



JORDAN

TECHNICAL ASSISTANCE REPORT—PUBLIC INVESTMENT MANAGEMENT ASSESSMENT (PIMA)

December 2017

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Jordan

Public Investment Management Assessment (PIMA)

Yasemin Hürçan, Xavier Rame, Isabel Rial, Sefa Pamuksuz, and
Eivind Tandberg

Technical Assistance Report | April 2017



I N T E R N A T I O N A L M O N E T A R Y F U N D

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GLOSSARY

AB	Audit Bureau
BPIN	Investment project database
CG	Central Government
CoA	Chart of Accounts
CoM	Council of Ministers
CVDB	Cities and Villages Development Bank
DNP	National Planning Department
EDP	Executive Development Plan
EFF	Extended Fund Facility
EME	Emerging Market Economy
FAD	Fiscal Affairs Department
GAM	Greater Amman Municipality
GBD	General Budget Directorate
GFMIS	Government Financial Management Information System
GFSM	Government Finance Statistics Manual
GTD	General Tender Directorate
IPSAS	International Public Sector Accounting Standards
METAC	Middle East Regional Technical Assistance Center
MoF	Ministry of Finance
MoH	Ministry of Health
MoPIC	Ministry of Planning and International Cooperation
MTBF	Medium-Term Budget Framework
NEPCO	National Electric Power Company
OBA	Own Budget Agencies
PFM	Public Financial Management
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PIP	Public Investment Program
PMDU	Prime Minister's Delivery Unit
PPP	Public-Private Partnerships
SOE	State-Owned Enterprise
TSA	Treasury Single Account
USAID	United States Agency for International Development
WAJ	Water Authority of Jordan
VfM	Value for Money

PREFACE

In response to a request from the Ministry of Finance (MoF), a Fiscal Affairs Department (FAD) technical assistance (TA) mission visited Amman, Jordan during April 25–May 9, 2017, to conduct a public investment management assessment (PIMA) and advise the government on improving public investment management (PIM). The mission was led by Yasemin Hürçan and included Isabel Rial, (both FAD), Xavier Rame (Public Financial Management (PFM) advisor at the Middle East Regional Technical Assistance Center (METAC)), and Sefa Pamuksuz and Eivind Tandberg (FAD experts).

The mission met with Dr. Omar Malhas, Minister of Finance; Mr. Imad Fakhoury, Minister of Planning and International Cooperation; Mr. Sami Halaseh, Minister of Public Works and Housing; Dr. Ezzeddin Kanakrieh, Secretary General, MoF; and Dr. Saleh Kharabsheh, Secretary General, Ministry of Planning and International Cooperation (MoPIC). The mission also met with senior staff members from the MoF, the MoPIC, the Audit Bureau (AB), the Project Monitoring Unit of the Prime Minister, the Ministry of Health (MoH), the Ministry of Municipal Affairs (MoMA), the General Budget Directorate (GBD), Cities and Villages Development Bank (CVDB), National Electric Power Company (NEPCO), Water Authority of Jordan (WAJ), Greater Amman Municipality (GAM), the Energy and Minerals Regulatory Commission, and the Shareholding Management Company. Finally, the mission met with representatives from the European Union Delegation and United States Agency for International Development (USAID).

The mission would like to thank the authorities for the excellent cooperation during the mission and expresses its gratitude for the courtesy extended from all these officials and institutions throughout the stay. It is especially grateful to Secretary General Dr. Saleh Kharabsheh, the MoPIC, and his staff, Ms. Feda Jaradat and Ms. Ebaa Eassa, for coordinating the mission's meetings. The mission would also like to express its appreciation to the interpreters, Ms. Nadia Al Sharif and Mr. Nasser Kohof.

EXECUTIVE SUMMARY

Jordan's public finances have deteriorated since the mid-2000s, resulting in a significant reduction in public investment. In response to several negative external shocks, notably the Iraq and Syria crises and the 2008 global financial crisis, the government has reduced public investment and stepped up the use of public-private partnerships (PPPs). Capital expenditure as a share of total expenditure for the general government decreased from around 7 percent of GDP in the early 2000s to around 4 percent of GDP in the years following the 2008 global financial crisis. Consequently, Jordan's public capital stock stood at 77 percent of GDP in 2015, compared to 140 percent of GDP in 1990, and the capital stock per capita in 2015 was lower than those of peer countries with similar income levels.

At the same time, Jordan's public investment has been volatile and procyclical compared to emerging economies and peer countries. In the last two decades, general government investment has become highly correlated to GDP growth, i.e., contracting in economic downturns and expanding during economic recovery. While public investment in Jordan was comparable to emerging economies and peer countries until 2000, it increased significantly in the next four years, and has lagged behind since then.

A rapid increase of PPPs in Jordan has resulted in a high PPP capital stock compared to emerging economies and peer countries. The need to meet increasing infrastructure needs within the tight fiscal space has resulted in an intensive use of PPPs since 2005. By 2015, 30 percent of the total public sector's investment portfolio was procured through PPPs, compared to just 6 percent for the average of emerging economies.

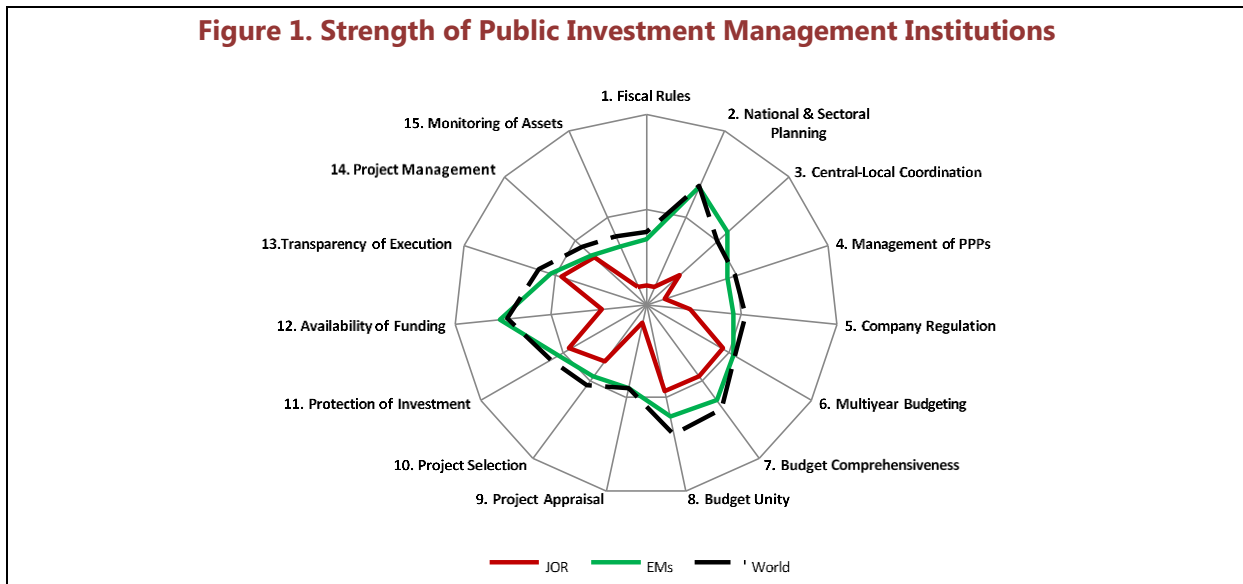
The efficiency of public investment in Jordan is comparable to emerging economies, but there is room for improvement. An assessment based on a combined indicator of the perception of infrastructure quality, physical access, and service delivery, suggests that public investment in Jordan falls short of its potential efficiency level. The efficiency gap between Jordan and the most efficient country with comparable levels of the public capital stock per capita amounts to 21 percent, slightly better than the efficiency gap for the average of emerging economies of 23 percent.

Unlocking Jordan's growth potential will require a strong PIM framework to develop cost-effective infrastructure. The assessment of PIM institutions in Jordan shows that Jordan falls short of the average of emerging economies in most areas (Figure 0.1).¹ While the strength of institutions for multi-year budgeting, budget comprehensiveness, budget unity, protection of investment, and transparency of execution is close to the average of emerging economies, significant weaknesses

¹ This mission assessed the strength and quality of PIM in Jordan using the public investment management assessment (PIMA) framework. The framework is based on 15 key institutional domains or institutions involved in the three phases of the PIM cycle: planning, allocation, and implementation.

prevail in other areas, most notably related to the planning of public investment. Addressing these weaknesses can help improve the efficiency, and thus the growth potential, of public investment.

Figure 1. Strength of Public Investment Management Institutions



Based on the assessment, institutional gaps to be addressed include:

- **At the planning phase:** (i) strategic plans do not provide adequate guidance for project development and prioritization; (ii) recent changes in the legal framework for PPPs reduce the MoF’s oversight role in key strategic sectors, such as water and electricity; (iii) lack of systematic recording and monitoring of explicit and contingent liabilities arising from PPPs, despite the increasing importance of PPPs in Jordan’s overall public investment portfolio; and (iv) lack of an adequate state-owned enterprise (SOE) oversight function in the MoF despite financial problems in SOEs, especially NEPCO and WAJ.
- **At the allocation phase:** (i) lack of systematic appraisal of public investment projects prior to decisions to include them in the budget or submit them for external financing consideration; and (ii) ad-hoc and uncoordinated selection of projects—largely based on line ministry preferences.
- **At the implementation phase:** (i) lack of a formal carry-over rule; (ii) weaknesses in procurement, ex-post evaluations and ex-post audit; and (iii) lack of recording and valuation of fixed assets.

Specifically, strategic plans include too many capital projects without a strong project appraisal and selection framework, resulting in the intensive use of PPPs without a suitable monitoring structure. The strategic planning process is fragmented both institutionally and in terms of coverage. It does not provide clear guidance for project prioritization, resulting in overoptimistic plans that are poorly linked to the budget envelope. During budget allocation, the lack of systematic and consistent appraisal processes undermines project quality and leads to uncertainties and delays in project implementation

Investments made by SOEs are also significant and not sufficiently monitored. SOEs play a significant role in public investment in Jordan, with around 30 percent of the total public investment portfolio provided through SOEs. Line ministries are responsible for monitoring SOEs, including

coordination of investment plans with national and sectoral strategies and priorities, but there is no centralized reporting of their financial performance, including the cost of quasi-fiscal activities or the potential fiscal risks from SOEs.

Against this background, the report makes the following eight recommendations aimed at strengthening PIM institutions and reducing the identified efficiency gap:

- **At the planning stage:**

Recommendation 1: Improve the quality of strategic planning by clarifying roles and responsibilities, enhancing coordination mechanisms between the institutions involved, and ensuring that strategic projects go through the Executive Development Plan (EDP) cycle.

Recommendation 2: Strengthen the oversight and disclosure practices of PPPs.

Recommendation 3: Design and implement a roadmap for improving central oversight of public investment plans and financial performance of SOEs.

- **At the allocation stage:**

Recommendation 4: Strengthen project appraisal to ensure that: (i) all projects are well-defined and address clear objectives; (ii) estimated project benefits are higher than their costs; (iii) project implementation is feasible; and (iv) projects are sufficiently developed so that they can be implemented immediately after final funding decision.

Recommendation 5: Strengthen the EDP process to ensure that it provides a credible and realistic pipeline of high-priority, high-quality projects, and that project selection is done consistently regardless of funding sources.²

Recommendation 6: Based on the review of the usage of trust funds for carrying over expenditure, consider the introduction of a clearly defined and transparent carry-over mechanism in the PFM legal framework.

- **At the implementation stage:**

Recommendation 7: Strengthen project implementation and oversight by ensuring consistent procurement rules, systematic project completion reports and effective ex-post audit of major projects.

Recommendation 8: Comply with the “Roadmap for the Implementation of IPSAS” and Financial By-Law 2010 on asset registry.

Table 0.1 summarizes the results of the PIMA assessment, and more details on the individual phases and institutions are provided in Section III of the report. Table 0.2 provides a proposed detailed action plan for the implementation of the report’s recommendations. Section IV of the report provides more detail on these proposed reform priorities and recommendations.

² The Government has decided to establish a public investment unit within the MoPIC that may play an important role in this regard.

Table 1. Jordan: Summary Assessment

Phase / Institution		Institutional Strength	Effectiveness	Importance	
A. Planning	1	Fiscal rules	Medium: Public debt ceiling of 60 percent of GDP since 2001; no automatic adjustment mechanism; no protection for capital spending.	Low: Public debt ceiling not met in the last three years; public debt stock 95.1 percent of GDP by 2016.	Medium: Capital expenditure procyclical and increasingly volatile hinder public investment efficiency.
	2	National and sectoral planning	Medium: National and sectoral overall strategies published, with tentative costing, but not limited to capital projects. Clear measurable targets for outputs and outcome.	Low: Planning process fragmented. Strategies do not adequately prioritize investments and are poorly linked to fiscal capacity.	High: Clear coordination failure. Need to consolidate and reconcile different policy initiatives within realistic strategic framework.
	3	Central-local coordination	Medium: There is no limit for the borrowing of municipalities, but investment plans are reviewed and approved by MOMA. There is a formula.	Low: Formula is not transparent, and excludes. Amman, Petra and Aqaba	Medium: Investment plans of municipalities are not consolidated with CG. There is a non-transparent formula
	4	Public-private partnerships	Medium: PPP policy, law and regulation in place require VfM analysis by MOF's PPP unit. No recording/ monitoring of PPPs' explicit or contingent liabilities.	Low: PPP capital stock at 12.3 percent of GDP. Exemptions to PPP law approved in 2016, exclude PPPs in energy and water sectors that account for 60 percent of total PPP portfolio	High: Exception to PPP law reduce MoF's control over fiscal costs and risks from PPP portfolio. Several new energy and water projects in the pipeline.
	5	Regulation of infrastructure companies	Medium: There is a regulatory commission for electricity but not water. Railways and electricity transmission sectors are monopolies.	Low: Regulated prices did not allow cost recovery.	High: Guaranteed debt and advances of NEPCO and WAJ reached 22 percent of GDP in 2016. SOE monitoring needs to be introduced.
B. Allocation	6	Multi-year budgeting	Medium. Capital exp. are forecasted for three years but binding ceilings only set for the budget year. The full cost of projects is not disclosed.	Medium. Project costs estimates cover only three years.	Low. Disclosure of projects' full cost would tighten control on their financial sustainability. Introduction of binding ceilings could be considered.
	7	Budget comprehensiveness	Medium. Capital spending are mainly undertaken through the budget but no requirement to disclose information on PPPs in the budget documentation.	Medium. Capital spending are mainly undertaken through the budget but information on PPPs is missing.	Medium. Increased transparency on PPPs would improve fiscal transparency and control on their long-term financial impact.
	8	Budget unity	Good: Capital and recurrent budgets are presented together.	Medium: There are no government-wide methodologies for determining current and capital maintenance needs.	Low: Budget and accounts provide adequate information on recurrent and capital expenditures.
	9	Project appraisal	Low: No systematic government appraisal, but externally-funded projects are assessed by donors.	Low: Appraisal is either lacking, or ad-hoc and fragmented.	High: Adequate project appraisal is an essential prerequisite for an efficient capital investment process.
	10	Project selection	Low: No standardized selection criteria but projects are assessed for their contribution to sector targets.	Low: Project selection is largely done by line ministries; some exceptions for major, externally funded projects.	Medium: Cannot do stringent selection before adequate appraisal process is in place.
C. Implementation	11	Protection of investment	Low. Rules to protect in-year appropriations but none for multi-year ones. No carry-over mechanism.	Medium. Limited in-year reallocations and use of trust funds to carry-over some appropriations.	Medium. Transparent carry-over mechanisms would facilitate financial management of projects.
	12	Availability of funding	Medium. Cash forecasts and commitment control systems are in place. Some financing operations (e.g., advances to SOEs) have negative impact on cash releases.	Low: Cash rationing causes delays in some projects.	Medium. Improvements in cash forecasting and TSA could facilitate better cash management. and limit cash rationing. Incl. advances to SOEs in the cash-flow forecasts.
	13	Transparency of execution	Medium: Project execution transparency is mixed: monitoring is good; procurement, audit inadequate.	Medium: Special procurement arrangements and very limited ex-post audit undermine transparency.	Medium: Consistent procurement frameworks and more extensive audit will take time to implement.
	14	Project management	Medium: Project implementation arrangements are moderately effective.	Low: No systematic ex-post evaluation unless required by donors.	Medium: Systematic ex-post evaluation will over time facilitate portfolio analysis and learning.
	15	Assets accounting	Low: Public assets are not properly recognized and reported in financial statements.	Low: Asset surveys are not regularly conducted.	High: A consolidated registry of public assets should be designed and updated regularly.

