JORDAN – FIDUCIARY RISK ASSESSMENTS UPDATE

Report

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Executive summary

The purpose of this Fiduciary Risk Assessment (FRA) for Jordan is to update and expand on the FRA that was prepared in May 2016 at the country level for the education sector, including with a focus on the implementation of the Jordan Compact Education Programme, which is supported by the Department of International Development (DFID).

The FRA finds that the Public Financial Management (PFM) reform of the Government of Jordan (GoJ) continues to see steady, albeit slow, progress, and several positive developments have taken place since May 2016. These include:

- New Organic Budget Law prepared and submitted to Parliament for approval;
- Macro-Fiscal Unit established at the Ministry of Finance (MoF);
- Further roll-out of the Government Financial Management Information System (GFMIS) so it now covers almost all GoJ entities and all modules (except for budget preparation);
- Public Investment Management (PIM) unit set up in the Ministry of Planning and International Cooperation (MoPIC);
- Budget transparency improvement;
- Initiation of a mid-year budget review process;
- Annual financial reporting now in accordance with international standards;
- Expenditure arrears being monitored and reduced;
- Withdrawal of the Audit Bureau from pre-audit activities in ministries/departments; and,
- Electronic procurement system under implementation.

However, many weaknesses remain across all elements of the GoJ's PFM system, and for some areas there have been few, e.g. procurement, or no developments, e.g. external audit.

On this basis, the overall fiduciary risk level is assessed as moderate (pre-mitigation), which is similar to the 2016 FRA, which means that the trajectory of change overall is considered stable.

The table below provides a comparative overview of the risk ratings for each of the eight good practice principles (GPPs) and 15 benchmarks that make up DFID’s assessment framework.

Table 1: Comparative assessment of GPP risk ratings for May 2016 and September 2017

<table>
<thead>
<tr>
<th>GPPs</th>
<th>Benchmarks for Assessment</th>
<th>Previous Risk Rating (May 2016)</th>
<th>Current Risk Rating</th>
<th>Trajectory of Change</th>
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<tbody>
<tr>
<td>1. A clear set of rules governs the budget process</td>
<td>1. A budget law specifying fiscal management responsibilities is in operation&lt;br&gt;2. Accounting policies and account code classifications are published and applied</td>
<td>Moderate</td>
<td>Moderate</td>
<td>↔</td>
</tr>
<tr>
<td>2. The budget is comprehensive</td>
<td>3. All general government activities are included in the budget&lt;br&gt;4. Extra-budgetary expenditure is not material</td>
<td>Moderate</td>
<td>Moderate</td>
<td>↔</td>
</tr>
<tr>
<td>3. The budget supports pro-poor strategies</td>
<td>5. Budget allocations are broadly consistent with any medium-term expenditure plans for the sector or for the overall budget</td>
<td>Moderate</td>
<td>Moderate</td>
<td>↔</td>
</tr>
</tbody>
</table>
4. The budget is a reliable guide to expenditure
   - Budget out-turn shows a high level of consistency with the budget
     - Previous Risk Rating (May 2016): Moderate
     - Current Risk Rating: Moderate
     - Trajectory of Change: ↔

5. Expenditure within the year is controlled
   - In-year reporting of actual expenditure
   - Systems operating to control virement, commitments and arrears
     - Previous Risk Rating: Moderate
     - Current Risk Rating: Moderate
     - Trajectory of Change: ↔

6. Government carries out procurement in line with principles of value-for-money and transparency
   - Appropriate use of competitive tendering rules and decision-making is recorded and auditable
   - Effective action taken to identify and eliminate corruption
     - Previous Risk Rating: Substantial
     - Current Risk Rating: Substantial
     - Trajectory of Change: ↔

7. Reporting of expenditure is timely and accurate
   - Reconciliation of fiscal and bank records is carried out on a routine basis
   - Audited annual accounts are submitted to Parliament within the statutory period
     - Previous Risk Rating: Moderate
     - Current Risk Rating: Low
     - Trajectory of Change: ↑

8. There is effective independent scrutiny of government expenditure
   - Government accounts are independently audited
   - Government agencies are held to account for mismanagement
   - Criticisms and recommendations made by the auditors are followed up
     - Previous Risk Rating: Moderate
     - Current Risk Rating: Moderate
     - Trajectory of Change: ↔

Overall fiduciary risk level
- Previous Risk Rating: Moderate
- Current Risk Rating: Moderate
- Trajectory of Change: ↔

The table shows that the specific risk rating is deemed to have improved for GPP 7 (expenditure reporting), while it is deemed unchanged for the remaining seven GPPs. Procurement thus continues to be the only GPP with a 'substantial' risk rating, which is problematic given that the risk of corruption associated with procurement is potentially higher than for other areas.

