Summary of Findings and Lessons

1. This evaluation assesses the extent to which the IMF contributed to tackling Jordan's major macroeconomic challenges during the extended period (1989–2004) of the country's engagement in IMF-supported programs. The programs were supported under three Stand-By Arrangements (SBAs) (approved in 1989, 1992, and 2002), and three Extended Fund Facility (EFF) arrangements (approved in 1994, 1996, and 1999). Although the main focus of the evaluation is on the effectiveness of the IMF-supported programs, the roles of IMF surveillance and technical assistance activities are also examined. This detailed case study provided an opportunity to revisit—in a specific country context—previous IEO findings and lessons on issues related to (1) program design; (2) interactions between programs, surveillance and technical assistance activities; and (3) the impact of prolonged engagement in IMF-supported programs on the development of domestic institutions and policymaking processes.

2. The report's overall assessment of the IMF's role in Jordan is that it has been moderately successful. The IMF helped the authorities to address macroeconomic stabilization challenges successfully, but some of the main structural rigidities that underlay the financial crisis that led Jordan to its first IMF-supported program still remain, particularly on the fiscal side. It is important to recognize that, as in all programs that are the outcome of a complex negotiating process, the IMF was required to make judgments reflecting considerations of domestic ownership and political feasibility. The result is inevitably tempered by this reality. Whether the fiscal system is flexible enough to adapt to shocks will be again tested in the next few years if external grants, as projected, decline sharply relative to recent historically high levels.

3. The principal findings and lessons from the evaluation are summarized below, after a brief overview of initial conditions. Since the main focus was on the IMF's program activities in Jordan, which is now concluded, the evaluation does not make specific recommendations. However, the evaluation generates a number of lessons about the IMF's role in Jordan that are likely also to be of more general applicability as well as two key lessons about what should be the primary focus of the IMF's future role in Jordan.

Initial Conditions

4. At the start of its long period of participation in IMF-supported programs, Jordan faced a severe balance of payments crisis as well as deep-rooted macroeconomic and related structural problems. The country had virtually run out of international reserves and was on the verge of defaulting on its external debt payment obligations. It faced a massive external public debt, and large deficits in the external current account and government budget. A rigid fiscal structure and structural impediments to growth meant that sustainable adjustment was going to be hard to achieve, and would require time to be addressed effectively. In addition, Jordan's close regional economic ties made it susceptible to shocks related to economic and political developments in the Middle East.

Main Findings

5. The overarching evaluation questions may be summarized as follows:

- Was the overall design of programs relevant and appropriate to Jordan's circumstances?
- What was achieved in terms of the broad objectives of programs, and what can be said about the contribution of the IMF to observed outcomes?
- What has been the contribution of IMF support in addressing fundamental structural and institutional rigidities in Jordan and helping the country to strengthen its capacity to cope with shocks?
- How well did internal IMF processes and policies work in the institution's dealings with Jordan? In particular, did Jordan receive preferential treatment from the IMF on account of geopolitical considerations?

Appropriateness of program design

6. Program objectives were relevant to Jordan's circumstances and were consistent with the broad objectives spelled out in the authorities' national development plans. The core elements of the strategy to foster sustainable growth remained the same under all arrangements: the private sector was expected to be the main engine of growth; significant declines in public sector dissaving would help sustain domestic investment and contribute to reducing the public debt "overhang"; and structural reforms would boost productivity and export performance.

7. The programs supported under the early arrangements approached issues of external and fiscal sustainability primarily in flow, not stock, terms, reflecting the general status of international approaches to official debt relief at the time. Later programs did incorporate a more comprehensive approach to analyzing debt sustainability, in line with institution-wide developments. In the specific case of Jordan, a medium-term fiscal strategy paper prepared by IMF staff in early 2002, which informed the design of the 2002 SBA, was of high quality. Such an approach would have been helpful at an earlier stage in establishing a framework for looking beyond the short-term horizon that has characterized Jordan's budget process.

8. While there was some improvement in recent years, most Executive Board papers on Jordan did not provide a clear rationale for the magnitude and composition of targeted adjustment. This made it difficult to make judgments on the factors underlying any subsequent failures to achieve key objectives, and on the appropriateness of any program modifications. Moreover, analysis of the links between growth objectives and program design was limited for most of the program period.

