V. Issues Related to IMF Internal Processes and Policies

161. In this chapter, IMF-Jordan relations are examined from the perspective of IMF internal processes and policies, focusing on the following aspects:

- The interaction between internal staff analysis and the content of Board papers.
- IMF–World Bank cooperation.
- Finally, we also discuss arguments made by some observers that Jordan received preferential treatment on account of geopolitical considerations.

Internal Processes and Information Provided to the Board

162. A review of a broad range of internal documents and interviews with the staff suggest the following broad messages:

- *In the case of Jordan, the ability to step back and ask, from a longer-term perspective, what is and what is not working does seem to have improved markedly in recent years.* For example, the internal 2002 briefing paper on a fiscal strategy for the medium term was a high quality, candid document that did influence subsequent program design. Similarly, the analysis of macroeconomic frameworks in the context of their longer-term implications for debt sustainability have grown more rigorous.

- *The internal review process generally did flag many of the key risks to achievement of longer-term program objectives.* In particular, review department comments drew increasing attention during the period of the EFFs to the slow progress in underlying fiscal adjustment. Another area highlighted by review departments was the need to introduce an automatic mechanism for adjusting petroleum product prices to reflect changes in world prices. However, this did not feature in program conditionality in any significant way.

- *The overall assessments of policies and risks in Board papers were reasonably candid, but such assessments generally did not include any elaboration of the consequences of significant policy slippages*. Interviews with staff indicate that the consequences of potential policy slippages were discussed in detail with the authorities, even if not in Board papers. Nevertheless, a more concrete discussion of alternative scenarios could have improved the quality of information available to the Board. For example, a more concrete assessment should have been provided of the consequences for the current macroeconomic framework if government expenditures do not adjust to the projected fall in grants.

- *It was difficult to obtain from the Board papers alone a full understanding of the rationale underlying a particular program design* (e.g., why a specific magnitude of fiscal adjustment was chosen or what were the behavioral assumptions underlying a specific NDA target). This also made it difficult to judge the reasonableness of any subsequent program modifications. Board papers for the 2002 SBA and its reviews (especially at the time of the 2004 Article IV consultation) generally provided a clearer discussion of the rationale than in earlier arrangements.

IMF–World Bank Cooperation

163. The division of labor between the two institutions appears to have generally worked well, with clear understandings on which agency had lead responsibility for particular issues. Although there were disagreements on a number of issues—two examples are given below—the view of the "lead agency" appears to have prevailed. Within this generally positive assessment, however, there are three areas where results of the cooperation were not as effective as they could have been: (1) the IMF was not able, for whatever reason, to utilize sufficiently World Bank inputs from its public expenditure reviews (PER) in the design of the fiscal adjustment strategy; (2) World Bank analysis on growth issues did not play a significant role in deriving the growth projections incorporated into IMF-supported programs; and (3) as already noted, the use of detailed conditionality on privatization in the 1999 EFF was one occasion when the "division of labor" between the two institutions broke down, with poor results.

164. The evaluation team sought evidence on the extent to which IMF staff drew on analytical work by the World Bank in the design of IMF-supported programs. In light of the findings of the 1994 conditionality review referred to in Chapter 2 and the critical importance of addressing Jordan's longer-term fiscal rigidities on the expenditure side, we were particularly interested in what use IMF staff made of World Bank work on public expenditure. We found that the World Bank's periodic public expenditure reviews had relatively little influence on IMF program design. We asked IMF staff specifically about the 1999 PER report, which an evaluation of World Bank assistance to Jordan during the 1990s conducted by the World Bank's Operations Evaluation Department (OED) found to have been of high quality. IMF staff suggested that the main reason for not drawing on the 1999 PER report was that its emphasis on "performance budgeting," lacked traction with the authorities.[41] In our view, the report provided some useful material for developing a medium-term framework for fiscal policy, but the development of such a framework was not a priority for IMF staff until toward the end of the 1999–2001 EFF (as part of the preparation for the successor arrangement—the 2002 SBA). Subsequently, a joint IMF–World Bank PEM mission in 2004 took up some of the key issues addressed in the 1999 PER.

165. Another area in which we sought evidence of collaboration in program design was with regard to growth projections. We found that IMF staff drew on World Bank analysis in the preparation of Selected Issues papers as part of Article IV consultations. However, growth projection for programming purposes tended to rely on simple extrapolation of recent trends. It also appears that World Bank staff used IMF growth assumptions in their macroeconomic projections, a practice that the OED evaluation criticized (Box 5.1).

[41] We understand that, in deference to the authorities' wishes, the report was never finalized.

Box 5.1. Selected Findings from OED's Jordan Country Assistance Evaluation

In 2002–03, OED undertook an evaluation of World Bank assistance to Jordan during the 1990s. Below are some findings that touch on relations with the IMF or on subject areas relevant to the IMF's work.

- The World Bank's operations complemented IMF stabilization program(s) with structural reforms designed to address constraints to private sector and export-led growth.
- Collaboration with the IMF was successful in stabilizing the Jordanian economy and laying the foundations for structural reforms.
- High growth projections of the 1990s (over 6 percent a year) used in World Bank work were unrealistic, considering the low level of investment (both government and private nonhousing) since 1985. The projections were not based on careful independent analysis; they often reflected uncritical acceptance of the growth assumptions underlying IMF-supported programs.
- The World Bank could have made much more use of the results from its analytical work on public expenditures to push more forcefully for reducing the level of government expenditures while enhancing their quality.

Source: Hassan and Al-Saci (2004).