The FRA Update assesses the specific risk of corruption as substantial (pre-mitigation), which is similar to the 2016 FRA and means that the trajectory of change is unchanged. This assessment is based on the results of the latest international perception surveys, which show that while corruption is seen to remain somewhat high, there is no clear trend as regards deterioration or improvement, neither in absolute nor relative terms. This is possibly due to the surveys not yet capturing some recent anti-corruption reform initiatives. For example, a new Integrity and Anti-Corruption Law came into force in June 2016 and, inter alia, integrated the Ombudsman and the Anti-Corruption Commission institutions into the new Integrity and Anti-Corruption Commission (IACC). Also, the GoJ in December 2016 launched the National Strategy for Integrity and Anti-Corruption 2017–2025, which the IACC is mandated to implement. Furthermore, in the public discourse the need to strengthen good governance in the government intuitions is becoming increasingly acknowledged and is taking place alongside what seems to be more frequent news reporting about high-profile corruption cases (although prosecution of these appears to remain somewhat selective).

The 2016 FRA included a FRA of the education sector (rated 'moderate') and listed several risks and related safeguards. However, this FRA Update finds that these risks are not specific for the Ministry of Education (MoE) and hence that follow-up on 'reforms in process' to address the risks is not meaningful. With this FRA Update, it is instead found that two specific PFM elements are relevant to consider for the MoE in terms of what constitutes fiduciary risk: payroll, since salaries
and other compensation make up about 85% of the MoE's annual spending (i.e. materiality) and procurement, since this is undertaken in a public procurement system with very substantial weaknesses and within a challenging governance environment (i.e. a high likelihood of 'errors').

The donor-supported Jordan Compact Education Programme uses a special account modality that is off-budget and in itself thus deemed to be relatively low risk, but as implementation is using the MoE’s ordinary PFM system and procedures, donor funds are exposed to the prevailing fiduciary risks. However, salary payment for teachers and other staff engaged in the so-called double-shift schools is provided through a project financed by the Kreditanstalt für Wiederaufbau (KfW), which has solid safeguards in place. This thus leaves the MoE's procurement system and procedures as the main fiduciary risk for the Programme. It is in this regard noted that implementation during the school year 2016/17 was adversely affected by procurement delays that resulted from a lack of prior planning, capacity constraints, and inadequate coordination between the MoE’s Development Cooperation Unit (DCU) and the Procurement Department. It is therefore recommended that DFID together with other donors and stakeholders, following the outcome of the 2017 external audit, consider whether a programme-specific procurement assessment is required to establish the applied procurement procedures, identify weaknesses and related risks, and on that basis, develop relevant mitigation measures.

For the Jordan Compact Education Programme, it is furthermore noted that the external audit arrangements appear to be based mainly on the Audit Bureau's annual financial audit. Given that this is a general audit that does not report specifically on the special account in place for the Programme, it is recommended that DFID, together with other stakeholders, put in place an external audit undertaken annually by a private firm based on the Terms of Reference (ToR) agreed with the MoE.

In terms of the implementation set-up involving the MoE's DCU, it appears that the support provided with donor-funded staff enables the Unit to carry out its financial management and procurement tasks adequately. However, this needs to be further enhanced by an increased fiduciary capacity, which requires that the procurement-related risks are addressed. It is also recommended that it be considered how DCU's capacity in terms of staff will be sustained once donor-financing ends.

The World Bank in 2016 carried out a Public Expenditure Review (PER) of the education sector, which included assessments of and recommendations for improving the GoJ's management of capital investments in the sector and the MoE's planning and budgeting approach to address regional variations in education sector outcomes. However, information is currently not available to determine whether the recommendations have been accepted by the MoE and are being implemented.