9. In general, structural conditionality was reasonably well designed and seems to have observed a clear division of labor with the World Bank. The main exception was the 1999 EFF, where the IMF adopted a number of detailed benchmarks on privatization that were not well designed. More generally, many senior Jordanian officials credited IMF conditionality with

helping to implement politically sensitive reforms (e.g., introduction of the general sales tax (GST), rationalization of subsidies, and pension reforms), but also cited examples in which pressure from the IMF for speedy action backfired (e.g., submission of a draft income tax law to parliament with little prior consultation with members of parliament).

10. In general, there was not much difference in the macroeconomic policy discussions undertaken during Article IV consultations and those in program discussions. Surveillance generally did not step back and explore alternative policy options. Following the 2002 biennial surveillance review, new guidelines were issued to staff that expanded the scope of surveillance. The one consultation report (for 2004) produced after issuance of the new guidelines did a good job of delineating program discussions from the consultations and examining longer-term sustainability and financial system stability issues.

Macroeconomic outcomes and the role of IMF support

11. Jordan has made major progress over the 15-year period of its IMF program involvement in achieving macroeconomic stability, restoring external viability, and transforming the structure of its economy. A deepening of the export base and a large buildup of external reserves have reduced somewhat the economy's vulnerability to shocks. While attribution of specific final outcomes to IMF involvement is clearly not possible, our overall judgment is that IMF-supported programs did make an important contribution. This view is shared by many Jordanian officials, past and present, who indicated that the presence of the IMF was important in reinforcing necessary macroeconomic discipline and in helping advance some key reforms.

12. However, fiscal sustainability has been only partly achieved. While total and external public debt ratios have fallen substantially, only some of the underlying fiscal rigidities have been resolved. Specific areas of success included the introduction of broader-based consumption taxation, the replacement of food price subsidies by targeted cash transfers, and reforms in the pension system; most of the latter reforms only took place late in the period of IMF program involvement and should have been given greater emphasis earlier. Less successful were the following areas:

- Direct taxes still have significant levels of exemptions that erode potential revenue.

- Jordan has still not adopted a system of pricing for domestic petroleum with an automatic link to world prices—in spite of significant policy dialogue and technical assistance (TA) on the part of the IMF.

- In spite of IMF documents constantly reminding readers about the inflexibility of public expenditures, little progress was achieved in these areas. The IMF did not put sufficient emphasis at an early stage of its program involvement on efforts at civil service reform aimed at reducing the share of the public sector wage bill in GDP.

13. Going forward, the biggest adjustment challenge that Jordan faces is how to adjust to a projected decline from exceptional high levels of grants, envisaged to be 10 percent of GDP in

2005, to about 1.2 percent in 2007. IMF staff projections call for an extraordinary adjustment in public expenditures over that period, by about 10 percentage points of GDP. The IMF could have highlighted more candidly and forcefully the potential risks if policies—especially public expenditure policies—do not adjust as rapidly as currently assumed. It could also have done more to advise early on possible approaches to smooth the massive upsurge of grants so as to avoid major expenditure reductions in short periods of time as these grants return to more normal (historical) levels.

IMF support and domestic institution building

14. In retrospect, the IMF could have taken a longer-term perspective from early on in its program involvement and could have started earlier to help the authorities put in place the necessary policies and institutions to achieve fundamental expenditure reforms. Later programs began to address, some, but not all, of these rigidities. But shortcomings in reforms, like successes, cannot be attributed only to the IMF. As some of the above examples indicate, the authorities were not able to act on a number of rigidities even when the IMF did clearly diagnose the problem and suggest possible courses of action.

15. We found that IMF TA priorities adapted quite well to Jordan's critical needs—with an increased involvement of the authorities in setting such priorities. However, a greater focus on public expenditure policy to advise on the major expenditure cuts envisaged in the early programs would have been desirable; in this respect, IMF–World Bank cooperation, for whatever reason, was not effective (see below). Based on an examination of policy implementation as well as interviews with authorities and experts in the field, we believe IMF TA made substantial and concrete contribution in the area of taxation, rationalization of food subsidies, public financial management, and pension reforms. Senior officials interviewed in Amman also acknowledged monetary operations, payment systems, and banking supervision as areas where the IMF made important contributions.

16. We found little awareness of the contribution of IMF TA and the associated policy dialogue outside recipient agencies. In our view, a wider publication of IMF TA reports would have contributed to more informed public discourse on a number of policy issues and also shed light on the rationale for IMF policy advice in key areas.