Institutional strength	Good	Medium	Low
	In place	Some aspects in place, but incomplete	Not in place
Effectiveness	Good	Medium	Low
	In place and effective	Incomplete, but it works somehow in practice	It may or may not be in place, but it does not work in practice
Importance	High	Medium	Low
	High reform priority, always a recommendation	Medium reform priority, a recommendation is needed	Not a reform priority, may or may not require a recommendation

Table 2. Action Plan

	Recommendations	2017	2018	2019	Responsibilities	Potential TA
Planning	1. Strengthening strategic planning					
	Confirm the MoPIC's leadership to ensure the technical and financial consistency of the planning process	X			Cabinet	No
	Reaffirm the priority of the implementation of the PIM framework developed by the World Bank to build PIM capacities	X			MoPIC and line ministries	World Bank
	Include all initiatives and projects in the EDP		X		PMDU, MoF, MoPIC, and line ministries	World Bank
	Distinguish capital expenditure from current expenditure in the EDP	X			MoPIC and PMDU	World Bank
	2. Strengthening the oversight of PPPs					
	Reaffirm the oversight role and responsibility of the PPP unit in the MoF as prescribed by the 2014 PPP law and 2015 by-law	X			Cabinet	No
	Record and disclose data on existing PPP contracts in an annex to the budget		X		PPP Unit, GBD	No
	3. Improving SOEs oversight					
	Assign to a specific unit in the MoF the monitoring of SOEs	X			MoF	No
Prepare a consolidated report on the financial and operational performance of SOEs		X		MoF	World Bank	
Classify the Government Units in line with the Government Finance Statistics Manual (GFSM) 2014	X			MoF	IMF	
Allocation	4. Strengthening project appraisal					
	Develop comprehensive guidelines for capital project preparation and documentation.	X ¹	X		MoPIC	World Bank
	Give MoPIC formal responsibility to assess all public investment projects, regardless of source of funding.	X			Cabinet	No
	Provide training to MoPIC's and line ministries' staff in project appraisal and review	X	X	X	MoPIC	World Bank
	Apply new guidelines to 2019-21 EDP		X		MoPIC	No

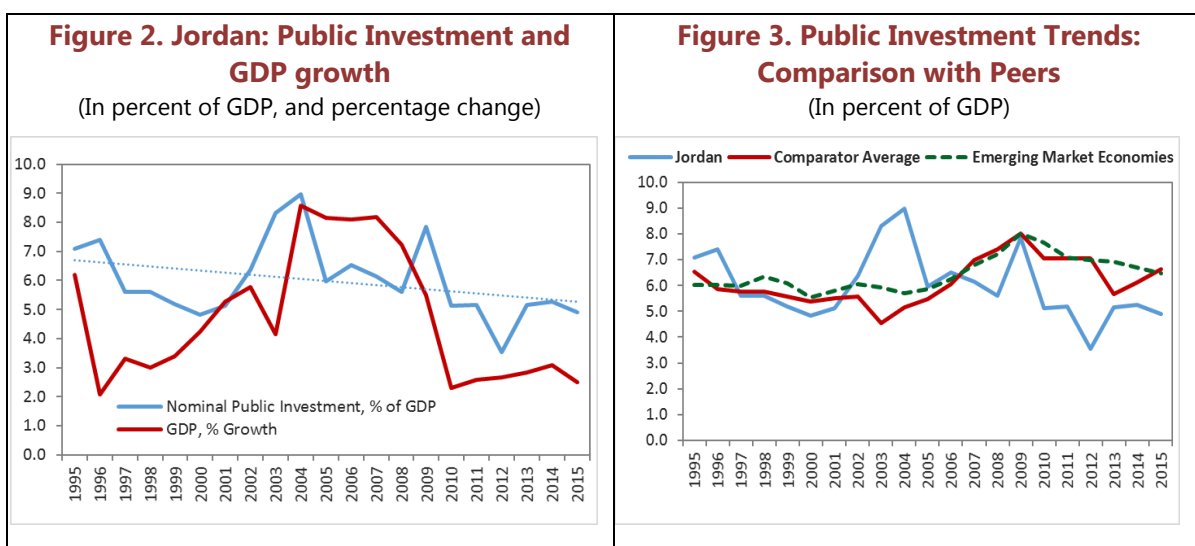
Implementation	5. Strengthening project selection					
	Develop guidelines for the EDP process ² to ensure that project proposals are fully prepared and compatible with realistic fiscal envelope	X			MoPIC, GBD, MoF	World Bank
	Establish and publish clear and transparent criteria for project selection for the EDP	X			MoPIC	World Bank
	Update budget guidelines to ensure that budget funding decisions are consistent with EDP	X			GBD	No
	Apply new guidelines for 2019 budget		X		MoPIC, GBD	No
	6. Introducing a clearly defined carry-over mechanism					
	Define the criteria allowing budget managers to retain unspent appropriations		X		MoF, GBD	METAC
	Define quantitative restrictions to the usage of carry-over		X		MoF, GBD	METAC
	Set the level of carry-over to restrain their use to the initial object of the appropriation (e.g., to a specific investment project)		X		MoF, GBD	METAC
	7. Strengthening project implementation and oversight					
	Update procurement legislation to ensure that procurement of major public investment is based on competitive, international tenders, that all tenders and awards, including tenders by special tender committees, are fully disclosed on the website of the General Tender Directorate (GTD), and that there is an independent tender appeals		X		GTD	World Bank
	Update EDP guidelines to include specific provisions for comprehensive project completion reports for all public investment projects, with disclosure of cost overruns and project delays, and identification of lessons learnt		X		MoPIC	World Bank
	Include in the AB's work plan at least 10 ex-post audits of major public investment projects each year, and publish the audit reports		X	X	AB	European Union
	8. Register and value fixed assets					
	Comply with the "Roadmap for the Implementation of IPSAS" and Financial By-Law 2010 on asset registry	X	X	X	MoF and line ministries	USAID
	¹ The works starts in 2017 and is completed in 2018.					
	² The government is planning to establish a new unit, which could play an important role in these areas.					

I. TRENDS IN PUBLIC INVESTMENT

This section provides an overview of public investment in Jordan and compares it to emerging economies and peer countries. Sub-section A describes recent trends in public investment and the public capital stock. Sub-section B describes the composition of public investment.

A. Trends in Total Public Investment and Capital Stock

1. In the last two decades, general government investment in Jordan has decreased by around 40 percent, becoming broadly procyclical. In 1995 general government investment³ stood at 7.0 percent of GDP, reaching its maximum level in 2004 at 9.0 percent of GDP, and then gradually declining to 4.2 percent of GDP by 2015 (Figure 1). The changes in public investment are highly correlated to GDP growth, with public investment contracting in economic downturns and expanding during economic recovery, suggesting a procyclical behavior. Compared to emerging market economies (EMEs) and peer countries,⁴ Jordan's public investment was similar until 2000, increased significantly in the next four years, and has lagged since then not recovering to previous levels (Figure 2).



Sources: WEO and staff estimates based on official data. Coverage of the public sector corresponds to general government. Peer countries include: Algeria, Georgia, Lebanon, Morocco, and Tunisia.

³ For simplicity, in the rest of the document we refer to general government investment as public investment, unless specifically clarified.

⁴ Peer countries include Algeria, Georgia, Lebanon, Morocco, and Tunisia, unless specifically clarified.

Figure 4. Jordan: Volatility of Public Investment Over Time
(Standard deviation*)

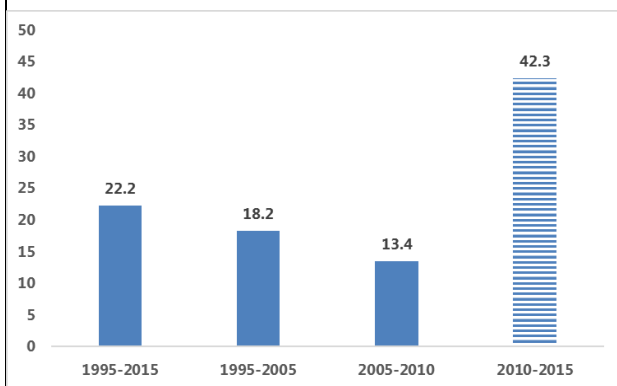
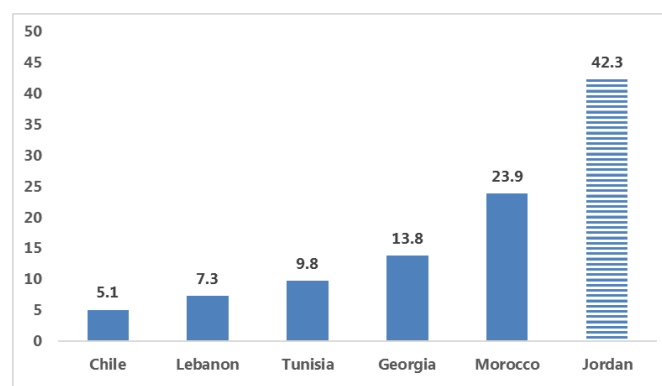


Figure 5. Comparison Volatility of Public Investment, Average 2010-2015
(Standard deviation*)



Sources: WEO and staff estimates based on official data. Coverage of the public sector corresponds to general government.
*Volatility is calculated as the standard deviation of year-on-year growth of investment to GDP ratios (real, deflated, and PPP-adjusted).

2. Consistent with a declining and highly volatile public investment rate over much of the past 25 years (Figure 3), Jordan’s estimated public capital stock as a share of GDP is relatively low compared to peer countries (Figure 4). Jordan’s estimated public capital stock stood at 77 percent of GDP by 2015, about half the estimated level in 1995 (Figure 5), and lagging also in per capital terms relative to peer countries with similar income levels (Figure 6).⁵

⁵ The methodology for estimating public capital stock is detailed in the IMF Board Paper “Making Public Investment More Efficient,” June 2015. Public capital stock is estimated by the accumulation of capital spending between 1960 and 2015 (perpetual inventory method) minus depreciation (assuming a depreciation rate varying that varies with time and income group). Thus, mature economies that invested heavily early in the period (i.e., the 70s and 80s) but have then reduced public investment significantly (below the average depreciation rate) show capital stock levels much lower than younger economies with more recent high levels of public investment.

Figure 6. Jordan: Public Investment and Capital Stock
(In percent of GDP)

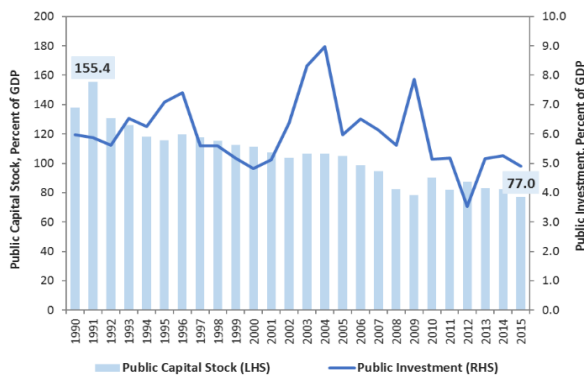
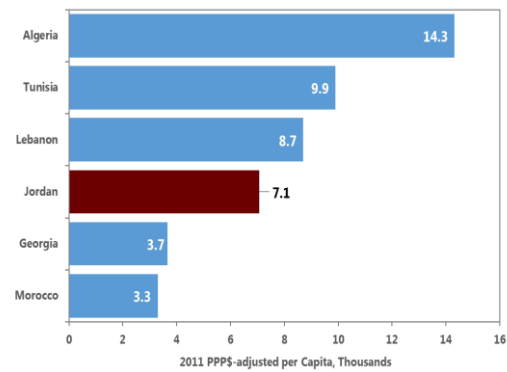


Figure 7. Public Capital Stock per Capita: Comparison with Peers, 2015
(2011 PPP\$-adjusted, thousands)



Sources: WEO and staff estimates based on official data. Coverage of the public sector corresponds to general government.

3. Jordan’s public finances have deteriorated significantly since mid-2000s, mostly due to the impact of negative external shocks. Between 2000 and 2005, Jordan’s public finances improved at the influx of rising GDP. During this period, revenues increased about 5 percentage points of GDP, while expenditures also expanded, but at a lower rate (Figure 7). The gradual decline in revenues observed after 2005 (about 10 percentage points of GDP) was only partially compensated by consolidation efforts on the expenditure side until 2010. Public gross debt was cut by half, from 124 to 60 percent of GDP between 2001 and 2008 (Figure 8). Subsequent economic measures introduced to compensate for various external shocks, resulted in both public gross debt and expenditures returning to pre-crisis higher levels.

Figure 8. Jordan: Fiscal Balance
(In percent of GDP)

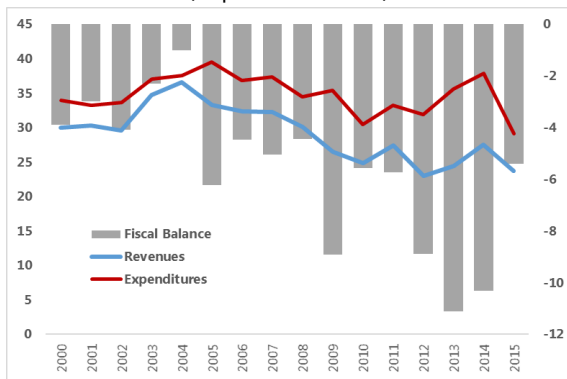
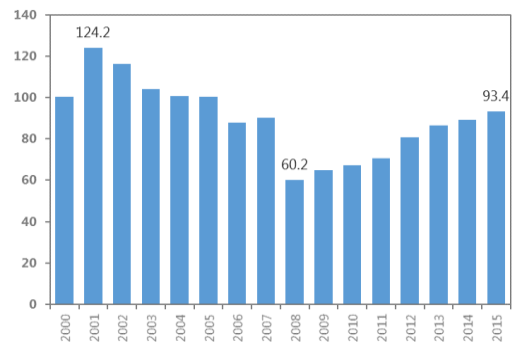
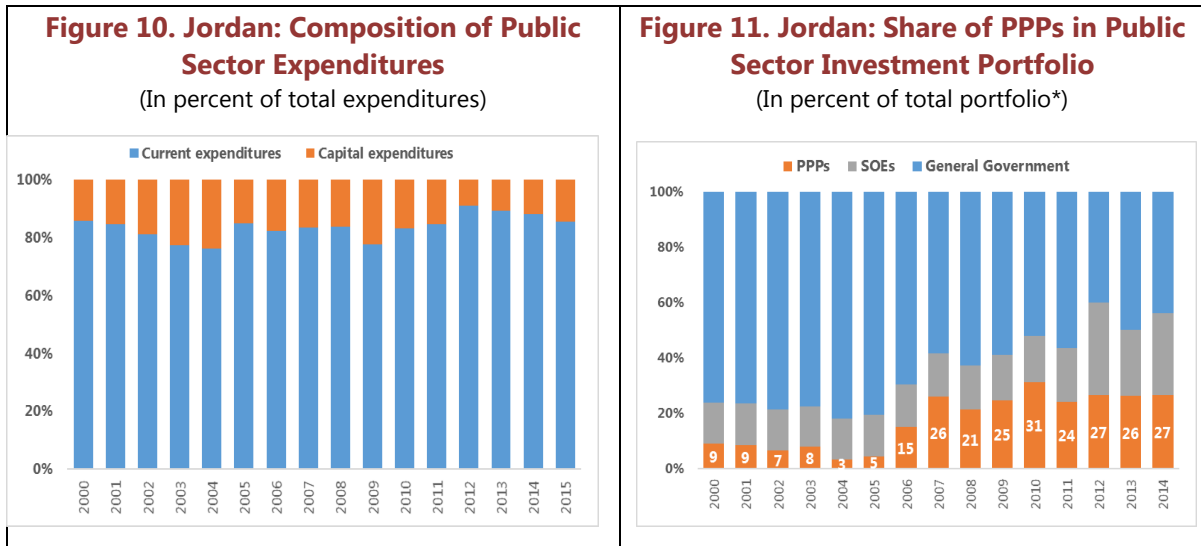


Figure 9. Jordan: Gross Debt
(In percent of GDP)



Sources: WEO and staff estimates based on official data. Coverage of the public sector corresponds to general government.

4. The government responded to the shrinking fiscal space by cutting public investment and by stepping up the use of PPPs in the provision of infrastructure. The share of public investment as percentage of total expenditures for the general government decreased, on average, from 7 to 4 percent between the early-2000s and the years following the 2008 global financial crisis, to provide space for non-discretionary expenditures in the budget (Figure 9).