DFID provides financial support to the World Bank-managed 'Economic Opportunities for Jordanians and Syrian Refugees' Programme-for-Results (P4R). A comprehensive fiduciary systems assessment was carried out by the World Bank, which rated the overall fiduciary risk 'moderate' and found the fiduciary framework to be adequate to support implementation. However, it appears that the World Bank does not specifically document the monitoring activities as regards the implementation of financial management-related mitigation measures, and with regard to procurement-related mitigation measures it is not clear that any monitoring is being undertaken. It is therefore recommended that DFID undertakes regular follow-up vis-à-vis the World Bank on these aspects so as to properly safeguard its investment.
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<td>ASP</td>
<td>Annual Statement of Progress</td>
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<td>CBJ</td>
<td>Central Bank of Jordan</td>
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<td>CPI</td>
<td>Corruption Perception Index</td>
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<td>CSB</td>
<td>Civil Service Bureau</td>
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<td>DCU</td>
<td>Development Cooperation Unit</td>
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<td>DFID</td>
<td>Department of International Development</td>
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<td>FRA</td>
<td>Fiduciary Risk Assessment</td>
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<td>GBD</td>
<td>General Budget Department</td>
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<td>GCI</td>
<td>Global Competitiveness Index</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GFMIS</td>
<td>Government Financial Management Information System</td>
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<td>GNI</td>
<td>Gross National Income</td>
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<td>GoJ</td>
<td>Government of Jordan</td>
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<td>GPPs</td>
<td>Good Practice Principles</td>
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<td>IACC</td>
<td>Integrity and Anti-Corruption Commission</td>
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<td>ICU</td>
<td>Internal Control Unit</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IPSAS</td>
<td>International Public Sector Accounting Standards</td>
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<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau [German Development Bank]</td>
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<td>MoE</td>
<td>Ministry of Education</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<td>MoPIC</td>
<td>Ministry of Planning and International Cooperation</td>
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<td>P4R</td>
<td>Programme-for-Results</td>
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<td>PEFA</td>
<td>Public Expenditure Financial Accountability</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PIM</td>
<td>Public Investment Management</td>
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<tr>
<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>PMU</td>
<td>Programme Management Unit</td>
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<td>PPP</td>
<td>Public-Private Partnership</td>
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<td>PRS</td>
<td>Poverty Reduction Strategy</td>
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<td>SSC</td>
<td>Social Security Corporation</td>
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<td>ToR</td>
<td>Terms of Reference</td>
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<td>Treasury Single Account</td>
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<td>Worldwide Governance Indicators</td>
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1 Introduction

1.1 Background

The United Kingdom (UK) led the international community in agreeing the Jordan Compact at the London Syria Conference in February 2016, which offered international support to the country, especially for education, jobs and humanitarian assistance. One of the initiatives following from this was the 'Jordan Compact Education Programme: Transforming Life Chances of a Generation of Children through Education', developed on the basis of the MoE’s Acceleration Plan and the Catch-up Education Programme, for which the UK, through DFID, agreed to make available up to £64.3 million in non-budget support financial aid for the period 2016–2019.

When providing or considering financial aid, it is mandatory for DFID to undertake an FRA to evaluate the partner government’s national PFM system. As part of the process of preparing for the Jordan Compact Education Programme, DFID Jordan therefore in May 2016 carried out an FRA for the country level and the education sector.

In order to monitor the development of fiduciary risk over time, including to check that planned PFM and governance reforms as well as agreed safeguards are being implemented effectively, an Annual Statement of Progress (ASP) must be prepared annually. As a new Public Expenditure Financial Accountability (PEFA) assessment was published in 2017, DFID Jordan decided, in addition to the ASP, also to update the 2016 FRA. This will furthermore cover funding that DFID Jordan is now providing to the World Bank-managed ‘Economic Opportunities for Jordanians and Syrian Refugees Programme for Results’, which uses the GoJ’s PFM system and other institutional arrangements to disburse funds and implement activities.

1.2 Purpose

The ToR for the assignment, included in Annex A, states the following two deliverables:

- To complete an ASP for the existing DFID Jordan – Fiduciary Risk Assessment of the National Level and Education Sector in Jordan (May 2016); and
- To refresh and potentially expand the existing FRA to take account of the findings of the recent PEFA assessment and to cover the activities funded through the World Bank-managed P4R.

The ToR furthermore outlined several key tasks to be undertaken, including:

- Setting out clearly an assessment of the level of fiduciary risk;
- Updating the FRA recommendations on mitigating risks and monitoring future performance; and
- Updating the recommendations on content and process for strengthening fiduciary capacity.

This report covers the FRA Update, while the ASP has been prepared as a separate document.