IMF internal processes and policies

17. Coordination between the IMF and World Bank staffs was effective in many areas, with a clear division of labor between the two from an early stage. However, in the key area of public expenditure policy, collaboration was not effective; in particular, the World Bank's public expenditure reviews provided limited input to the fiscal policy content of IMF-supported programs.

18. We found no significant evidence that Jordan enjoyed preferential treatment from the IMF. On access levels, the evidence indicates that they were well within the limits under prevailing guidelines. Although the programmed magnitude of fiscal adjustment in the Jordan programs were somewhat less "ambitious" than the average for IMF-supported programs, the

difference was not large. With respect to TA, we found the overall amount to be within the norm provided to countries with IMF-supported programs.

Lessons

19. Although the lessons highlighted here reflect the experience of Jordan, they are clearly relevant to IMF operations in other countries and many tend to echo recommendations reported in earlier IEO evaluation reports. While not couched as specific recommendations, we also conclude with two key messages about the IMF's future role in Jordan.

Broad lessons suggested by the IMF experience in Jordan

20. ***Lesson 1***. The Jordan case reinforces the view that the underlying rationale for key program design elements should be explained clearly in Executive Board papers. In particular, judgments on the magnitude and composition of targeted adjustment need to be grounded in an explicit assessment of external and public debt sustainability over the medium term.

21. ***Lesson 2.*** Internal notes by staff tended to be franker than reports prepared for the Executive Board about the risks to Jordan's programs. For example, the treatment of the upsurge in grants during 2003–04 said relatively little about the risk of a sharp reversal and the challenges of managing such a reversal. This illustrates the need for more candor in staff report assessments of risks to programs.

22. This, and the previous lesson, are critical to ensuring accountability by staff and management and allowing the Executive Board to exercise effectively its oversight responsibilities.

23. ***Lesson 3***. Jordan's experience suggests that the nature of short-term fiscal conditionality alone—that is, whether to set performance criteria on the fiscal deficit before or after grants—can be of only limited help in dealing with the underlying issue of large and abrupt surges in grants. Such situations require that programs to be set in an explicitly longer-term perspective that take account of the likely duration of the upturn in grants. But when the expected upturn is temporary, the IMF's policy advice and program design should be aimed at ensuring the upsurge is not fully translated into immediate surges in public spending and should analyze explicitly how they will be reversed when necessary.

24. ***Lesson 4***. The IMF's program involvement in Jordan would have been more effective if programs had given greater emphasis at an earlier stage to the formulation of key institutional reforms in the fiscal area even if, as was likely, they could not be fully implemented during the initial program period.

25. ***Lesson 5***. While the reasons why World Bank inputs on public expenditure policy and management could not be incorporated into IMF program design were probably specific to Jordan, the lesson of more general applicability is that the two institutions need to set clear objectives for this to be achieved, including through signaling what the needs and obligations of

each institution are along with candid and timely reporting to the Executive Board on any emerging problems in meeting these priorities.

26. ***Lesson 6***. Jordan's experience suggests that, at least in certain circumstances, structural conditionality can have significant value added in terms of encouraging and monitoring progress on reforms. However, unrealistically "tight" deadlines can be counterproductive. Timetables need to be designed carefully, taking account of the political economy situation, especially when legislative action is involved.

27. ***Lesson 7.*** A wider dissemination of IMF TA reports for Jordan would have contributed to more informed public discourse and shed light on the rationale for IMF policy advice on key issues.

The IMF's future role in Jordan

28. ***Lesson 8***. Looking ahead, the IMF's main challenge will be to help Jordan manage the projected decline in grants in a manner that preserves the gains made in the areas of macroeconomic stability and longer-term fiscal sustainability. This suggests that the highest priorities for policy advice and technical assistance should be on helping the authorities design a macroeconomic framework—and an explicit delineation of accompanying policies—that will achieve a smooth transition.

29. ***Lesson 9.*** An important part of IMF assistance should focus on helping to design strategies to tackle Jordan's key remaining fiscal rigidities. The focus should be on exploring alternative policy options to achieve the necessary structural reforms in the fiscal area. Previous experience suggests that short-term quantitative targets without analyzing in greater depth the underlying strategies to achieve these targets are unlikely to be successful.