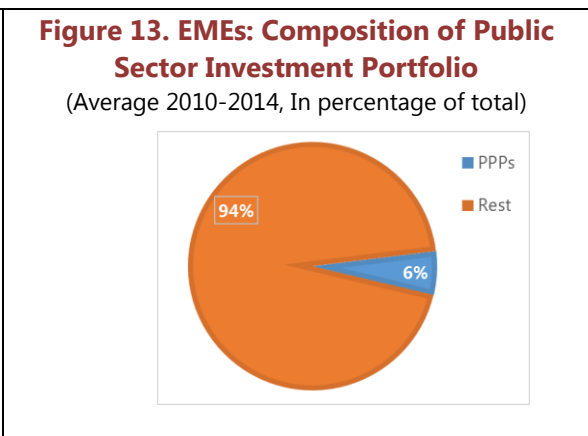
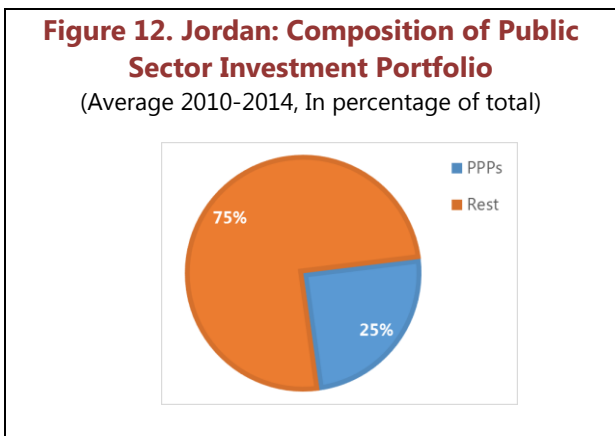


Sources: WEO and staff estimates based on official data. Coverage of the public sector corresponds to general government. Public Sector investment portfolio is estimated as general government capital expenditures, plus SOEs capital expenditures (netted of transfers received from general government), plus investment in PPPs.

5. Since the mid-2000s, the increase in PPPs as a share of the overall public sector portfolio has been remarkable. In the early 2000s public infrastructure assets and services was mainly provided traditionally either by general government units or by SOEs⁶ (Figure 10). Yet, pressures to satisfy increasing infrastructure needs within tight fiscal constraints resulted in a strong bias towards PPPs. Given that Jordan’s government accounts are still on a cash-basis, PPPs are off-budget, and have no short-term impact on the main fiscal indicators (debt and deficit).⁷ In the last decade, the share of PPPs in the overall public investment portfolio increased from 5 percent, on average for 2000 to 2005, to 25 percent, on average for 2010 to 2014 (Figure 11). Thus, by 2015 more than one fourth of Jordan’s public sector’s investment portfolio was procured through PPPs, compared to just 6 percent for the average of emerging countries (Figure 12).

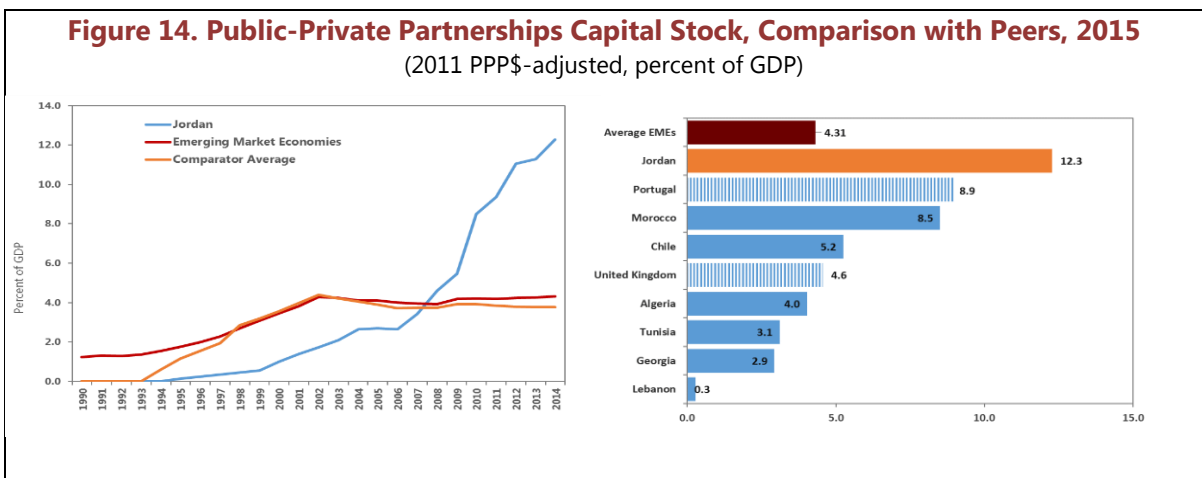
⁶ SOEs are classified as OBA or government units (GU) in Jordan whose budgets are contained in a separate annual budget law. Some of these units are regulatory agencies or some have specific responsibilities for promoting aspects of economic and/or social development, and others are public utilities.

⁷ In a cash basis accounting system PPPs are recorded as deferred expenditures during the operation phase of PPP project, but only if the government pays for the services directly to the private operator. Otherwise, there is no impact on main fiscal indicators.



Sources: WEO and staff estimates based on official data. The public sector investment portfolio is estimated as general government capital expenditures, plus SOEs capital expenditures (netted of transfers received from general government), plus investment in PPPs.

6. The rapid increase of PPPs in Jordan since 2005 has resulted in a remarkably high PPP capital stock compared to emerging economies and peer countries. While many emerging economies started using PPPs to procure economic and social infrastructure since the early 1990s, Jordan only started using them intensively since 2000 (Figure 13). However, Jordan's pace of PPP investment in the past decade was remarkably fast, reaching by 2015 an estimated PPP capital stock of 12.3 percent of GDP.⁸ This has resulted in a relatively high estimated level of PPP capital stock in Jordan, three times higher than the average of emerging economies, and certainly the highest among peer countries, and even higher than some of PPP-active OECD countries (e.g., UK, Chile, Portugal).

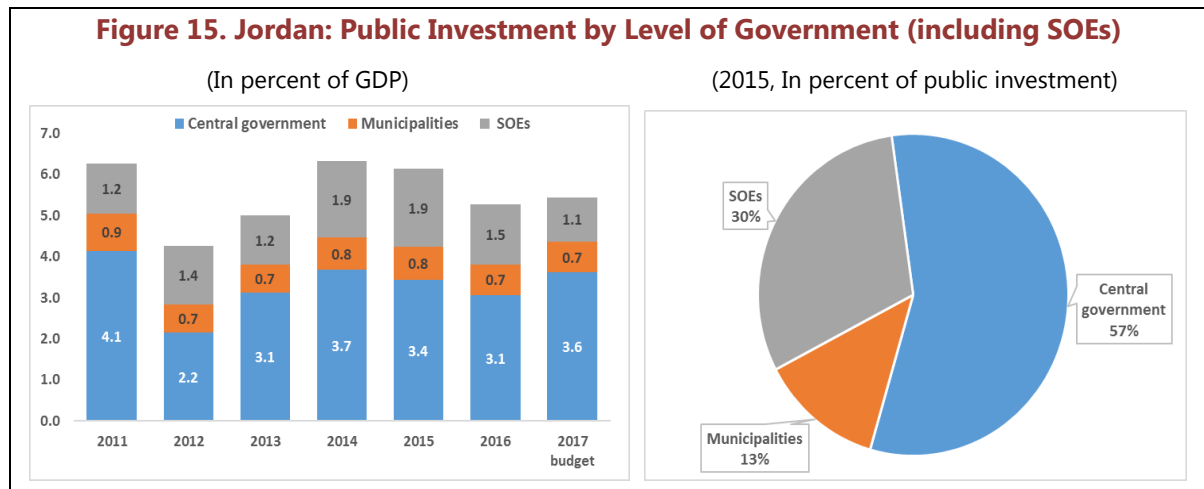


Sources: WEO and staff estimates based on official data. Coverage of the public sector corresponds to general government for all countries. PPP estimates based on World Bank's PPIAF and European Investment Bank (EIB) databases.

⁸ The PPP capital stock was estimated using the same methodology for the estimation of public capital stock. The data source corresponds to the World Bank PPIAF and European Investment Bank (EIB) databases.

B. Composition of Public Investment

7. **About two thirds of Jordan’s public investment is provided by the central government (CG), with SOEs contributing a further third, and municipalities playing only a limited role.** The contribution to total public investment has remained broadly stable since 2011 (Figure 14). By 2015, the CG accounted for 57 percent of total public investment, and SOEs for 30 percent, while municipalities accounted only for 13 percent.



Sources: Staff estimates based on WEO and official data. Coverage of the public sector corresponds to general government. In the case of Jordan we include SOEs based on official preliminary data.

8. **Jordan’s allocation of public investment by sectors differs substantially from the average of emerging economies.** On average, between 2009 to 2014, emerging economies allocated about half of their public investment to economic infrastructure (i.e., roads, bridges, buildings), compared to one third in Jordan (Figures 15 and 16). On the other hand, Jordan allocated almost twice as much to social infrastructure (i.e., health, education, and social protection) compared to emerging economies, partly in response to increasing needs for social services arising for the refugee crisis.

Figure 16. Jordan: Public Investment by Function, Average 2009–14
(In percent of total public investment)

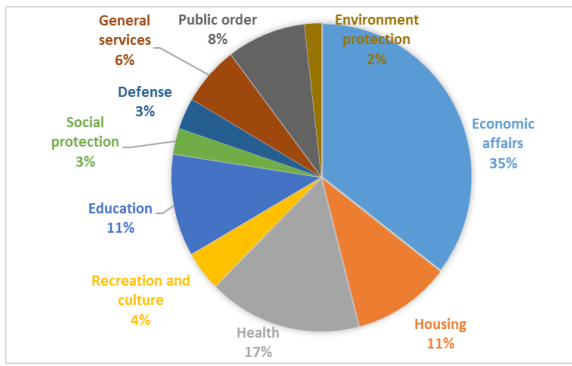
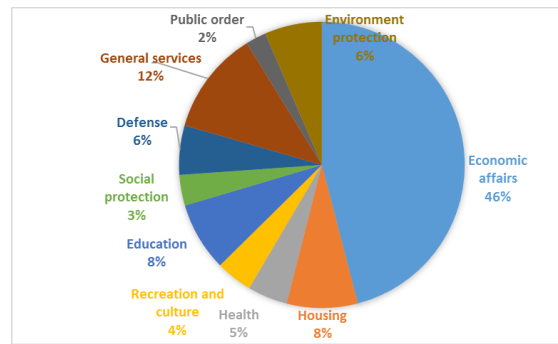


Figure 17. EMEs: Public Investment by Function, Average 2009–14
(In percent of total public investment)



Sources: Staff estimates based on WEO and official data. Coverage of the public sector corresponds to general government.

9. Public investment in Jordan is mostly funded through domestic sources. Based on data available from budget allocations, on average for 2011 to 2016, public investment is funded by 90 percent from domestic sources. The later comprise Treasury funding, subsidies and loans; while external sources include loans and grants (Figure 17 and 18). Data for direct foreign financing of capital projects (i.e., USAID and Saudi Arabia grants), which are off-budget, was not available at the time of the mission. However, the PEFA report estimates that foreign grants account for less than 2 percent of CG capital expenditures.

Figure 18. Jordan: General Budget Investment by Sources of Domestic Funding, Estimated 2017 (In percentage)

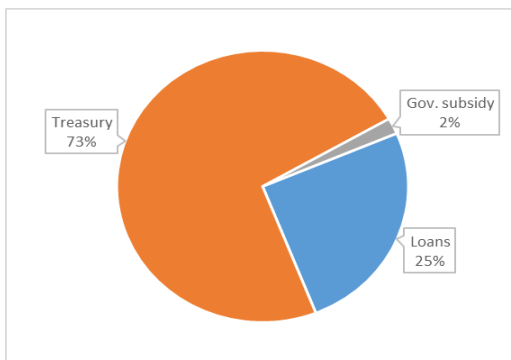
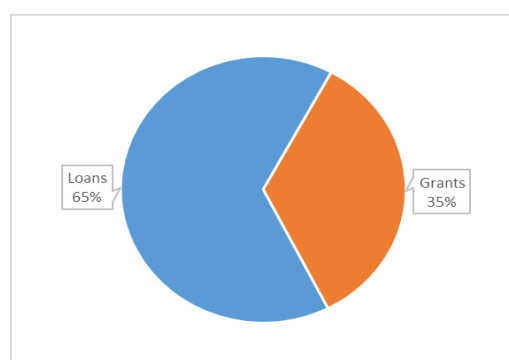


Figure 19. Jordan: General Budget Investment by Sources of External Funding, Estimated 2017 (In percentage)



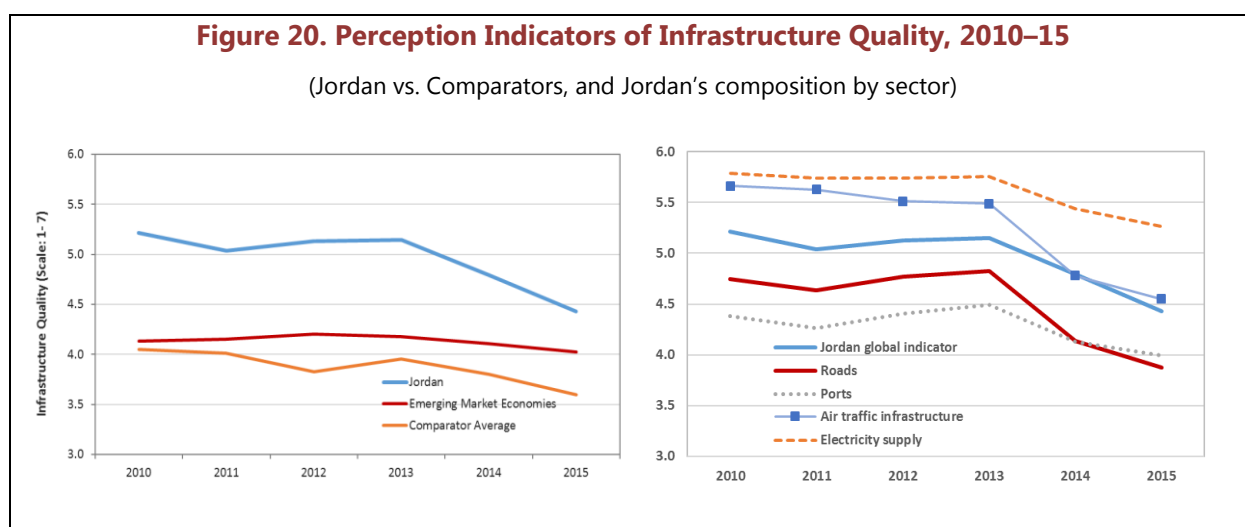
Sources: WEO and staff estimates based on official data.

II. EFFICIENCY AND IMPACT OF PUBLIC INVESTMENT

This section discusses how public investment impacts social and economic infrastructure in Jordan, and the efficiency of public investment. Sub-section A describes perceptions of infrastructure quality and indicators for quantity and access to infrastructure. Sub-section B compares these indicators to fiscal costs of providing infrastructure to assess its efficiency.

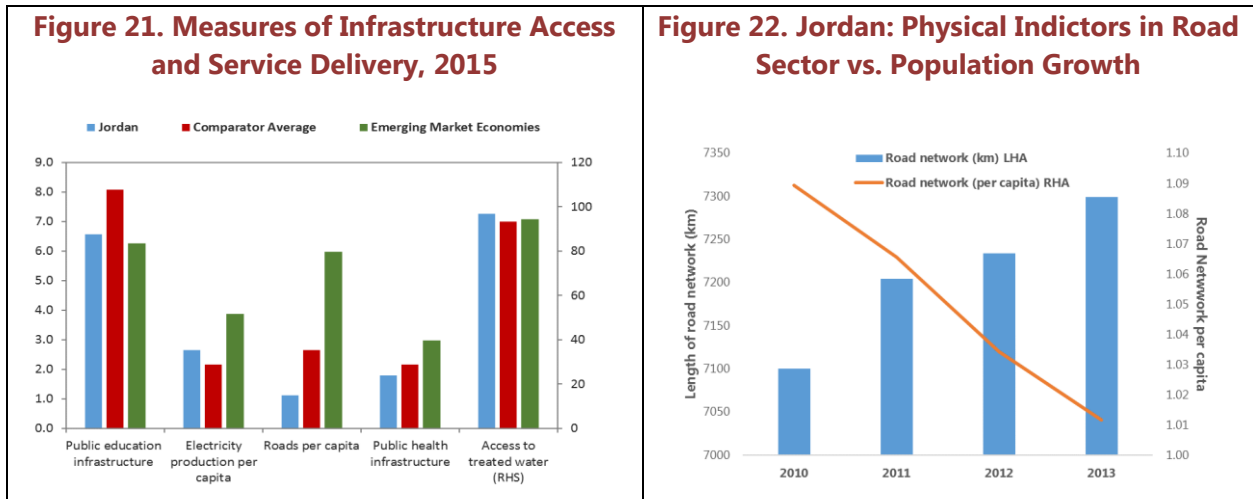
A. Public Investment Impact

10. Jordan compares favorably to emerging and peer countries based on quality indicators of infrastructure; yet, perceived quality has deteriorated recently. The perceived quality of public infrastructure is significantly above the average of emerging and peer countries (Figure 19). However, indicators of infrastructure quality have deteriorated by 15 percent since 2010, showing a similar trend both at an aggregate and sectorial level.