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2 Financial aid is a grant to a partner government based on a formal written arrangement under which the partner government is responsible for expenditure. It includes budget support financial aid, which makes use of all elements of a partner government's PFM system, and non-budget support financial aid, which may partially use a partner government's PFM system.
1.3 **Approach**

The assessments were carried out and the deliverables prepared in September 2017. This process included an extensive desk review of documents (see the bibliography) as well as consultations with GoJ officials and donor representatives during a one-week in-country mission (see Annex B for a list of persons consulted). A draft report was shared with DFID Jordan and comments received incorporated into the final version.

1.4 **Note on the new PEFA 2016 methodology**

DFID FRAs should ideally be based on an appropriate PEFA assessment, but in the absence of such an assessment the standard DFID template assessing eight GPPs and 15 benchmarks must be used.\(^5\) When the FRA was prepared in May 2016, the latest available PEFA assessment was from 2011, thus to a large extent outdated, and it was consequently decided to base the FRA on the GPP/benchmarks structure. In order to ensure continuity and comparability, this FRA Update is therefore also based on the GPP/benchmarks structure.

DFID's GPP/benchmarks approach is based on the 2011 PEFA methodology, which consisted of 29 performance indicators and an underlying 76 dimensions. The new 2016 PEFA methodology has an extended coverage with 31 performance indicators and an underlying 94 dimensions. Some of the new PFM elements covered with the 2016 PEFA methodology do not directly relate to the 15 benchmarks that constitute the eight GPPs.

The PEFA assessment for Jordan published in 2017 has been prepared based on the new 2016 PEFA methodology. In the context of preparing the ASP and the FRA Update, this has two consequences:

1) The inclusion of new PFM elements in the PEFA assessment makes available new information about the GoJ's PFM system which, to the extent that these have received a low performance rating, represent new fiduciary risks. This does not mean that the risks did not previously exist, but rather that they have now been brought to light; and

2) Given that some of the new PFM elements do not clearly relate to the 15 benchmarks, it has been necessary to map the new indicators and dimensions into the benchmarks considering their specific features in each case. This means, however, that some new PFM elements are placed under particular benchmarks out of necessity rather than technical accuracy.

The above considerations have been presented to and discussed with DFID Jordan, which agrees with the approach taken in applying the new PFM information.

2 Update on country context

Jordan continues to be significantly affected by the crises in neighbouring Syria as well as Iraq, and is currently hosting an estimated 1.3 million Syrians, of which roughly half are registered refugees. About two-thirds of refugees live below the poverty line. The strain of the continuing refugee crisis on already scarce resources has led to public discontent, which is being directed at the Jordanian government, and has exacerbated existing challenges in terms of unemployment, inadequate infrastructure and limited social services, including education and health. In managing these problems, Jordan depends on continued external assistance from the international community, although, at current levels, the support is considered insufficient.

Governorate council elections were held for the first time on 15 August 2017, together with municipal and local councils, after having been established by a new 2015 Decentralization Law. The law cedes some central government power to the elected councils and thereby aims to reduce service-related pressure on Parliament so it can better focus on its legislative and government oversight role. The turnout for the local elections overall was 31.7%, although much lower in the major urban centres, which compares with 37% in the 2016 national elections. A majority of seats were won by candidates running on personal or tribal appeals, rather than a party platform, although the National Coalition for Reform, a list backed by the Muslim Brotherhood’s Islamic Action Front, won a relatively large number of seats.

Jordan’s economy remains sluggish as growth slowed from 2.4% in 2015 to an estimated 2% in 2016, mainly due to a weaker natural resources sector as well as related to spill-overs from the regional crises, including the closure of export routes to Iraq and Syria and reduced tourism. Unemployment in 2016 reached an unprecedented 15.3%, while labour force participation and employment rates continued to decline, possibly a result of perceived competition from refugees as well as weak job creation. The fiscal deficit (before grants) in 2016 reached an estimated 6.2% of gross domestic product (GDP) following various tax measures. Debt reached 95.1% of GDP at end-2016 following a higher-than-envisaged deficit, lower nominal growth, and continued losses by the Water Authority of Jordan, whose debt is government-guaranteed. The current account deficit (excluding grants) was 12.6% of GDP in 2016, slightly higher than in 2015, reflecting the challenging regional conditions, the refugee crisis, and a slowdown in exports, remittances, and other flows.