166. There were a few areas where the views of the two staffs diverged. One such area concerned the use of fiscal policy to support growth objectives. In early 1998, with the economy perceived as largely stabilized, World Bank staff recommended that the IMF take account of increased availability of external aid (compared to the expected levels at the onset of the 1996 EFF) to program a larger fiscal deficit before grants, in support of the authorities' and the program's growth and poverty alleviation objectives. Citing concerns about future recurrent cost implications of aid-financed expenditures and expected permanent revenue losses associated with some reforms of the tax system, IMF staff took the position that additional aid should go toward financing expenditures already budgeted, rather than toward new spending. Subsequently, especially under the 2002 SBA, the staffs worked together to incorporate the authorities' growth and poverty reduction goals (as spelled out in the PSET) into the IMF-supported program.

167. A second area of divergent views related to the creation of export enclaves/zones characterized by generous tax incentives, for example, the establishment of the Aqaba Special Economic Zone (ASEZ). IMF staff advised a cautious approach, pointing to potential adverse effects on government revenue from the diversion of output from these zones to the domestic market. The World Bank, on the other hand, saw good potential for export generation, growth, and employment creation and assisted the authorities to set them up. The ASEZ became operational only in 2001, and so it is too early to gauge its impact on growth.

Did Jordan receive preferential treatment from the IMF?

168. Some commentators have claimed that Jordan received preferential treatment from the IMF on account of the international community's desire to see the country remain stable in a region marked by instability. In particular, it is suggested that the IMF has been lenient in dealing with slippages in the implementation of programs, and that Jordan has continued to receive a large amount of technical assistance even though it has been slow (or unwilling) to implement recommendations from such assistance.

169. We explore the following aspects of IMF-Jordan relations to test the hypothesis of favorable treatment (1) levels of financial assistance provided; (2) volume of technical assistance provided; and (3) response to slippages under programs.

170. Factors taken into account in establishing the level of financial assistance provided under IMF arrangements include: (1) the extent of the balance of payments problem faced by the country; (2) the strength of the adjustment program to be supported under the arrangement; and (3) the extent to which the country has been a prolonged user of IMF resources. There is a lot of room for exercising judgment in applying the above criteria, and we do not attempt to examine details of how the access levels were actually determined. Instead we compare Jordan's access levels with those for similar arrangements approved in the same year. Also, as a proxy for "strength of program," we compare the envisaged fiscal adjustment in the Jordan programs with that of programs for other countries using a framework employed in IEO's recent evaluation of fiscal adjustment in IMF-supported programs.

171. On access levels, the evidence indicates that they were well within the limits set in prevailing guidelines at the time the various arrangements and, while higher than average for all countries with similar arrangements, not excessively so (Table 5.1). Several augmentations to original access levels were granted to Jordan in the mid-1990s in response to pressures on international reserves associated with the redemption of Jordanian dinar for U.S. dollars in the West Bank and Gaza. In our view, the augmentations were an appropriate response to an external shock.

172. On fiscal adjustment, IEO (2003) found that the main determinants of projected fiscal adjustment in IMF-supported programs were the initial sizes of the fiscal and external current account balances, the size of the envisaged adjustment in the external current account, and the initial level of government expenditure. We fitted Jordan data to the regression equation estimated in the IEO report and found that, after controlling for the determinants indicated above, the programmed magnitude of fiscal adjustment in Jordan was somewhat less "ambitious" than the norm for IMF-supported programs. However, except for the 1992 and 2002 SBAs, the differences (not reported here) were generally not large.

Table 5.1. Access Limits
(In percent of quota)

Arrangement	Prevailing Limits		Average Annual Access 1/	Initial Average Annual	Jordan's Access	
	Annual	Cumulative			Augmented Annual 3/	Cumulative
1989 SBA	n.a.	102–125				81
1992 SBA	n.a.	102–125	56	40	n.a.	60
1994 EFF	100	300	30	35	65	156
1996 EFF	100	300	44	55	65	196
1999 EFF	100	300	40	25	n.a.	75
2002 SBA	100	300	43 4/	25	n.a.	50

Source: IMF.

1/ Average annual access for all similar arrangements approved in the same year as Jordan's.
2/ Average annual access at time of approval.
3/ A series of augmentations increased the annual access for 1995 and 1996 above the initial levels.
4/ Excluding Brazil (564 percent of quota) and Turkey (456 percent of quota).

173. The recently completed IEO evaluation of IMF Technical Assistance (IEO, 2005) found that during 1998–2003, per capita GDP and the existence of a multiyear arrangement with the IMF were the strongest influences on the allocation of IMF technical assistance to countries. Specifically, other things being equal, the amount of technical assistance provided was found to be inversely related to a country's per capita income, and to be positively associated with the presence of an arrangement under the EFF or the Poverty Reduction and Growth Facility (PRGF). After controlling for Jordan's per capita income level, we found the overall amount of technical assistance provided by the IMF to the country to be within the "norm" provided to other countries with IMF-supported programs.

174. The IMF clearly made political economy judgments about how far to insist on some measures that, if implemented, would have improved Jordan's longer-term fiscal sustainability. For example, while it encouraged the authorities to reduce the burden of the civil service wage bill and military expenditures and to introduce a permanent market-based mechanism for the pricing of petroleum products, such actions never became a precondition for agreement on a program. But such judgments reflected considerations of domestic ownership and political feasibility that were no different than those the IMF has to make in program negotiations in other countries. We found no evidence that the "threshold" of an acceptable program content was significantly different in Jordan because of its geopolitical importance. The one possible exception was the relatively quick move to a new arrangement soon after the poor performance under the 1996 EFF. However, as noted earlier, the contents of the 1999 EFF were quite ambitious.

175. In conclusion, there is always an element of political judgment involved in IMF decision making about its support for adjustment programs, and this was likely to be the case for a country in Jordan's geopolitical position. The question is whether such factors led to treatment that was out of the ordinary. We found no significant evidence that this was the case.