Source: World Economic Forum (2015) and staff estimates. The World Economic Forum survey comprises business leader's impressions of the quality of key infrastructure services in individual countries.

11. In turn, physical measures of access to infrastructure and service delivery show large variations, with some sectors lagging relative to emerging countries (Figure 20). Jordan has better access to education services compare to emerging countries, in line with a relative larger share of public investment allocated to education infrastructure. Most notably, access to treated water and sanitation services is better than the average of emerging countries, covering 98 percent of the population, despite Jordan being the fourth country in the world in term of water scarcity. However, infrastructure service delivery in the health, electricity and roads sector is below average.



Source: World Development Indicators (2015)

Notes: Units vary to fit scale. Left hand axis: Public education infrastructure is measured as secondary teachers per 1,000 persons; electricity production per capita as thousands of KWh per person; total road network as km per 1,000 persons; and public health infrastructure as hospital beds per 1,000 persons. Right axis: Access to treated water is measured as percent of population.

12. Indicators of infrastructure access and service delivery point to inefficiencies in economic and social sectors, but most prominently in roads. The length of the total road network increased gradually from 7100 km by 2010 to 7300 by 2013 (Figure 21). While the road network increased on average by 3 percent during that period, the population grew three times faster mainly due to the impact of the refugee crisis. Meeting the increase in demand for road transport, within a tight fiscal envelope, has posed a significant challenge for the government, resulting in rising road congestion and a significant reduction in the quality of infrastructure services.

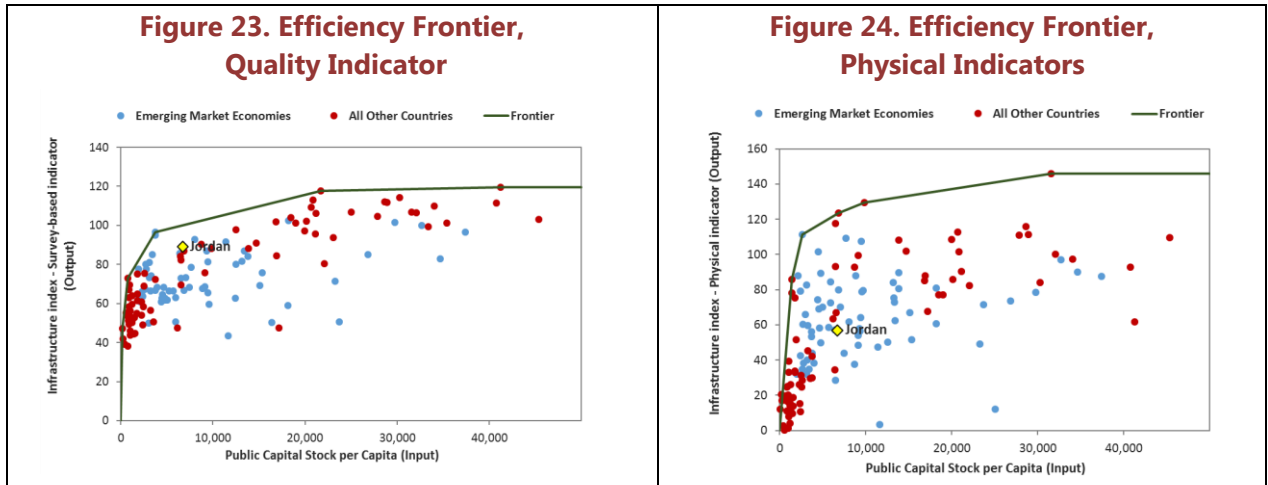
B. Public Investment Efficiency

13. The IMF developed a technique for estimating the efficiency of public investment, which is described in 2015 Board paper “Making Public Investment More Efficient.”⁹ Simply stated, a country’s performance in terms of infrastructure quality/access (output) is compared to its public capital stock per capita (input). A “frontier” is drawn, consisting of those countries achieving the highest output per unit of input. Using this consistent set of data, the performance of a total of 128 countries is compared relatively to the frontier.

14. The assessment of Jordan’s efficiency of public investment provides mixed results. On the one hand, Jordan is quite close to the frontier if survey based indicators of quality of infrastructure are used to capture investment output (Figure 22). On the other hand, Jordan’s

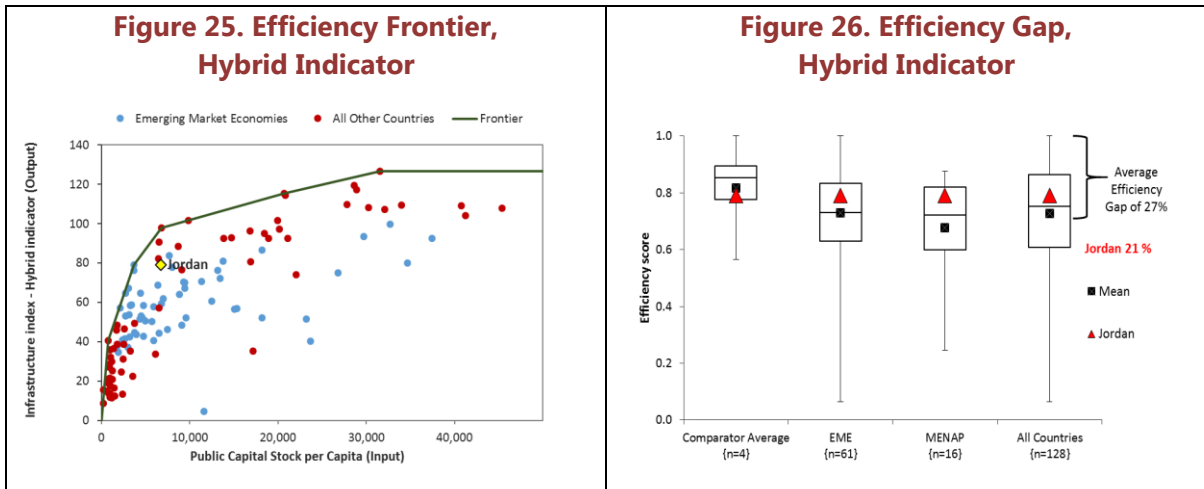
⁹ See <http://www.imf.org/external/np/pp/eng/2015/061115.pdf>

performance is much weaker if indicators of physical access and service delivery are used (Figure 23). It should be noted that survey based indicators of quality of infrastructure do not cover social infrastructure, such as infrastructure services in health, education, or water sectors, which are part of the physical indicators. Thus, quality and physical indicators complement each other, allowing us to get a better sense of the overall efficiency of public investment.



Sources: Staff estimates.

15. On average, Jordan’s public investment efficiency is slightly higher than emerging countries, but there is room for improvement. A combined indicator of the perception of infrastructure quality, physical access and service delivery suggests that public investment falls short of its potential efficiency level (Figure 24). The resulting efficiency gap between Jordan and the most efficient countries with comparable levels of public capital stock per capita averages 21 percent, slightly better than the efficiency gap for the average of emerging countries at 23 percent (Figure 25). These results suggest that one fifth of Jordan’s public capital stock did not result in the expected quality-of or access-to infrastructure assets or service delivery. Therefore, there is significant scope for improving public sector investment efficiency to take full advantage of its impact on economic growth.



Sources: Staff estimates.

Notes: The box shows the median as well as the 25th and 75th percentiles, while the whiskers show the maximum and minimum values. The black square shows the average.

16. Under the current fiscal policy framework, improving public investment efficiency should create much needed fiscal space without jeopardizing debt sustainability. Anchored by a three-year EFF, the government faces a tight tradeoff between current spending and the required upgrading of public infrastructure. Going forward, achieving the government’s goals stated in the Vision 2025 will require addressing key drivers of public infrastructure inefficiencies. To that effect, developing a robust public investment framework, and strengthening the supporting institutions will be crucial. The rest of the report discusses main strengths and weaknesses of Jordan’s public investment framework and proposes key reform priorities.

III. PUBLIC INVESTMENT MANAGEMENT INSTITUTIONS

This section provides a comprehensive assessment of the quality of PIM in Jordan. Sub-section A describes the assessment framework that is applied. Sub-sections B, C, and D analyze different features of the public investment institutions related to the planning, allocation, and execution phases of public investment, respectively.

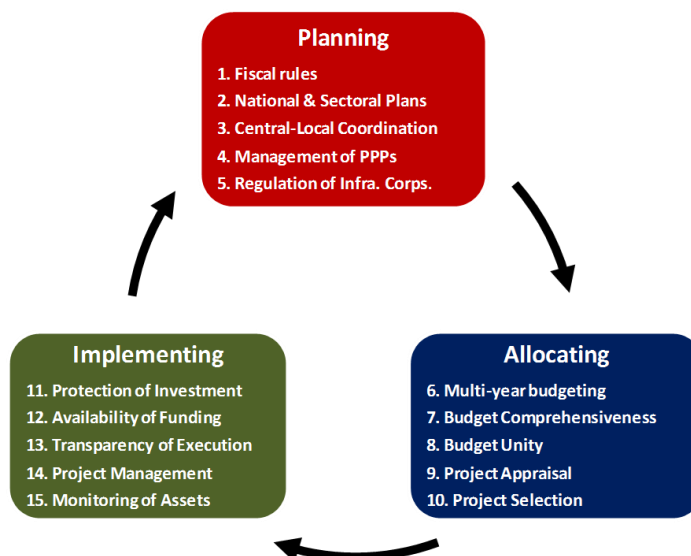
A. PIMA Framework

17. The IMF has developed the PIMA framework to assess the PIM framework of a country. It identifies the strengths and weaknesses of PIM institutions and is accompanied by practical recommendations to strengthen them to increase the efficiency and impact of public investment

18. The tool evaluates 15 institutional domains (called "institutions") that are involved in the three major stages of the public investment cycle, as shown in the graph below:

- Planning of investment levels for all public sector entities to ensure sustainable levels of public investment;
- Allocation of investments to appropriate sectors and projects; and
- Delivering Productive and Durable Public Assets

PIMA Framework Diagram



19. For each of these 15 institutions, three indicators are analyzed and scored according to a scale that determines whether the criterion is met in full, in part, or not met (see Appendix II for the PIMA Questionnaire). Each dimension is scored on three aspects: institutional strength, effectiveness, and reform priority:

- Institutional strength refers to the objective facts that an organization, policies, rules and procedures are in place. The average score of the institutional strength of three dimensions provide the score for the institution, which may be high, medium, or low.
- Effectiveness refers to the degree to which the intended purpose is being achieved or there is a clear useful impact. The average score of effectiveness of three dimensions provides the effectiveness score for the institution, which may be high, medium, or low.
- Reform priority refers to whether the issues contained within the institution are important to be improved in the specific conditions faced by Jordan.

The following sections provide the detailed assessment for Jordan according to this methodology.

B. Investment Planning

1. Fiscal rules (Strength – Medium; Effectiveness – Low)

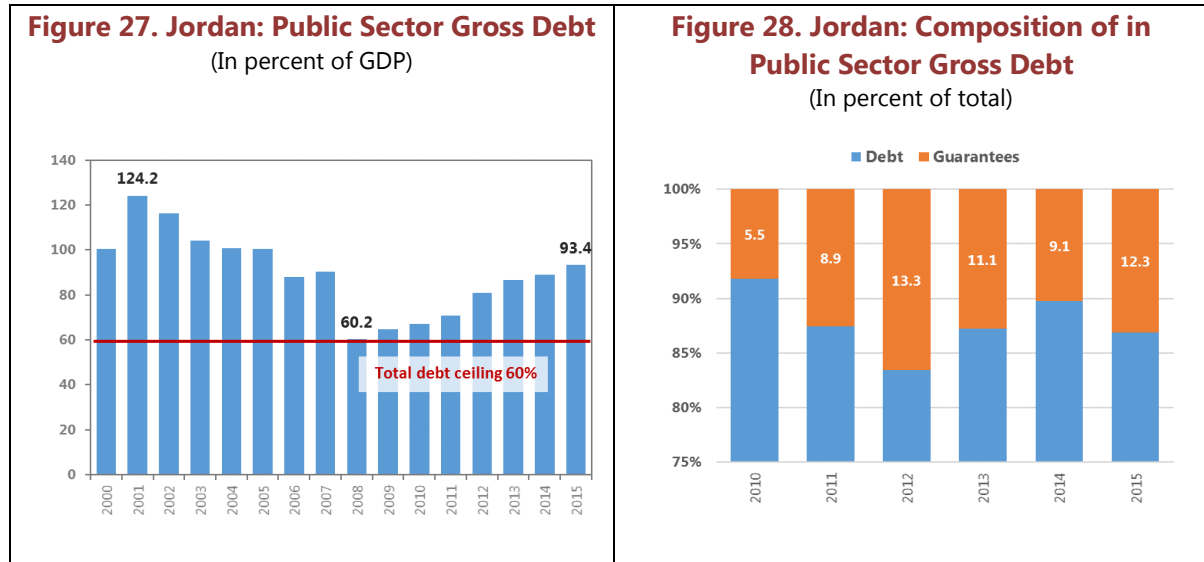
20. Jordan’s fiscal policy is not guided by permanent fiscal rules; only public debt ceilings are prescribed by law, and there is no formalized protection of public investment. The public debt management law (Law No. 26 of 2001) specifies ceilings for total, domestic, and external public sector debt. Per articles 22 and 23 of the law, total public sector debt should not exceed 60 percent of GDP, while both the domestic and external component are capped at 40 percent of GDP each. However, a Cabinet decision of April 2017 allowed to postpone the application of the provisions of article 22 and 23 of the public debt management law until the end of the year 2024. It should be noted that Jordan’s national definition of public sector debt deviates from the definition of public debt in *GFSM 2014*.¹⁰ Article 2 of the law defines public debt as the outstanding unpaid direct and indirect obligations of the government. The public debt management law does not prescribe an automatic correction mechanism to guide policy if the ceilings are not met.

21. The debt ceilings have not been effective to guide fiscal policy. Public debt reached its lowest level in 2008 at 60.2 percent of GDP, but has gradually increased since then, accounting for 93.4 percent of GDP by 2015 (Figure 26).¹¹ Gross public debt in Jordan includes

¹⁰ GFSM 2014, refers to the IMF’s Government Finance Statistics Manual of 2014.

¹¹ While the institutional coverage of Jordan’s public debt is limited to budgetary units (i.e., those covered by the General Budget Law), the transactional coverage is much broader, given that it includes government’s guarantees provided to other public entities (i.e., those covered by the Public Units Budget Law).

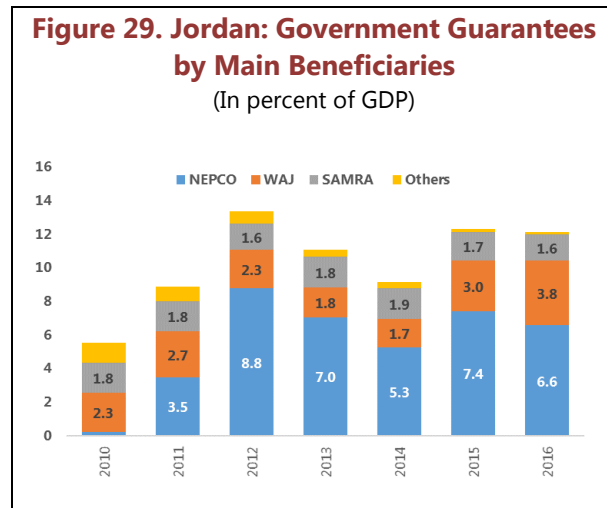
government loan guarantees, which has increased since 2010 from 5.5 to 12.3 as percentage of total gross debt (Figure 27). The beneficiaries of these government loan guarantees are mostly SOEs, such as WAJ and NEPCO (Figure 28). In addition to loan guarantees, the government has provided revenue and payment guarantees for PPPs, which are neither included as gross public debt, nor estimated or monitored by the government (see institution 4).



Source: Staff estimates based on official data. Public sector gross debt comprises gross debt by the CG plus guaranteed debt of other public agencies, including SOEs.

22. In practice, the three-year arrangement under the Extended Fund Facility (EFF) has de facto constrained fiscal policy. The EFF includes as an indicative target a ceiling on the stock of gross public sector debt in national currency.¹² Nevertheless, the EFF is not embedded in law and is temporary by nature, underscoring the need to introduce a more permanent mechanism to ensure fiscal sustainability.

¹² For the EFF indicative target, public debt includes central government debt (including off-budget project loans) and public guarantees to NEPCO, WAJ, and other entities.



Sources: WEO and staff estimates based on official data.