The World Bank in July 2017 published an update on the classification of the world’s economies based on revised data for the previous year’s gross national income (GNI). Jordan was on this occasion reclassified from upper-middle income to lower-middle income (it was classified as an upper-middle income country for the first time in July 2016). The downward revision of GNI/capita was driven by three factors: an upward revision of Jordan’s population based on new data (which includes estimates for international migration, including refugees); a slowdown in real GDP growth; and low inflation. As the World Bank uses the income classifications for analytical purposes, and not for lending or operational decisions, the change does not affect Jordan’s eligibility for loans from the International Bank for Reconstruction and Development.

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8 Municipal councils and mayors used to be appointed by the Cabinet, which changed with the 2015 Municipalities Law.
9 85% of the 381 council members in the 12 governorates are elected and 15% appointed by the government.
3  Assessment of the fiduciary risks at the country level

This chapter updates the FRA of the GoJ's PFM system undertaken in May 2016. The main information source is the new 2017 PEFA assessment report,\textsuperscript{14} which has been supplemented with information from other diagnostics (as referenced in the footnotes) and obtained through in-country consultations (see Annex B). A brief summary is provided for each GPP, together with an assessment of the current risk level and the resulting trajectory of change.

3.1  GPP 1: A clear set of rules governs the budget process

**Benchmark 1: A budget law specifying fiscal management responsibilities is in operation**

The legislative/regulatory framework for PFM in Jordan consists of the Constitution, laws and regulations. The basic foundation is stated in the Constitution (Articles 111–119), which includes the draft budget's submission to and consideration by Parliament. The Organic Budget Law No. 58 (2008) covers some general aspects of the annual budget preparation process, while other laws cover public debt management, government units, taxes and external audit. Regulations have been issued for revenue and expenditure management, accounting, internal control and internal audit, personnel management and payroll, and procurement.

The Organic Budget Law outlines the overall responsibilities and tasks of the General Budget Department (GBD) in preparing the annual General Budget Law (which covers revenues and expenditures of ministries and departments within ministries as well as sub-national entities such as governorates and districts) and the annual Government Units Budget Law (which covers entities established under separate legislation that perform public functions, including state-owned enterprises). The law also lists the content of the annual General Budget Law, including a brief description of the medium-term fiscal framework as well as proposed government programmes, objectives and expected results vis-à-vis national objectives and priorities. However, the law does not define roles and responsibilities as regards fiscal management, the budget process or provide for an independent scrutiny process.

In order to improve PFM and transparency, the GoJ and the International Monetary Fund (IMF) in 2016 agreed to include in the Extended Arrangement under the Extended Fund Facility the submission to Parliament for a draft Organic Budget Law as a structural benchmark. The Cabinet approved the law draft in June 2017 and it has since then been submitted to Parliament. It is understood that the draft includes provisions for macro-fiscal policy, fiscal rules, top-down budgeting, and approval of the fiscal strategy aspects of the budget preparation.\textsuperscript{15} To the extent that the law passed by Parliament will cover these aspects, this new law would thus appear to more adequately satisfy requirements on government to be fully accountable for the use of public funds.

The preparation of the annual budgets is based on a budget calendar initially prepared in 2009 and since then adjusted to facilitate the process (i.e. it is not fixed by a law or regulation). The first step in preparing the annual budget is a directive with preliminary ceilings issued by the Prime Minister that requires ministries, departments and government units to submit a draft medium-term budget to GBD. Later in the process, GBD issues a budget circular that includes policy direction, economic forecasts and assumptions, aggregate and specific expenditure ceilings, and instructions for preparing budget submissions. The submissions are consolidated by GBD into the draft budget.


\textsuperscript{15} IMF (2017): op. cit., p. 86. The law will also cover: (i) treasury control, cash management tasks and details on reporting for general government or public-sector aspects of budget execution; and (ii) audit provisions covering the obligation to follow up on audit queries and the requirement for public entities to establish internal audit functions.
laws for consideration by the Advisory Council for the Budget and thereafter the Cabinet before the draft budget laws are submitted to Parliament before the end of November. The budget circular is considered comprehensive and clear guidance, which is well understood and implemented, but the time for entities to prepare their final submission is short (about two weeks).

