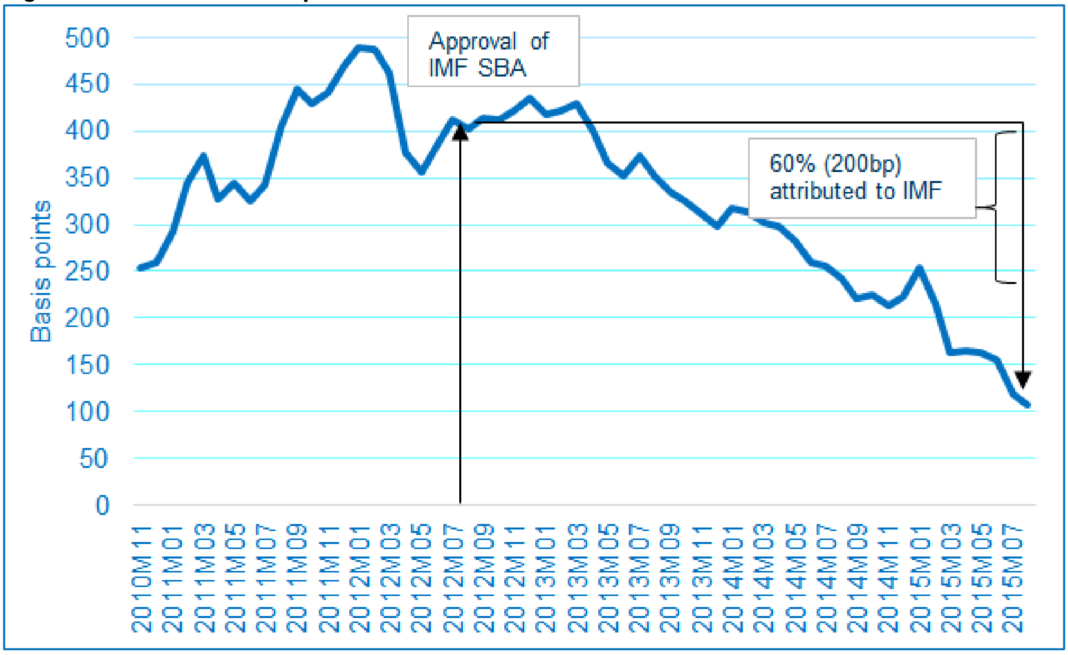


Regarding the first step of creating the alternative scenarios, when quantifying the shocks for the risk premium and the real growth, we proceeded as listed below:

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 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.[27]

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.[28]

[27] 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.

[28] 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.[29]

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) of the Evaluation.

[29] This is visible from comparing scenario C (only IMF loan) to the baseline (joint financing).