2. National and sectoral planning (Strength – Medium; Effectiveness – Low)

23. Strategic planning relies on a national development strategy and a wide range of sectoral strategies, which contain details on investment projects and indicative costing. At the national level, “Jordan 2025: A National Vision and Strategy”, approved by the Prime Minister, is the key strategic planning document, containing 200 priority initiatives to address Jordan’s economic and social objectives over the next 10 years. At the sectoral level, strategies for key economic sectors are developed in line with Vision 2025 objectives for the next three to five years. Key sectoral strategies (e.g., water, energy, health) contain detailed information on investment projects, often (but not systematically) rough estimates of project costs, and detailed performance indicators. Based on sectoral strategies, MoPIC is responsible for developing three-year rolling EDPs. EDP discussions take place in several coordination committees, which then report to a steering committee—headed by the Prime Minister—for discussion and endorsement, and finally submitting the EDP to the Council of Ministers (CoM) for approval.

24. In addition to the core strategic planning documents, Vision 2025 and its EDPs, some government strategies are set out in separate documents, such as the Jordan Response Plan that identifies resource needs in response to the refugee crisis. In line with the Vision 2025, the EDP 2016-2019 covers 26 development sectors, broken down in 2000 projects, with tentative annual project costing and measurable performance indicators at three levels (national, sectoral, and program goals). Projects included in the EDP are not exclusively investment projects, since they often include a current spending component.¹³ Most importantly, the EDP does not include investment projects to cope with infrastructure needs related to the refugee crisis, which are separately included in Jordan Response Plan 2016-18.

¹³ Authorities indicate that the current spending component of the EDPs is largely insignificant, but data was not available at the time of the mission to validate the assessment.

25. The investment planning process is fragmented, and does not provide clear guidelines for project prioritization. While MoPIC is responsible for consolidating in the EDP infrastructure needs from all sectoral strategies; mega projects (there are 53 projects monitored under this title) and, to a certain extent, PPPs may be endorsed by the CoM without being included in the EDP. Also outside the coverage of the EDP, there are capital projects of public universities and capital projects financed directly by grants from donors (e.g., USAID and Saudi Arabia). For those projects included in the EDP, the MoPIC checks their conformity with the government national strategies. It does not check project economic viability, and there is no attempt to prioritize projects according to consistent guidelines—either across or within sectors, or over time—or to differentiate them by level of readiness to form a project pipeline.

26. Weaknesses in the planning process result in unrealistic plans. The strategic planning process does not clearly identify the portfolio of investment projects that are technically feasible and economically viable. Projects in the EDP exceed feasible financing capabilities and may be inconsistent with macroeconomic objectives. For example, for the whole period 2016-2018, the EDP estimates financing needs of 9.6 billion JD, while the Medium-Term Budget Framework (MTBF) included in the 2017 budget laws (i.e., the general budget law and the other government entities budget law) identify only 5.9 billion JD of funding sources (35 percent compared to 21 percent of GDP in 2016). For 2017 only, the EDP estimated financing needs are 3.7 billion JD, broadly twice the amount allocated in the budget of 1.8 billion JD.¹⁴

3. Central-local coordination (Strength – Medium; Effectiveness – Low)

27. There is no legal limit on municipal borrowing, capital spending is subject to CG approval, and there is a formula-based transfer scheme. Municipalities can borrow from the CVDB and other domestic banks with the approval of the Minister of Municipal Affairs (MoMA).¹⁵ Municipalities' capital spending is reviewed and approved by MoMA, but not presented alongside CG spending. The Municipality Law defines the duties and revenues of municipalities. Even though municipalities collect several taxes, levies and fees, including property taxes, license fees for small businesses, and traffic violation fines, all municipalities are dependent on government transfers. The formula for government transfers considers socio-economic factors,

¹⁴ EDP funding sources also cover PPPs and financing provided by self-financed development institutions. 2017 data for these two components was not available at the time of the mission. However, based on the discussions with the authorities, the treasury funding is the major financing resource for public investment (See also Paragraph 9).

¹⁵ The CVDB was established in 1979, as an official public institution, chaired by the Minister of Municipal Affairs, and is administratively and financially independent. The CVDB administers and guarantees loans held between the municipalities and any other party, assists the local councils in setting priorities for economic feasible projects and provides technical experience and services including training of technical staff. The CVDB acts as financial intermediary for government transfers. The accounts of municipalities are inspected by the AB. CVDB loans for one municipality must not exceed 15 percent of the bank's capital and reserves and the loan must not be greater than 2 percent of the bank's capital for one loan, and it is subject to the financial position of the municipality and the project's priorities (technical studies).

potential local revenues and financing needs. These transfers are used essentially for the wages of municipal employees, which constitute half of their payments.

28. The transfer scheme formula is not published and does not apply to the three largest municipalities; neither are these under MoMA oversight. The GAM, Petra Development and Tourism Region Authority, and the Aqaba Special Economic Zone are managed independently under the Prime Minister. They are not covered by the formula-based transfer scheme and receive annually determined transfers, which reflect that their financial positions are assumed to be better than smaller municipalities. They can borrow with approval from the Prime Minister and the MoF, and their budgets are approved by the Prime Minister. GAM's annual expenditure substantially exceeds that of the country's other municipalities taken together.

29. Current decentralization initiatives provide for devolution of responsibilities and resources from the center to the local governments and are likely to strengthen their capacity for public investment. Jordan is divided into 12 governorates and 100 municipalities, including the GAM. Local governance operates on two complementary administrative levels in Jordan: the governorates are currently part of CG under the Ministry of Interior, and the Municipalities represent a separate government level, overseen by the MoMA. The Government has passed a new Municipalities Law that provides for the establishment of local councils to enhance citizen representation in municipal councils. The Decentralization Law also delegates financial and planning authority to the governorate level and provides for the establishment of an elected governorate council that takes decisions on projects to be funded through the allocated budget.¹⁶

4. Public-private partnerships (Strength – Medium; Effectiveness – Low)

30. Jordan adopted a PPP law in 2014, followed by a by-law and a PPP strategy published in 2015, providing the legal framework for the government's PPP program and formalizing the role of the PPP unit.¹⁷ The PPP law has several strengths, such as its broad coverage (i.e., applicable to all levels of government and economic sectors), and a clear approval process. In line with good international practices, the PPP law assigns the MoF a strong role in managing fiscal risks arising from PPPs. The 2015 by-law addresses the procedures for the various stages from preparation to procurement and tender process. It requires that all projects be subject to feasibility analysis, value for money, budget affordability, and risk-sharing analysis by the PPP unit at the MoF, although standard methodologies for conducting these assessments

¹⁶ Efforts are currently being made to implement decentralization by coordinating the actions of government agencies concerned with applying decentralization, defining the functions assigned to the executive councils and the elected governorate councils under the Decentralization Law, and coordinating the various development decision-making levels in the municipalities and governorates. During this process feedback from all stakeholders' will be taken into account to reflect national, local, and sectoral priorities.

¹⁷ The PPP Law No. 31 was ratified in 2014, while the corresponding by-law on PPP projects No. 98 was approved in 2015.

have not yet been developed. PPPs are not fully embedded in the annual budget or MTBF. PPP transactions are recorded only if they involve budget support (e.g., payments to private operators), with no additional information included in budget documentation.

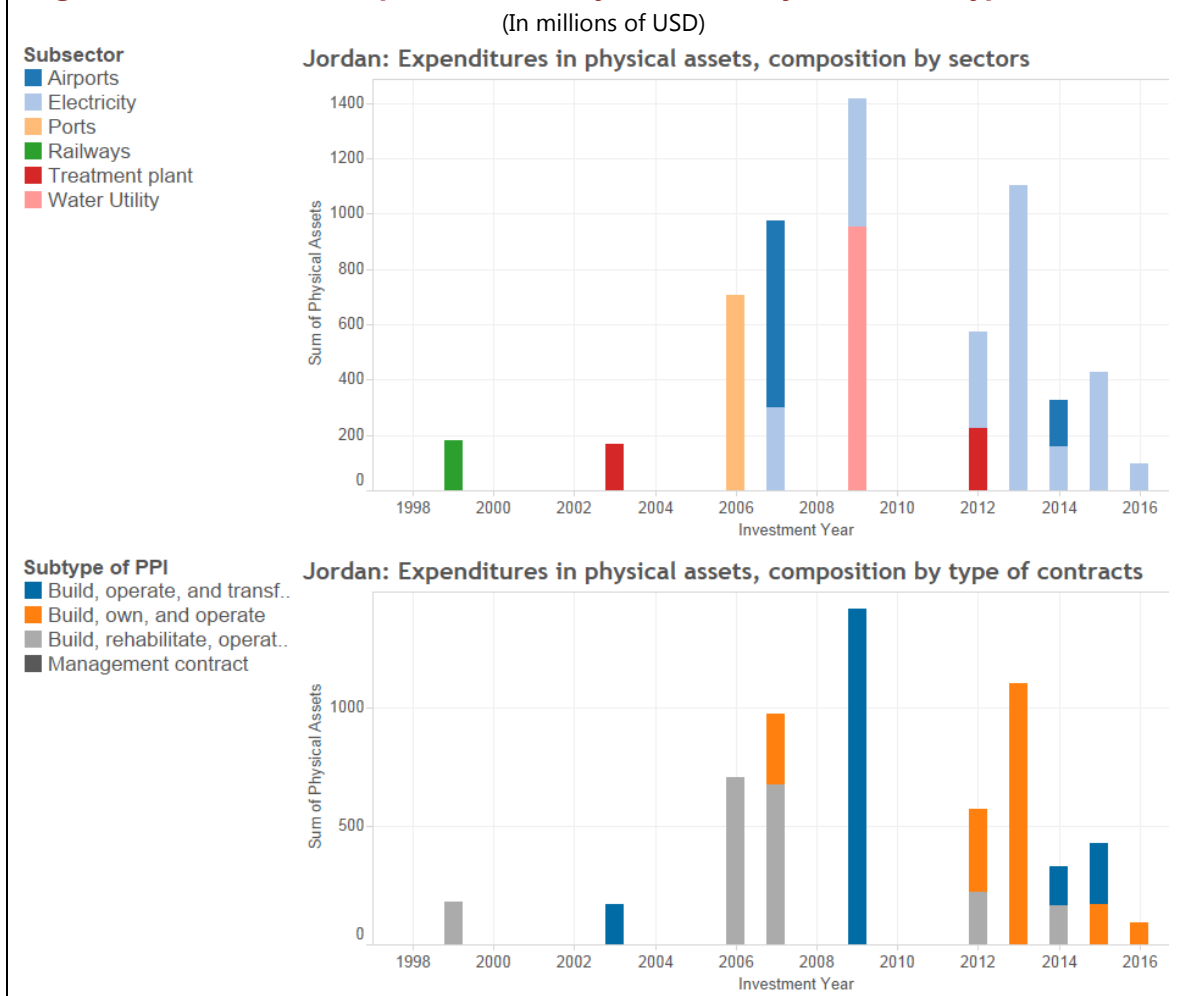
31. The fiscal costs and fiscal risks associated with PPPs are neither systematically accounted nor reported. The PPP Law requires the PPP unit to maintain a registry of PPPs that reached financial closure after 2014; but the law does not provide neither for guidance on reporting nor for limits on overall government exposure to PPPs. Currently, the PPP unit does not have information on PPP contracts signed before 2014. It neither evaluates explicit or contingent liabilities related to these contracts nor assesses potential mitigation measures in the event of the realization of such risks. The authorities plan to adopt International Public Sector Accounting Standards (IPSAS) by 2021, which provide clear guidance on PPP accounting, but this will take time.¹⁸

32. Recent amendments to the PPP Law have reduced the oversight role of the MoF affecting the effectiveness of the overall PPP framework. Cabinet decision no. 840 dated 31/7/2016 granted exceptions from the law to the water and energy sectors for two years¹⁹. Thus, the oversight role of the PPP unit in the MoF of checking value for money, budget affordability, and fiscal risks does not currently apply to two of the most relevant economic sectors of the economy such as water and energy. This decision, albeit temporary, deviates from good international practices and represents a significant set-back relative to the previous legislation. International experience suggests that changes to regulatory framework can potentially increase regulatory uncertainty, which typically increases financial costs for the government and/or deters future private participation in PPPs.

¹⁸ The IPSAS standard applicable to PPPs is IPSAS 32: “*Service Concession Arrangements-Grantor*”, issued in November 2011.

¹⁹ The two year exemption of water and electricity sectors from the PPP Law was stated in the Council of Ministers Decree No: 840, which was enclosed to the Prime Minister’s Letter No: 56/10/6/32889 in August 1, 2016)

Figure 30. Jordan PPPs: Expenditures in Physical Assets by Sector and Type of Contract



Sources: Staff estimates based on PPIAF database, WB, 2016.

33. The limited oversight framework and the lack of information on current PPP agreements leaves Jordan excessively exposed to potential fiscal costs and risks from these long-term contracts. Up to 2016, accumulated expenditures in PPP physical assets amount to 6.0 billion of USD or about 16 percent of GDP (Figure 29), with many new PPP projects already in the pipeline. Of the 6.0 billion USD accumulated until 2016, 70 percent are PPP contracts in the electricity and water sectors. Except for Queen Alia International Airport, most PPPs in Jordan are government-funded projects, which require direct payments from either the government or an SOE during the operation period, and typically have significant fiscal risks to government (e.g., termination clauses, take-or-pay clauses). Since 2003 the government has provided direct and indirect support (i.e., subsidies and guarantees) to many PPPs (Figure 30). Government support to PPPs in the early 2000s was through subsidies, impacting the government deficit. From 2012 onward, government has supported PPPs—mostly in the energy sector—through guarantees, which neither impact the deficit nor are reported in the stock of public guarantees.

USAID, with a permanent long-term resident advisor, is supporting the PPP unit of the MoF in various development areas, as well as assisting in the development of a dedicated PPP database.

Figure 31. Jordan PPPs: Government Direct and Indirect Support Provided to PPPs
(By year, type of contract, and project)

Direct Gov. support	Investment Year	Type of PPP	Project Name
Capital subsidy	2003	Build, operate, and transfer	Khirbet Al Samra Wastewater Treatment Plant
	2009	Build, operate, and transfer	Al-Qatrana Power Project
Revenue subsidy	2009	Build, operate, and transfer	Disi-Amman water conveyor
	2011	Management Contract	Yamouk Water Company Management Contract
	2012	Build, rehabilitate, operate, and transfer	As-Samra Wastewater Treatment Plant Phase II
Indirect Gov. support	Investment Year	Type of PPP	Project Name
Payment guarantee	2012	Build, own, and operate	AES - Diesel IPP
	2013	Build, own, and operate	Al Manakher Tri-Fuel Power Plant (IPP3)
	2013		Tafila Wind Farm
	2014	Build, operate, and transfer	EJRE Solar PV Plant
	2014		SunEdison Ma'an Solar Power Project
Revenue guarantee	2015	Build, operate, and transfer	Al Ward Al Joury Solar PV Plant
	2015		Al Zahrat Al Salam Solar PV Plant
	2015		Al Zanbaq Solar PV Plant
	2015		Arabia One Solar PV Power Plant
	2015		Falcon Ma'an Solar PV Plant
	2015		Jordan Solar One PV Power Plant
	2015		Shamsuna Solar PV Power Plant
	2015	Build, own, and operate	Shams Ma'an PV Solar Power Plant

Sources: Staff estimates based on PPIAF database, WB, 2016.

5. Regulation of infrastructure companies (Strength – Medium; Effectiveness – Low)

34. There is scope for competition in some infrastructure markets, and several regulators have been established. Railway companies retain a monopoly in railway transport, and the electricity market is dominated by state-owned NEPCO as the manager of electricity system and single buyer for electricity generation. The water sector is regulated by the Ministry of Water and Irrigation and pricing decisions for water rests with the CoM. Several independent regulators have been established for liberalization of the economic infrastructure sector.²⁰

35. In practice, the level of competition is limited in most markets, and regulators do not have full financial independence. There are four mobile operators and six power generation companies. All regulators get allocations for their current and capital budget and a permission for staffing from CG.

²⁰ These agencies are the Energy and Minerals Regulatory Commission, Telecommunications Regulatory Commission, Maritime authority, Civil Aviation Regulatory Authority, and Land Transport Regulatory Commission.

36. SOE investments are coordinated with CG, but oversight of SOE investment is weak, and reports focus primarily on financial performance; no consolidated operational performance report or fiscal risk assessment is provided. The government approves the annual budgets, including investment plans, of SOEs. Line ministries are responsible for monitoring the core business of SOEs including coordination of investment plans with government sector strategies and priorities. Capital expenditures of SOEs are financed through own resources, capital grants, and on-lending from the CG.