Information on main fiscal indicators (types of revenues, aggregate expenditure and the budget balance) and underlying assumptions are part of the annual budget documentation, but there have been some shortcomings as regards the quality of medium-term macro-economic forecasts, and macro-fiscal sensitivity analyses have not been carried out. MoF therefore in 2016, after a long delay, made operational a Macro-Fiscal Unit through technical assistance provided by the IMF, which is working to more adequately inform the budget-planning process. Also, while the GoJ as such has a fiscal strategy in place (in the form of its programme with the IMF), analysis of the fiscal impact of policy proposals does not go beyond the budget year and reporting on fiscal outcomes is limited (MoF does not report to Parliament on progress in implementing the IMF programme).

The quality of medium-term expenditure estimates is deemed high given their coverage and the fact that ceilings are generally well applied, and most expenditure policy proposals align with strategic plans prepared by ministries (although there appears to be a lack of harmonisation with national policies and strategies). The Cabinet in 2015 decided that the basis for prioritising investment projects should be MoPIC's 'Executive Development Programme' (which also includes the GoJ's macro-economic vision and fiscal indicators) and which therefore replaced the 'Budget Policy and Priorities Paper'.

Legislative scrutiny of budget proposals is done mainly by the elected House of Representatives (rather than by the appointed Senate). The Financial Committee reviews the stated fiscal policies and the medium-term fiscal framework and on that basis, undertakes detailed examinations during hearings with ministers and officials. The Constitution (Article 112, iv.) precludes Parliament from increasing expenditure through amendments or by the submission of separate proposals, a prohibition which limits the scope for negotiation. Parliament's approval of the annual budgets continues to take place after the start of the fiscal year, although the timing has improved somewhat in recent years (from early March for the 2015 budget to mid-January for the 2017 budget). However, funding remains available to GoJ entities since the Constitution (Article 113) allows for monthly appropriations as per the previous year's budget until the new budget is enacted.

**Benchmark 2: Accounting policies and account code classifications are published and applied**

The GoJ's budget and accounts classification was until recently not fully consistent with international standards. While budget formulation, execution and reporting are appropriately based on administrative and functional classifications (using Classifications of Functions of Government standards), the applied economic classification used 'military' and 'miscellaneous' categories, which is not in line with the Government Financial Statistics standards. However, it appears that the military budget in the 2017 budget was disaggregated based on the economic classification. The chart of accounts is compatible with the Government Financial Statistics.

The GoJ is using the cash-based International Public Sector Accounting Standards (IPSAS), which have been consistently applied, except that until 2016 no cash flow statements were prepared. An ambitious plan is in place to migrate to full accrual accounting by 2021. A considerable amount of

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16 Parliament may, however, after the close of the debate propose laws for the creation of new expenditures.

17 In 2015, 25.9% of actual expenditure was classified as 'military' expenditure and 1.5% as 'miscellaneous' (European Union (2017): 'Jordan: PEFA Assessment 2016', AECOM, Final Report, 29 March, p. 28).
work would need to be undertaken in order to meet that deadline (inter alia as regards identification and valuation of all fixed assets).

The GFMIS has, since 2009, been progressively implemented across the GoJ so that it now covers all budget entities (except for four military institutions). GFMIS uses Oracle Hyperion software and is integrated with several other GoJ financial systems, including those of the Central Bank of Jordan (CBJ), the Income and Sales Tax Department, the Customs Department and MoF’s Public Debt Directorate. GFMIS includes all relevant modules, including a recently introduced commitment control module. However, budget preparation is still being done using separate software and is then, once finalised and approved, uploaded into GFMIS.

Summary of GPP1:

The legislative basis for the budget preparation process is weak in terms of defining institutional roles and responsibilities, but a new Organic Budget Law is expected to be adopted by Parliament soon. A budget calendar is in place and the budgeting process as such functions well, except that Parliament’s approval of the annual budgets continues to be late (although the timing is improving). There are some shortcomings in the quality of medium-term macro-economic forecasts and fiscal impact analyses, but MoF’s new Macro-Fiscal Unit is expected over time to address these issues. The budget and accounts classification appears now to be fully consistent with international standards. The cash-based IPSAS are being consistently applied and an ambitious plan is in place to migrate to full accrual accounting by 2021. GFMIS has been fully rolled out across the GoJ and all relevant modules are functional, except for budget preparation, which is being developed.