37. Performance of SOEs constitute a major element of the IMF-supported EFF but there is no centralized reporting of the cost of quasi-fiscal activities or risks of SOEs.²¹ Jordan faced a cost recovery problem in electricity and water sectors, which had an impact on the financial sustainability of these sectors. The GoJ's initial decision not to pass-through higher input costs for electricity to final consumers has resulted in a significant increase in NEPCO's operational costs. The water sector has also experienced rising operating and capital costs, which have created sustainability issues for the WAJ. As of end-2016, CG guaranteed debts and advances to NEPCO and WAJ reached 16.7 percent and 5.1 percent of GDP, respectively. These issues are addressed in two separate initiatives of the government, which aim at returning NEPCO to cost recovery by 2017 and WAJ by 2020.^{22 23}

38. There is limited coordination between MoF units in assessing the overall fiscal risks arising from SOEs. The GBD publishes annual budgets of Own Budget Agencies (OBAs) on its official website, but there are no specific procedures for coordination of the financial oversight of SOEs. The MTBF or annual budget documents do not address fiscal risks related to SOEs. The Studies & Economic Policies Directorate of MoF prepares a General Government Finance Bulletin including actual budgets of OBAs that are classified as SOEs. Government Units Budget has 62 OBAs whereas the Bulletin has only 22 SOEs information.

39. There is still room for improvements in monitoring and oversight of SOEs and their investment activities. A new shareholding company, The Government Shareholdings' Management Company, was established through a by-law in 2015 for the governance of SOEs. However, the mandate of the company is limited to the ownership functions of the state-owned companies and shares. To control and reduce fiscal risks arising from SOEs' performance, the oversight and monitoring of their performance should be improved. A unit in the MoF should specifically be assigned to monitor the performance of SOEs financial and operational

²¹ Total SOEs/GUs capital expenditure is 587 million JD (419 million JD is financed by their own resources) which amounts to almost half of the General Budget capital expenditure (1216.8 million JD) for 2017 Budget.

²² NEPCO has reached operational cost recovery since mid-2015 due to the successful implementation of LNG terminal in Aqaba and low oil prices, ahead of 2017 as originally expected. An automatic electricity tariff adjustment mechanism has been implemented since January 2017 and is expected to protect NEPCO from resuming losses.

²³ Automatic Pricing Mechanism for Electricity and Action Plan To Reduce Water Sector Losses

performance and produce a consolidated report on SOEs performance. The MoF should design and implement a roadmap for monitoring and oversight of SOEs in line with good practices (Box 3.1).²⁴ To assess the real performance of the SOE sector, GoJ should reclassify Government Units, according to the GFSM definition of public corporations as SOEs.

Box 1. Key Recommendations of OECD Guidelines on Corporate Governance of SOEs

The OECD Guidelines on Corporate Governance of SOEs recommends that SOEs disclose material information on all matters described in the areas of significant concern to the state as owner and the public, namely:

A. SOEs should report material financial and non-financial information in line with internationally recognized standards of corporate disclosure, and include areas of significant concern to the state as an owner and the general public. This includes, in particular, SOE activities that are carried out in the public interest.

Any material risk factors and measures taken to manage such risks, and

Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE, including contractual commitments and liabilities arising from PPPs.

B. SOE annual financial statements should be subject to independent external audit. Specific state control procedures are not a substitute for an independent external audit.

C. The ownership entity should develop consistent reporting on SOEs and publish annually an aggregate report on SOEs. Good practice calls for the use of web-based communications to facilitate access to the information by the general public.

Source: The OECD Guidelines on Corporate Governance of State-Owned Enterprises, 2015; and SOE Governance Reform: An Inventory of Recent Change, OECD 2011

C. Investment Allocation

6. Multi-Year Budgeting (Strength – Medium, Effectiveness – Medium)

40. Capital expenditure is forecasted over a three-year period, on a rolling basis, but projection of the full cost of major projects are not disclosed in the budget documentation. The Organic Budget Law provides that the “*annual general budget law should include [...] tables showing the current and capital expenditure estimations according to the groups, chapters and articles of the budget year, in addition to the actual data and re-estimation of the previous years and the current year and indicative data for the following years*”.²⁵ All figures and

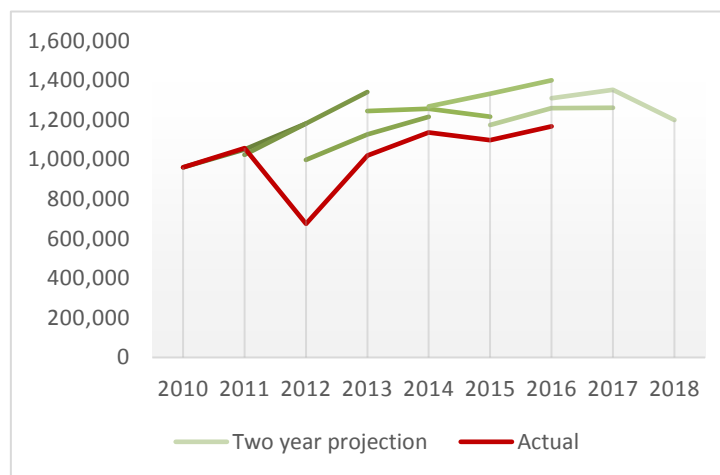
²⁴ “How to Improve the Financial Oversight of Public Corporations”, IMF, 2016.

²⁵ See article 4 of the General Budget Law for the Fiscal Year of 2017.

statements related to the years following the budget year are indicative and non-binding. The disclosure of the total costs of projects over their full life cycle is not mandatory.

41. Jordan has made progress since 2011 in developing a medium-perspective of its budget. Both the General Budget Law and the Budgets Law of Government Units provide the estimated capital expenditure for the budget year and indicative capital expenditure for the following two years, by ministry, program, governorate, and project. While the ceilings set for the out-years are not binding, the outturns have not exceeded the indicative ceilings set for capital expenditure since 2012 (see Figure 31) Nevertheless, on average, the budget outturn is 11 percent below the year budget and, also, the previous year indicative forecast. This situation indicates that further improvements are needed to strengthen the budgeting. Regarding the projects, only the estimated costs related to the period covered by the budget is disclosed and no information related to their full costs, from their inception to their completion, is published.

Figure 32. Jordan: Medium-term Budgeting of Capital Expenditure vs. Actual (2010 – 2016) in JD



Source: General Budget Laws

42. The development of a full-cost approach of the projects over their lifetime would strengthen control on their financial sustainability. Setting ceilings for capital expenditure based on projects' full cost would provide more certainty on budgetary space, and foster a more thorough assessment of their financial sustainability, including impacts on operational and maintenance costs.

7. Budget Comprehensiveness (Strength – Medium, Effectiveness – Medium)

43. While the budget documentation has been designed to provide extensive information related to both the general budget and government units' capital spending, it does not include information on PPP transactions. The General Budget Law sets the budget

for 54 institutions and ministries, codified as chapters. In addition, the Budgets Law of Government Units sets the budget of 61 Government Units established by specific legislations and performing public services (regulatory councils, development agencies, public utilities...). These two annual laws provide a comprehensive view of entities undertaking capital expenditure both from the financial and programmatic point of view. Some externally-funded projects undertaken outside the country budget system, in accordance with the grant or loan agreement, may not be included in the budget documentation. In addition, universities are classified as public sector entities and not as government units. No legal provision defines disclosure related to obligations under PPPs.

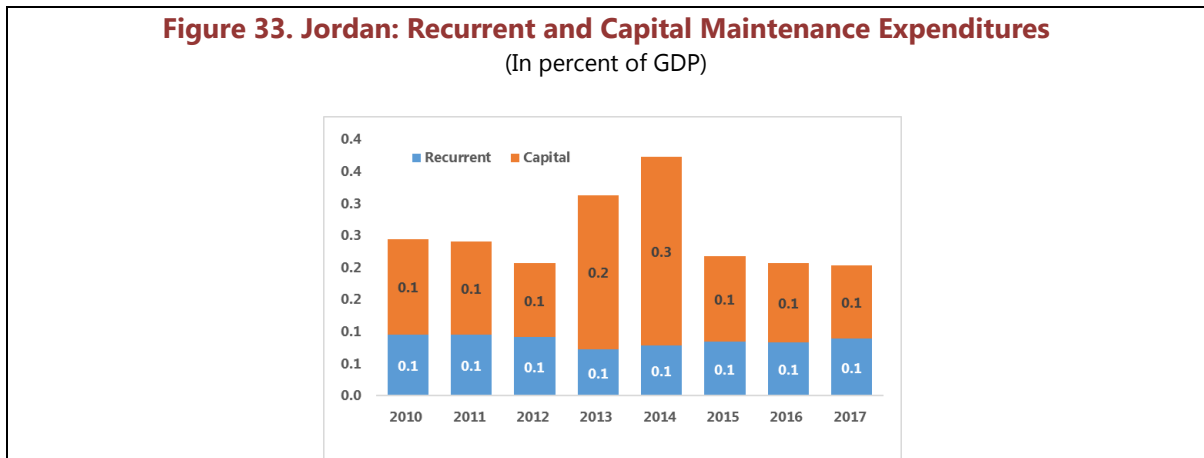
44. While capital spending is mostly undertaken through the budget, information related to the financial and budgetary implications of PPPs remain limited. The budget documents provide extensive information related to capital expenditure, using several budget classifications (administrative, economic, functional). They also include tables disclosing grants and external financing. Projects not directly implemented through the budget system may not be disclosed. More importantly, while Jordan use PPPs extensively to fund public investment projects, the disclosure of information related to their financial impact and their linkage with the budget process remains limited. The fiscal risks resulting from these instruments are not evaluated and disclosed. At a minimum, the contingent liabilities and any direct subsidies to PPPs should be documented in the budget and financial reports. In addition, the budget documentation does not include information or ceilings related to cash advance to SOEs.

45. Expanding budget information by including PPPs and an annex on externally financed projects not included in either budget would improve the transparency of investment activities of the government and budget decision making. Supplementary analysis of investment activities of PPPs should provide a better understanding of the impact of government activity on the economy. Recognition of the subsidies provided to these entities and of their contingent risks, should provide a more accurate comparison to the cost of direct government projects, improving decision making. Having a more comprehensive budget will in the longer term make the capital budget more efficient. In addition, disclosing the information on externally-funded projects implemented outside the budget would improve the overall coordination and efficiency of financial decisions on investment and increase transparency of investment activities. This increase in efficiency and transparency is of medium importance to strengthening public investment.

8. Budget unity (Strength – Good; Effectiveness – Medium)

46. The capital and current budget is prepared by the GBD and presented in a single budget document, based on economic and sectoral classifications. The MoPIC plays a key role in many areas including in the selection process for public investment projects, but does not take part in consolidated budget preparation. The budget includes appropriations for recurrent and capital costs in the budget year and indicative estimates for these costs for the MTEF period.

47. The budget discloses the recurrent and capital maintenance costs associated with projects, but there are no government-wide methodologies for determining recurrent or capital maintenance needs. In the appropriation structure of the budget, information on the capital costs of projects, and the associated recurrent and capital maintenance expenditures, are shown in separate lines. This makes it difficult to extract information on the full cost of capital projects over the budget period. In practice, the budget classification and chart of accounts (CoA) misclassify some current spending as capital spending (e.g., some items in continuous projects and transfers to municipalities). In the 2017 Budget, MOMA transfers to municipalities (Developing and Improving Municipalities) amounting to 171 million JD are recorded as capital expenditure, out of 1,216.8 million JD of total capital expenditure for general budget (14 percent of the total Capital expenditures). Some agencies, such as the MOPW, use technical reports from project manager to assess recurrent maintenance needs. However, MOPW’s budget allocations do not necessarily reflect maintenance needs identified by project managers, often resulting in under-maintenance and, thus, a reduction of public fixed assets in the medium-term.



Sources: Staff estimates based on authorities’ data.

48. Bringing the current-capital expenditure classification in line with the standards set by the GFSM2014 would improve budget and data analysis of current and capital expenditures. A 2015 FAD TA Report recommended several actions for the improvement of reporting of capital spending²⁶ including a recommendation for improving information on public investment in General Government Finance Bulletins by eliminating ‘capital’ transfers to municipalities in consolidated data on the spending of general government.

9. Project appraisal (Strength – Low; Effectiveness – Low)

49. There is no systematic government appraisal of investment project proposals, but externally-funded projects are assessed according to donor requirements. Projects

²⁶ Jordan Public Financial Management Reform: Progress and Next Steps, FAD, January 2015; pp 27-28.

proposed for inclusion in the EDP are presented in a one-page summary, which largely focuses on how the project will contribute towards government objectives. The project proposals are reviewed by sectoral committees, which may request additional information. The project proposal summaries are based on templates defined by the EDP committees, but there are no standard methodologies for project development and appraisal and no systematic central support to project appraisal. There is no requirement that projects are subject to standardized cost/benefit analysis. Neither is there any systematic risk analysis in the project proposals. Large projects (above 10 million JD) are usually submitted for external funding consideration, and this will often require more comprehensive project development and appraisal, which may include cost/benefit and risk analysis. This will include most projects defined as mega projects. There is no standardized methodology for the appraisal of these projects, and project development will typically be ad-hoc.

50. The lack of a systematic and consistent appraisal process undermines project quality and leads to uncertainties and delays in project implementation. For projects funded by the budget, project design and appraisal will often be done after the funding decision, implying that project design may be rushed, and that it may take considerable time to start actual project implementation. There is anecdotal evidence that some line ministries engage in project development beyond the one-page summary required for consideration for the EDP, but this does not involve any central coordination. Externally funded projects must meet donor requirements for project appraisal, but these are not standardized. Some externally funded projects have feasibility studies, but usually these do not include cost/benefit analysis or risk analysis. The newly established monitoring system for EDP project implementation will provide detailed data on project delays.²⁷ There are no complete data from the system yet, but preliminary data indicate that approximately one third of projects under implementation encounter delays and other challenges. For the largest and most complex projects, delays are significant. Eight out of the nine largest are delayed, with delays ranging from one to four years and average delay of two years. Seven out of the nine have cost overruns, ranging from 3 to 53 percent of cost increase and average increase 12 percent.

51. Adequate project appraisal is an absolute prerequisite for an efficient capital investment process, and improvements in this area are a high priority. The absence of well-designed and thoroughly vetted project proposals undermines public investment planning. It also creates significant risks for other parts of the public investment process, as it will not be possible to ensure that the most beneficial projects are selected for implementation. Inadequate project design and appraisal also leads to numerous implementation challenges. Many countries have established comprehensive mechanisms for appraisal and selection of public investment projects. Appendix I provides a brief overview of the PIM appraisal and selection mechanism in Colombia.

²⁷ The monitoring system is described under institution 13.

10. Project selection (Strength – Low; Effectiveness – Low)

52. There are no standardized, central criteria for project selection, and the EDP is not an effective gateway for project selection. While the EDP serves as a pipeline of vetted projects for possible budget or external funding, inclusion in the EDP is only a first step towards possible selection of the project for implementation. Projects that are considered for the EDP are primarily assessed for their contribution to sector targets. There are no published selection criteria, and in-depth analysis of costs benefits and project readiness is not mandatory. MoPIC and line ministries emphasize the role of the EDP in identifying investment needs, and the process is not constrained by a specified resource envelope. The volume of projects included in the EDP is much higher than the available funding, undermining the credibility of the EDP. Table 1 shows the estimates for the projects included in the EDP, compared to the capital budget allocations for the same period. The un-funded projects should be covered by new financing from development institutions or foreign grants, if they are to be realized. This is difficult to achieve. As an example, the MoH has 128 projects in the 2016–2018 EDP, of which 101 are ongoing. None of the 27 new projects were funded in the budget, but the MOH hopes to mobilize external funding for seven or eight of the projects. Ministries may also propose projects that are not in EDP at the time of budgeting, further undermining EDP credibility and relevance.

Table 3. EDP Allocations and Capital Budget Allocations 2016-2018 (million JD)

	2016	2017	2018
EDP needs estimate	2,415	3,683	3,480
General budget	1,217	1,478	1,658
Government institutions budget	587	647	602
Financing gap	611	1,558	1,220

Source: Authorities data.

53. In practice, project prioritization and selection is largely done by line ministries, with some exception for major, externally funded projects. During the budget process, the GBD provides each ministry with a budget envelope for capital spending, and the ministries determine which projects to include in this envelope and the annual allocation of the available funds to each project. Most of the projects in the budget submissions are included in the EDP, but there are several examples of projects that have been funded without prior review during the EDP process. For 2017, GBD's budget circular provided some guidance on capital project development, including that projects submitted for budget consideration should have been subject to feasibility studies prior to budget submission. However, GBD does not carry out any in-depth project review or verification of project readiness. GBD discusses the proposed capital budget allocations with the ministries, but rarely challenge their priorities. Major, externally

funded projects are reviewed by MoPIC and approved by the Cabinet, but there are no specific selection criteria.

54. There is a clear need to improve the project selection process in the medium term, but this cannot be done before adequate appraisal process is in place. It is not possible to define and apply stringent selection criteria if the projects are not subject to rigorous analysis and are transparently and consistently documented. Improvements in project appraisal, as mentioned under institution 9 above, is a crucial prerequisite for a more structured project selection process.