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3.2 GPP 2: The budget is comprehensive

Benchmark 3: All general government activities are included in the budget

Benchmark 4: Extra-budgetary expenditure is not material

As noted above, the General Budget Law covers the revenues and expenditures of ministries and departments within ministries as well as sub-national entities such as governorates and districts, while the Government Units Budget Law covers entities established under separate legislation that perform public functions, including state-owned enterprises. In-year and annual financial reports are complete as regards ministries and departments, and although there appears to be some gaps in the in-year reporting for government units, all government units submit their financial reports to the responsible ministries/departments and their expenditures are reported in the final accounts.

The only entities not covered by either of the two annual budgets are the 10 public universities and the Social Security Corporation (SSC). The SSC publishes its audited annual financial statements every year, but no financial reports are publicly available for the public universities (although these are submitted to the Ministry of Higher Education and Research).

Specifically, as regards revenues, the Constitution requires that these are included and approved with the General Budget Law (Article 112, vi) and that all receipts from taxes and other sources are paid into the Treasury (Article 115). All revenues, including that collected by ministries/departments, is daily paid into the Treasury Single Account (TSA) at the CBJ, and daily
reconciliations between bank and collection data is undertaken. However, overall, the GoJ's revenue administration faces challenges which are reflected in considerable tax arrears (in 2015, this exceeded 40% of actual collections); in addition, the Income and Sales Tax Department and Customs Department do not have sufficient controls in place to deter tax evasion and ensure that non-compliance is revealed. Also, several structural benchmarks under the on-going IMF programme are delayed, including submission to Parliament of a new Income Tax Law and a new tax exemptions framework to reduce exemptions on general sales tax and customs duties.

According to the 2016 FRA, some externally financed capital expenditures are budgeted under MoPIC rather than MoF, which may lead to fragmentation of information and which potentially could result in mismatches between investments and related recurrent spending. The extent to which donors make available adequate and timely financial information on all significant funding and assistance provided to the GoJ is not clear (the same applies to off-budget funding). Hence the predictability of donor funding in terms of how actual funds compare to forecasts is therefore also not clear. However, it appears that external funding is included in the General Budget if the donor or relevant ministry make the information available to the MoF at the time of preparing the budget.

Budgeting for recurrent and capital expenditures is undertaken as one single process by each ministry/department, and with the estimated future costs of on-going projects included in the multi-year estimates. However, there has until recently been no guidelines for economic analysis of investment proposals, selection of investment projects has lacked criteria, investment project costings have not been published, and investment project monitoring has lacked standards. In order to address these problems, the GoJ in 2015 adopted a PIM framework that aims to strengthen project design, assessment, prioritisation and implementation. MoPIC was in June 2016 made responsible for managing a single pipeline of possible projects through a new PIM Unit, which is in the process of being made operational. This involves a new process by which MoPIC and MoF/GBD, together with the sponsoring ministry/department, subject projects to an economic analysis and select relevant projects based on specific criteria.

Public access to fiscal information has improved in recent years since the final account (annual budget execution report) and the Audit Bureau's annual audit report are being made available to the public from the MoF's website. Some information is also available from the GBD's website. However, more information – e.g. specific details in the pre-budget statement and macro-economic forecasts, as well as other audit reports – could be made available so as to increase the level of information available.

Jordan's score in the 2015 Open Budget Index was 55% (which by the International Budget Partnership is deemed to be 'limited budget information'). This compares with 57% in 2012. The latest update (from December 2016) shows that the GoJ is now preparing and publishing a mid-year review, which means that budget transparency has increased.

**Summary of GPP 2:**

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20. A key issue will be to ensure coordination between the PIM Unit in MoPIC, the Public-Private Partnership (PPP) Unit in MoF, and the ministries/departments that will sponsor investment projects. Relevant activities are planned through the implementation of a Cabinet-approved PIM-PPP Action Plan for 2017–2019, which is being supported by the Middle East and North Africa Transition Fund.
21. It is noted that Jordan has the highest budget transparency score in the region and that it is also higher than the global average score of 45.
All revenue streams are captured through the annual budget and in financial reports. While not all government entities are on-budget, all entities prepare financial reports and almost all are publicly available (except for the 10 public universities), i.e. there is no concern regarding extra-budgetary expenditures. However, revenue administration remains a challenge for the GoJ and is reflected in considerable tax arrears, as well as in delays in implementing agreed reforms. A PIM Unit has been set up in MoPIC and is collaborating with the MoF to develop the necessary work processes for the selection and monitoring of capital projects. Public access to fiscal information as well as budget transparency has improved in recent years.