D. Investment Implementation

11. Protection of Investment (Strength – Low, Effectiveness – Medium)

55. Capital investments are only appropriated on an annual basis. Costs of projects are presented as indicative information for the two years following the budget year and do not cover the projects full life-cycle. Appropriations may be transferred from current expenditures items to capital expenditures items under the same chapter upon the approval of the Minister of Finance, but transfer from capital expenditure to other current expenditures can be authorized only by law. Unspent capital allocations should fully lapse at the end of the year and project-related expenditure should always be reappropriated during the next year.

56. In practice, capital allocations are reasonably protected. Multi-year contracts are allowed and incorporated in the budget preparation process. The indicative budget allocation for the two years following the budget year provides references to define the line ministries ceilings. In year-reallocations remains limited: in 2016, reallocations from capital expenditure to recurring expenditure represented 4.9 percent of total capital expenditure. Re-appropriation of unspent resources from last year is prioritized, and rarely leads to project interruption. In addition, the utilization of trust funds to set aside resource needed to pay some commitments for which the invoice has not been received at the end of the fiscal year provides a de facto mechanism to carry-over some spending.

57. Transparent carry-over mechanisms would strengthen the protection of projects-related expenditure. The current practice of using trust funds to transfer lapsed appropriations for unpaid invoice balances from one budget year to the next undermines both the basis of the appropriation and the intent of the budget law as approved by parliament. In this context, the legal framework should include explicit provisions regarding the usage of carry-over.

12. Availability of Funding (Strength – Medium, Effectiveness – Low)

58. The cash forecasts and commitment control systems are in place but the government's consolidation efforts and some financing operations (e.g., advances to SOEs) have negative impact on cash releases. Line ministries are provided with commitment ceilings

for the whole year at the beginning of the year. Each ministry produces a cash flow forecast for the entire year in January. They are updated monthly, reflecting the results from the previous month and the year-to-date situation, including the effective cash releases made by the Treasury. Commitments are released on a quarterly basis for recurring expenditure and monthly for capital expenditure. Capital outlays are frequently not a priority when choices have to be made regarding the commitments and cash allocations. In addition, advances to some critical SOEs create financial tensions that could contribute to limit the availability of cash for some projects included in the budget. External grants and loans are, in general, included in the budget as revenue or financing resources. Project accounts that receive external funding may require separate bank accounts, outside of the Treasury Single Account (TSA), under the loan or grant agreement. However, those attributable to units included in the budget are recorded in Government Financial Management Information System (GFMIS), thus ensuring that the Treasury knows their existence.

59. Cash rationing delays some projects. The progress made in consolidating cash resource within the TSA system and improving the information on accounts held outside the TSA have improved cash availability. Nevertheless, according to line ministries, in a context of limited cash resources, financing of project outlays is frequently subject to cash rationing, leading to delays in the implementation of projects. Accounts receiving external funding in separate bank accounts seem to be a limited issue as the 2016 PEFA indicates that they represented 3 percent of total expenditure in 2015.

60. Further strengthening cash management is a medium priority for PIM. Strengthening cash management through the improvements in cash forecasting and TSA and its integration with debt management could facilitate effective use of government financial resources. The advances to SOEs should be limited to short-term financing needs and better anticipated in the cash-flow forecasts. In addition, they should be treated as subsidies when there is no expectation that they will be reimbursed.

13. Transparency of execution (Strength – Medium; Effectiveness – Medium)

61. The transparency of project execution is mixed and project monitoring is relatively good. All budget-funded construction projects are implemented by the MoPW and monitored according to standardized rules. All projects are monitored by external consultants appointed by the MoPW (budget-funded projects) or the MoPIC (externally funded projects). The MoPIC receives monthly monitoring reports for all projects in the EDP, and provides a consolidated, quarterly monitoring report to the Prime Minister's Delivery Unit (PMDU). Line ministries receive monthly monitoring reports from MoPW and MoPIC for all projects under their purview, whereas external donors receive progress reports from the MoPIC in accordance with their requirements. The PMDU monitors implementation of the mega projects, which are defined to be of particular political interest through Cabinet decisions, and may take steps to address implementation challenges or escalate these to the political level. The PMDU has established a project

management information system which is accessible for all ministries, and which the MoPIC uses to produce its comprehensive monitoring reports.²⁸

62. Procurement arrangements and ex-post audit requirements are not fully adequate.

Procurement related to public investments is governed by the Government Works by-law (1986), which indicates that open, competitive bidding is the main procurement method. Tendering is usually limited to Jordanian companies, unless international tendering is required by a donor or there is lack of relevant capacity in Jordan. In 2016, the GTD managed 132 tenders, of which only seven were subject to international tendering. A government procurement website provides information on tenders conducted by the GTD, and there is no fully independent tender appeals process.²⁹ The AB is authorized to audit all aspects of capital project implementation and puts strong emphasis on ex-ante and continuous auditing with a clear regularity focus; ex-post audit is not a high priority.

63. In practice, special tender committees, established by the Cabinet for specific projects, undermine transparency and competition in capital project procurement, and there are no published ex-post audit reports for capital projects.

Many projects are procured by these special committees, in particular in the energy and water sectors. The special tender committees may be established according to article 13 in the government works by-law and there is no information about these tenders on the government procurement website. Some sectors also have a general exemption from the procurement law. This includes military and security procurement, as well as procurement by universities and municipalities. There are examples of capital projects that have been subject to ex-post audit. The audit reports are not published, but findings are summarized in the AB annual report.

64. An important measure to promote efficient capital project execution, is to ensure that all procurement is competitive and follows similar rules, and that projects are subject to systematic ex-post audit.

If different rules are applied to different sectors and projects, the transparency of the process is undermined and the willingness of suppliers to participate in the tenders is reduced. This is particularly important for international tendering of complex projects. Avoidance of special tender committees and exceptional procurement rules, reduction of political involvement in the tendering process, and establishment of an independent procurement appeals mechanism would be important parts of this. More systematic and better documented ex-post audit of major projects would also be important.

²⁸ The legislation and Opinion Bureau has also been studying a unified procurement system and an electronic procurement system.

²⁹ The MoPW has recently established an appeals mechanism, where another directorate reporting to the Minister is tasked with reviewing tender appeals. This is an important step, but since the Minister is required to endorse both the tender process and the appeals process, this is not yet a fully independent appeals process.

14. Management of project implementation (Strength – Medium; Effectiveness – Low)

65. Several aspects of capital project implementation are quite well structured. The MoPW has three sector directorates for project implementation, covering roads, schools and other buildings. Accountability for project implementation is clearly assigned to the directors and section heads in these directorates. Provisions in the annual budget law requires that all project cost increases must be approved by the GBD (budget-funded) or the donor (externally funded) before any contract variation order is signed. Monitoring consultants prepare project completion reports for externally funded projects, indicating cost overruns, delays, and reasons for these, when donors require this. However, project completion reports are not required for budget funded projects.

66. The MoPW implements all government-funded construction projects and this contributes to consistent project implementation, but several weaknesses remain.³⁰ Implementation plans are only prepared after budget approval of a project. Cost increases lead to extended implementation times but there is never any reassessment of project rationale. Until now, there has been no systematic portfolio analysis of project implementation and no available statistics on cost overruns and delays. The recently established EPD monitoring framework will help to address these shortfalls. The preliminary data indicate that there are significant delays in implementation of large and complex projects, but that implementation of smaller projects is less problematic.

67. Over time, several steps can be taken to further improve project implementation. More comprehensive project design and appraisal, in particular for large and complex projects, should also include preparation of implementation plans prior to the budget decision, to ensure that projects can be implemented quickly once the funding is secured. Project completion reports should be required for all projects, and more systematic ex-post evaluation will facilitate portfolio analysis and learning. The EPD monitoring reports should be made widely available, and will over time provide a solid empirical basis for future project development and implementation.

15. Assets accounting (Strength – Low; Effectiveness – Low)

68. The value of government assets is not recognized and reported in financial statements. Monitoring of government assets, particularly fixed assets, is incomplete. Government agencies prepare cash-based accounts, which include no information on non-financial assets. SOEs, including NEPCO, are subject to company law and prepare their financial statements according to IFRS. The Government Shareholding Company will manage GoJ's shareholdings in 24 companies and prepare a report when it is fully functional.

³⁰ The MoPW indicated that the portfolio of projects under implementation amounted to 1.2 billion JD.

69. Although government agencies are required to maintain asset registers, in practice this is not done.³¹ The MoF revised its Financial By-law in 2010 to require that all government agencies have asset registries.³² An inventory of moveable assets such as vehicles and office furniture is maintained, but immovable assets such as buildings are not. There is very limited systematic surveying of the stock, value and condition of nonfinancial assets.

70. Public asset data to be produced through the implementation of IPSAS for the whole government will improve the efficiency of public investment decision making process, but full IPSAS implementation will take some time and efforts. The MoF intends to implement the accrual basis IPSAS standard as part of its public sector accounting reforms. Phase IV of the IPSAS Implementation Plan will focus on the government agencies that should establish accounting systems on the full accrual basis adhering to IFRS. The GFMIS will facilitate the transition to accrual accounting. Consolidating and reporting all accounting information from different agencies and SOEs may require significant improvement on the legislation, business practices and skills

³¹ 2016 PEFA Report

³² USAID Jordan Treasury and Public Accounting Reforms FRII 2010

IV. REFORM PRIORITIES AND RECOMMENDATIONS

A. Investment Planning Institutions

Strengthen Strategic Planning

Issue 1: The planning process for public investment is fragmented with roles and responsibilities shared by a complex grid of institutions (i.e., MoF, MoPIC, GBD, PM office). Coordination between these institutions is poor, each generating a multiplicity of planning documents, without a clear prioritization of projects or clear link to the budgetary capacity. In addition, some projects can be financed without going through the EDP cycle.

Recommendation 1: Improve the quality of strategic planning by clarifying roles and responsibilities, enhancing coordination mechanisms between the institutions involved, and ensuring that strategic project go through the EDP cycle.

- The MOPIC should take the lead in coordinating the strategic planning process to ensure its consistency and “realism”, technical feasibility, and financial viability. MoPIC should give priority to the implementation of the PIM framework developed by the WB and approved by government in April 2015 to develop existing PIM capacities. (MoPIC and line ministries in line with timetable in the PIM framework).
- All initiatives and projects should be included in the EDP (mega projects, PPPs, externally financed projects). (PMDU, MOF, MoPIC, and line ministries in line with timetable in the PIM framework).
- Clearly distinguish capital expenditure from current expenditure in the EDP. (MoPIC and PMDU, end 2017)

Strengthen the oversight of PPPs

Issue 2: Exemptions to the 2014 PPP Law approved by Cabinet for the water and electricity sectors have reduced the MoF’s oversight function over fiscal risks arising from PPPs, increasing regulatory uncertainty and potentially future financial costs for government. There is no systematic recording or monitoring of explicit and contingent liabilities of existing PPPs, despite their growing number and importance in Jordan’s public investment portfolio.

Recommendation 2: Strengthen the oversight and disclosure practices of PPPs through:

- Preserving the oversight role and responsibility of the PPP unit in the MoF as prescribed by the 2014 PPP law and 2015 by-law. The PPP Unit of the MoF should retain its mandate to review Value for Money (VfM), budget affordability, and fiscal risk analysis of all PPP projects at

different stages of the project cycle, regardless of the economic sector involved, or the type of financing agreements (e.g., BOT, power-purchase agreements). (Cabinet, 2017)

- Recording and disclosing in an annex together with the budget documents data on existing PPP contracts (including those signed before the 2014 PPP law), including: (PPP Unit MOF, 2018)
 - investment in physical assets by PPP companies (regardless of whether they are classified public or private);
 - long-term cash-flow forecasts of gross costs and revenues of PPP companies and their associated PV
 - estimates of government's future payments to PPP companies (e.g., availability payments) and their associated present value; and
 - assessment of the risks associated with PPPs (e.g., explicit guarantees, traffic risks, force majeure, etc.)

Improve SOEs oversight

Issue 3: SOE investments are coordinated with CG, but oversight of SOE investment plans is weak, and monitoring focuses primarily on financial performance. No reports on operational performance or fiscal risk assessment are provided. There is no centralized reporting of the cost of quasi-fiscal activities or risks of SOEs.

Recommendation 3: Design and implement a roadmap for improving central oversight of public investment plans and financial performance of SOEs.

- A unit in the MoF should be assigned to monitor SOEs' financial and operational performance and produce a consolidated report. The unit should collaborate with the shareholding company (The Government Shareholdings' Management Company) on oversight issues. (MOF, 2017)
- To assess the real performance of the SOE sector, classify the Government Units in line with international standards (i.e., GFSM 2014). (MOF, 2017)

B. Investment Allocation Institutions

Strengthen project appraisal

Issue 4: The lack of a systematic and consistent appraisal process undermines project quality and leads to uncertainties and delays in project implementation.

Recommendation 4: Strengthen project appraisal to ensure that: (i) all projects are well-defined and address clear objectives; (ii) estimated project benefits are higher than their costs; (iii) project implementation is feasible; and (iv) projects are sufficiently developed so that they can be implemented immediately after final funding decision.

- Develop comprehensive guidelines for capital project preparation; (MOPIC with WB support, 2017)
- Give MOPIC formal responsibility to assess all public investment projects, regardless of source of funding, to ascertain that they are fully appraised and documented, prior to any funding decisions. (Cabinet, 2017)
- Provide training to MOPIC's and line ministry' staff in project appraisal and review in collaboration with the WB. (MOPIC with WB support, 2017–19)
- Apply new guidelines to EDP for 2019–2020 (MOPIC, 2018).

Strengthen project selection

Issue 5: There are no standardized, central criteria for project selection, and the EDP is not an effective gateway for project selection. In practice, project prioritization and selection is largely done by line ministries, with some exception for major, externally funded projects.

Recommendation 5: Strengthen the EDP process to ensure that it provides a credible and realistic pipeline of high-priority, high-quality projects, and that project selection is done consistently regardless of funding sources.

- Develop guidelines for the EDP process to ensure that project proposals are fully prepared and compatible with realistic fiscal envelopes (MOPIC, GBD, MOF, 2017).
- Establish and publish clear and transparent criteria for project selection for the EDP (MOPIC, with World Bank support, 2017).
- Update budget guidelines to ensure that budget funding decisions are consistent with EDP (GBD, 2017).
- Apply new provisions for 2019 budget (MOPIC, GBD, 2018).

C. Investment Implementation Institutions

Introducing a carry-over rule

Issue 6. The current practice of using trust funds to transfer lapsed appropriations for unpaid invoice balances from one budget year to the next undermines both the basis of the appropriation and the intent of the budget law as approved by parliament.

Recommendation 6: Based on the review of the usage of trust funds for carrying over expenditure, consider the introduction of a clearly defined and transparent carry-over mechanism in the PFM legal framework.

- Define the criteria allowing budget managers to retain unspent appropriations; (MoF and GBD, with support from METAC, 2018).

- Define quantitative restrictions to the usage of carry-over such as: (i) a limit on the amount of carry-over authorized for a given fiscal year; (ii) a ceiling on the amount of the accumulated stock of carry-over, or (iii) limits on the draw-down of accumulated carry-overs; (MoF and GBD, with support from METAC, 2018).
- Set the level of carry-over to restrain their use to the initial object of the appropriation (e.g., to a specific investment project). (MoF and GBD, with support from METAC, 2018).

Strengthen project implementation and oversight

Issue 7: Implementation plans are only prepared after budget approval of a project. Cost increases lead to extended implementation times, but there is never any reassessment of project rationale. Until now, there has been no systematic portfolio analysis of project implementation and no comprehensive statistics on cost overruns and delays. There is still scope for improvements in procurement, ex-post evaluations, and ex-post audit.

Recommendation 7: Strengthen project implementation and oversight by ensuring consistent procurement rules, systematic project completion reports, and effective ex-post audit of major projects.

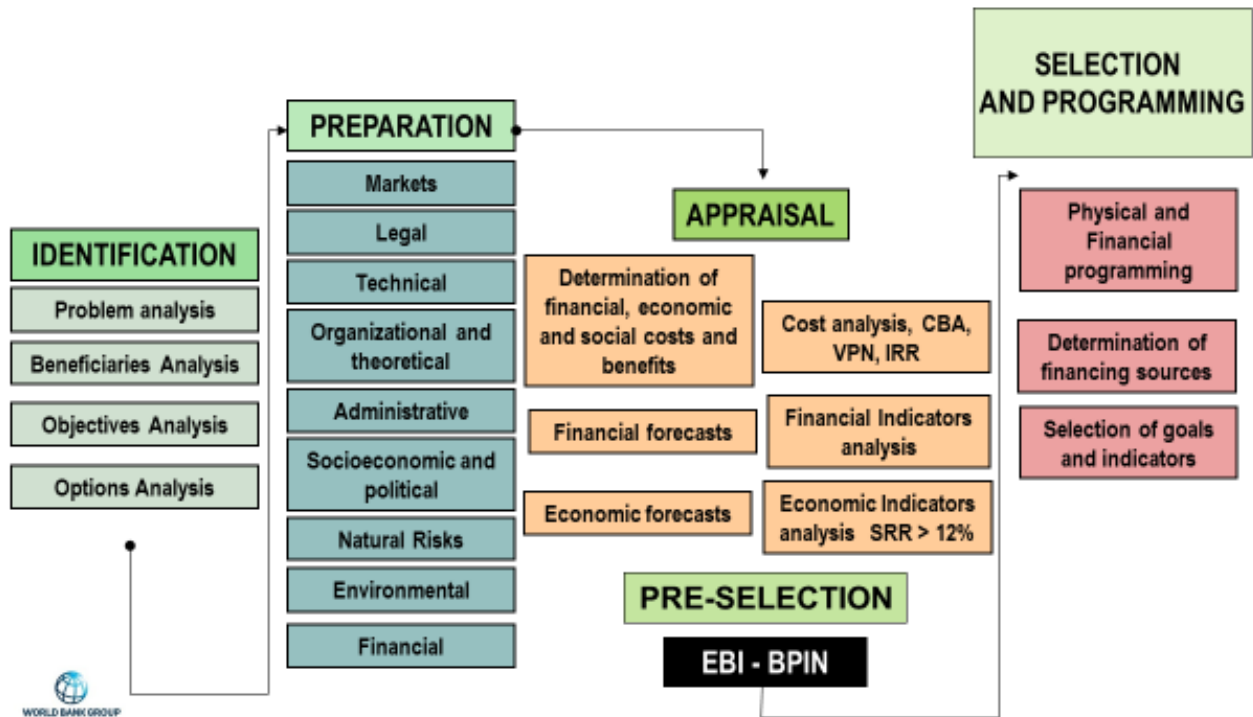
- Update procurement legislation to ensure that procurement of public investment is based on competitive, international tenders, that all tenders and awards are fully disclosed on the website of the GTD, and that there is an independent tender appeals mechanism. (GTD, with World Bank support, 2018).
- Update EDP guidelines to include specific provisions for comprehensive project completion reports for all public investment projects, with disclosure of cost overruns and project delays, and identification of lessons learnt (MOPIC, 2018).
- Include in AB work plan at least 10 ex-post audits of major public investment projects each year, and publish the audit reports (AB, gradually phase in 2018).

Register and value fixed assets

Issue 8: The value of fixed assets is not recognized and reported in financial statements. Although government agencies are required to maintain asset registers, in practice this is not done.

Recommendation 8: Ensure timely implementation of the “Roadmap for the Implementation of IPSAS” and Financial By-Law 2010 on asset registry. (MOF and line ministries).

Appendix I. Appraisal and Selection of Public Investment Projects in Colombia



Source: World Bank

Colombia applies a comprehensive set of assessments and verification to develop the Public Investment Program (PIP), which is equivalent to the capital budget:

- Project identification includes analysis of underlying problems and expected beneficiaries, as well as initial indications of project objectives and options for addressing the underlying problems.
- Project preparation is done according to clearly specified methodologies, and serves to clarify all relevant features of the project.
- Project appraisal is rigorous, and involves the sponsoring agencies' own project offices, as well as the planning offices in the line ministries, and the National Planning Department (DNP).
- DNP has the final say in determining which projects are feasible and can be pre-selected for inclusion in the investment project database (BPIN).
- **The PIP is prepared from projects included in the BPIN, and is consistent with the medium-term budget framework. The PIP is compiled by DNP and consolidated with the rest of the budget proposal by the MOF.**

Appendix II. PIMA Questionnaire

#	QUESTION	INDICATOR			
		1 = To no or a lesser extent	2 = To some extent	3 = To a greater extent	
A. Planning Sustainable Levels of Public Investment					
1. Fiscal principles or rules: Are there permanent fiscal principles or rules that support sustainable levels of capital spending?					
	1.a.	Is fiscal policy guided by one or more permanent fiscal principles, or rules?	There are no permanent fiscal principles or rules.	Fiscal policy is guided by one or more permanent fiscal rules but they have not been adhered to over the last three years and there is no provision in the law allowing rules to be suspended in exceptional circumstances.	Fiscal policy is guided by one or more permanent fiscal rules and they have been adhered to over the last three years or there is a provision in the law allowing rules to be suspended in exceptional circumstances.
	1.b.	Do fiscal principles or rules protect capital spending over the short term or medium term?	Capital spending is included under a target or limit for the overall fiscal balance or aggregate expenditure	Capital spending is included under a target or limit for the overall fiscal balance or aggregate expenditure, but these are expressed in structural terms	Capital spending is excluded from a target or limit for the balance (Golden Rule) or expenditure (Operating Expenditure Rule) or there is a floor on the overall level of capital spending
	1.c.	Is there a target or limit for government liabilities, debt, or net worth?	There is no target or limit for government liabilities, debt, or net worth	There is a target or limit for government liabilities, debt, or net worth	There is a target or limit for government liabilities, debt, or net worth with an automatic adjustment mechanism when the target is not being met
2. National and Sectoral Planning: Are investment allocation decisions based on sectoral and inter-sectoral strategies?					
	2.a.	Does the government publish national and sectoral strategies for public investment?	No national or sectoral public investment strategies are published	Either a national public investment strategy or sectoral strategies is published	Both national and sectoral public investment strategies are published
	2.b.	Are the government's national and sectoral strategies or plans for public investment costed?	The government's investment strategies or plans include no cost information on planned public investment	The government's investment strategies include broad estimates of aggregate and sectoral investment plans	The government's investment strategies include costing of individual, major investment projects

	2.c.	Do sector strategies include measurable targets for the outputs and outcomes of investment projects?	Sector strategies do not include measurable targets for outputs or outcomes	Sector strategies include measurable targets for outputs (e.g., miles of roads constructed)	Sector strategies include measurable targets for both outputs and outcomes (e.g., reduction in traffic congestion)
3. Central-Local Coordination: Is there effective coordination of central and sub-national governments' investment plans?					
	3.a.	Are there limits on sub-national governments' borrowing?	There are no limits on SNG borrowing	SNGs may borrow only for investment	SNGs may borrow only for investment and within limits set by law
	3.b.	Is capital spending by SNGs coordinated with CG?	Capital spending plans of sub-national governments are not submitted to CG nor discussed with CG	Capital spending plans of SNGs are consolidated alongside CG investment but there is no formal discussion between CG and SNGs on investment priorities	Capital spending plans of SNGs are consolidated alongside CG investment and there is formal discussion between CG and SNGs on investment priorities
	3.c.	Does CG have a transparent, rule-based system for making capital transfers to SNGs, and for providing timely information on such transfers?	CG does not have a transparent and rule-based system for capital transfers to SNGs	CG uses a transparent and rule-based system for capital transfers to SNGs, but expected transfers are notified to SNGs less than six months before the start of each fiscal year	CG uses a transparent and rule-based system for capital transfers to SNGs, and expected transfers are made known to SNGs at least six months before the start of each fiscal year
4. Public-Private Partnerships: Is there a transparent framework for the scrutiny, selection, and oversight of PPP projects?					
	4.a.	Has the government published a strategy for PPPs and issued standard criteria for entering into PPP arrangements?	There is no published PPP strategy or criteria for entering into PPP arrangements	A PPP strategy has been published but there are no standard criteria to guide the choice between traditional financing and PPPs	A PPP strategy has been published and there are standard criteria to guide the choice between traditional financing and PPPs
	4.b.	Are PPPs subject to VfM review by a dedicated PPP unit prior to approval	PPPs are not normally subject to VfM review	All or most PPPs are subject to VfM review but not by a dedicated PPP unit	All or most PPPs are subject VfM review by a dedicated PPP unit
	4.c.	Is the accumulation of explicit and/or contingent PPP liabilities systematically recorded and controlled?	Explicit and/or contingent PPP liabilities are not systematically recorded and there are no overall limits for the accumulation of such liabilities	Explicit and/or contingent PPP liabilities are systematically recorded but there are no overall limits for the accumulation of such liabilities	Explicit and/or contingent PPP liabilities are systematically recorded and there are overall limits for the accumulation of such liabilities

5. Regulation of Infrastructure Companies: Is there a favorable climate for the private sector and SOEs to participate in infrastructure provision?				
5.a.	Does the regulatory framework support competition in contestable markets for economic infrastructure (e.g., power, water, telecoms, and transport)?	Provision of economic infrastructure is restricted to domestic monopolies	There is domestic competition in some economic infrastructure markets	There is international and domestic competition in major economic infrastructure markets
5.b.	Are there independent regulators who set the prices of economic infrastructure services based on objective economic criteria?	The prices for economic infrastructure services are generally set by CG	The prices for economic infrastructure services are set by independent regulators, but the regulators do not have full organizational, financial and managerial autonomy	The prices for economic infrastructure services are set by independent regulators, and the regulators have full organizational, financial and managerial autonomy
5.c.	Does the government oversee the investment plans of infrastructure SOEs and monitor their financial performance?	The government does not review investment plans and financial performance of infrastructure SOEs	The government reviews but does not publish a consolidated report on the investment plans and financial performance of infrastructure SOEs	The government reviews and publishes a consolidated report on the investment plans and financial performance of infrastructure SOEs
B. Ensuring Public Investment is Allocated to the Right Sectors and Projects				
6. Multi-Year Budgeting: Does the government prepare medium-term projections of capital spending on a full cost basis?				
6.a.	Is capital spending by ministry forecasted over a multi-year horizon?	No projections of capital spending are published beyond the budget year	Projections of total capital spending are published over a three to five year horizon	Projections of capital spending disaggregated by ministry or program are published over a three to five year horizon
6.b.	Are there multi-year ceilings on capital expenditure by ministry or program?	There are no multi-year ceilings on capital expenditure by ministry or program	There are indicative multi-year ceilings on capital expenditure by ministry or program	There are binding multi-year ceilings on capital expenditure by ministry or program
6.c.	Are projections of the full cost of major capital projects over their life cycle published?	Projections of the cost of major capital projects are not published or only for the budget year	Projections of the total cost of major capital projects are also published	Projections of the total cost of major capital projects are published together with annual projections over a three to five year horizon

7. Budget Comprehensiveness: To what extent is capital spending undertaken through the budget?					
	7.a.	Is capital spending mostly undertaken through the budget?	Significant capital spending is undertaken by extra-budgetary entities with no legislative authorization or disclosure in the budget documentation	Significant capital spending is undertaken by extra-budgetary entities, but with legislative authorization and disclosure in the budget documentation	Little or no capital spending is undertaken by extra-budgetary entities
	7.b.	Are externally funded capital projects included in the budget documentation?	Externally funded capital projects are not included in the budget documentation	Externally funded capital projects are included in an appendix to the budget documentation	Externally funded capital projects are integrated into ministerial or sectoral investment budgets in budget documentation
	7.c.	Is information on PPP transactions included in the budget documentation?	No information on PPP transactions is included in the budget documentation	Information on PPP transactions is included in supplementary information or an appendix to the budget documentation	Information on PPP transactions is fully integrated into the tables on capital investment by ministry or sector in the budget documentation
8. Budget Unity : Is there a unified budget process for capital and current spending?					
	8.a.	Are capital and recurrent budgets prepared and presented together?	Capital and recurrent budgets are prepared by separate ministries and/or presented in separate budget documents	Capital and recurrent budgets are prepared by a single ministry and presented in a single document but not using a program classification	Capital and recurrent budgets are prepared by single ministry and presented in single document, using a program classification
	8.b.	Does the budget include appropriations of the recurrent costs associated with capital investment projects?	The budget does not include appropriations of the recurrent costs associated with investment projects	The budget includes appropriations of the recurrent costs associated with investment projects for the budget year only	The budget includes appropriations (or estimates) of the recurrent costs associated with investment projects for the budget year and the medium term
	8.c.	Does the budget classification and CoA distinguish clearly between recurrent and capital expenditure, in line with international standards?	The budget classification and CoA includes some recurrent expenditure in the definition of capital expenditure or some capital expenditure in recurrent expenditure	The budget classification and CoA includes some capital expenditure in financing or some financing in capital expenditure	The budget classification and CoA clearly distinguishes between recurrent and capital expenditure and financing in line with international standards

9. Project Appraisal: Are project proposals subject to systematic project appraisal?					
	9.a.	Are capital projects subject to standardized cost-benefit analysis whose results are published?	Capital projects are not systematically subject to cost-benefit analysis	Cost-benefit analysis is usually conducted for major projects but not systematically published	Cost-benefit analysis is conducted systematically for major projects and the results published
	9.b.	Is there a standard methodology and central support for the appraisal of projects?	There is no published methodology or central support for project appraisal	There is either a standard methodology or central support for project appraisal	There is both a standard methodology and central support for project appraisal
	9.c.	Are risks taken into account in project appraisal?	Risks are not systematically assessed as part of the project appraisal	A risk assessment covering a range of potential risks are included in the project appraisal but budgets do not include contingency reserves to cater for possible cost overruns	A risk assessment covering a range of potential risks are included in the project appraisal and budgets include contingency reserves to cater for possible cost overruns
10. Project Selection: Are there institutions and procedures in place to guide project selection?					
	10.a.	Does the government undertake a central review of major project appraisals before decisions are taken to include projects in the budget?	Project selection is largely a decision of the line ministries	Major projects are reviewed by MoF staff prior to inclusion in the budget.	All major projects are scrutinized by MoF staff and with input from external experts prior to their inclusion in the budget
	10.b.	Does the government publish and adhere to standard criteria for project selection?	There are no published criteria for project selection	There are criteria published for project selection but projects are regularly selected without going through the required selection process	There are published criteria for project selection and generally projects are selected through a required selection process
	10.c.	Does the government maintain a pipeline of approved investment projects for including in the annual budget?	Investment projects are included in the budget on an ad hoc basis	The government maintains a pipeline of approved investment projects but other projects may be selected for financing through the annual budget	The government maintains a comprehensive pipeline of investment projects which is used for selecting projects for inclusion in the annual budget and for the medium term

C. Delivering Productive and Durable Public Assets					
11. Protection of Investment: Are investment projects protected during budget implementation?					
	11.a.	Are total project outlays appropriated by Parliament at the time of commencement of a project?	Outlays are appropriated on an annual basis	Outlays are appropriated on an annual basis, but information on total project costs is included in the budget	Total project outlays are appropriated on commencement of the project, with adjustments being made to the budget appropriation on a year by year basis
	11.b	Are in-year transfers of appropriations (virement) from capital to current spending prevented?	There are no limitations on virement from capital to current spending	Virement from capital to current spending may be approved by the MoF	Virement from capital to current spending is allowed only by Act of Parliament
	11.c	Can unspent appropriations for capital spending be carried over to future years?	Unspent appropriations for capital spending lapse at the end of the year	Unspent appropriations for capital spending may be carried over within certain limits	Unspent appropriations for capital spending may be carried over without limitation
12. Availability of Funding: Is financing for capital spending made available in a timely manner?					
	12.a.	Are ministries/agencies able to plan and commit expenditure on capital projects in advance on the basis of reliable cash flow forecasts?	Cash flow forecasts are not prepared or updated regularly and ministries/agencies are not provided with commitment ceilings in a timely manner	Cash flow forecasts are prepared or updated quarterly and ministries/agencies are provided with commitment ceilings at least a quarter in advance	Cash flow forecasts are prepared or updated monthly and ministries/agencies are provided with commitment ceilings for the whole year
	12.b	Is cash for project outlays released in a timely manner?	The financing of project outlays is frequently subject to cash rationing, leading to significant delays in project implementation	Cash for project outlays is sometimes released with delays, leading to some delays in project implementation	Cash for project outlays is normally released in a timely manner according to the appropriation
	12.c	Is external (donor) financing of capital projects integrated into cash management and the TSA?	External financing is largely held in commercial bank accounts outside the central bank's government accounts/TSA	External financing is held at the central bank's government accounts but is not part of a TSA	External financing is fully integrated into a TSA

13. Transparency of Budget Execution: Are major investment projects executed transparently and subject to audit?					
	13.a	Is the procurement process for major capital projects open and transparent?	Few major projects are tendered in a competitive process and the public has limited access to procurement information	Many major projects are tendered in a competitive process but the public has only limited access to procurement information	Most major projects are tendered in a competitive process and the public has access to complete, reliable, and timely procurement information
	13.b	Are major capital projects subject to monitoring during project implementation?	Most major capital projects are not monitored during project implementation	For most major projects, annual project costs as well as physical progress are monitored during project implementation	For all major projects, total project costs as well as physical progress are centrally monitored during project implementation
	13.c	Are ex-post audits of capital projects routinely undertaken?	Major capital projects are usually not subject to ex-post external audit	Some major capital projects are subject to ex-post external audit, information on which is published by the external auditor	Most major capital projects are subject to ex-post external audit information on which is regularly published and scrutinized by the legislature

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