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### 3.3 GPP 3: The budget supports pro-poor strategies

**Benchmark 5: Budget allocations are broadly consistent with GoJ medium-term expenditure plans**

The annual budget has a multi-year perspective in that it includes expenditure estimates for the budget year as well as the following two years (allocated by administrative, economic and programme, functional and sub-functional classifications). The budget circular includes hard expenditure ceilings for each entity for the budget year as well as the following two years that have been approved by the Cabinet prior to the circular being issued. According to MoPIC, more than half of ministries have costed strategic plans with which policy proposals and the medium-term budgets are aligned. However, the ‘Executive Development Programme’ for 2016–2018 indicates a lack of harmonisation between national policies and ministry-level strategies as well as weak linkages between strategies and financial planning at the level of ministries/departments. Also, the connection between strategic plans and medium-term budgets is weak and a medium-term fiscal framework was not formally prepared in 2016 (instead, projections for the following two fiscal years were included, similar to the previous year). Furthermore, as noted above, the GoJ's investment planning function is currently at an emerging stage. Furthermore, the annual budget provides no explanations for changes to expenditure estimates between the last medium-term budget and the current medium-term budget, i.e. consistency between them is low.

Poverty-related expenditure can be directly identified in the budget of the Ministry of Social Development, which includes a programme for 'Social Development and Combating Poverty' (amounting to 4.5% of the ministry's total budgeted expenditures for 2017). The programme covers recurrent expenditure activities and seven specific capital expenditure projects. The ministry's budget document also includes specific performance measurement indicators on poverty. Furthermore, the 2016 FRA noted that the GoJ, with assistance from the IMF, was working to improve its targeting scheme for subsidies and cash transfers for the poor.

The GoJ's Poverty Reduction Strategy (PRS) for 2013–2020 outlines a number of specific goals for containing and reducing poverty, vulnerability and inequality within the socio-economic environment of Jordan. It is not clear whether the GoJ or UNDP, which supported the development of the PRS, monitor the implementation of PRS-related initiatives or activities. The GoJ's Vision

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23 'Anti-poverty and local societies development administration'.
24 Including 'Community Development and Combating Poverty Program Administration Project', 'Establishing houses for poor families', 'Early social warning system', and 'Establishment of Coordinative Council for Development and Poverty Alleviation'.
2025, a socio-economic development plan launched in 2015, aims to reduce poverty to 8% compared to 10% in the baseline scenario (and 14% in 2010, the last year for which comprehensive data is available). Based on the information available, however, it is not clear that recent budget documentation demonstrates how planned spending will support poverty alleviation strategies.

The participation of ministries and departments in the annual budget preparation process appears to be effective. All budgets are publicly available on the GBD website.25

Summary of GPP 3:

The annual budget has a clear multi-year perspective and the budget circular includes hard expenditure ceilings for all budget entities. Many ministries have costed strategic plans, but harmonisation vis-à-vis national policies and strategies appears weak, which is also the case in terms of linkages to entity-internal financial planning. A PRS exists and poverty-related expenditure can be directly identified in the budget. The GoJ is working to improve its targeting scheme for subsidies and cash transfers for the poor. The participation of ministries and departments in the annual budget preparation process appears to be effective, and budgets are publicly available.

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3.4 GPP 4: The budget is a reliable guide to actual expenditure

Benchmark 6: Budget out-turn shows a high level of consistency with the budget

Significant progress has been made in recent years in reducing the fiscal deficit, from 10.3% of GDP in 2014 to a projected to 2.5% of GDP in 2017.26 The aggregate expenditure out-turn is relatively limited (between -5.1% and -2.0% for 2013–2015). The variance in expenditure composition by function was less than 5% for all three years (highest for ‘economic affairs’), but ranged from 11.2% to 13.4% by economic type (highest for ‘capital expenditure’, where actual spending exceeded the budget in all three years). However, the aggregate revenue out-turn was somewhat higher for the three years (ranging between -8.2% and 4.1%), which was partly a result of variations in external grants.

A formal mid-year review process was started by the MoF in 2016. It aims at promoting accountability and sound management by adjusting expenditures to updated revenue forecasts, and on that basis proposing necessary budget adjustments. The 2016 mid-year review report was published in late September 2016. The report for 2017 is yet to be published.

All unpaid invoices of the GoJ are considered in arrears. A report of all unpaid invoices can be generated by GFMIS, but routine analyses are not undertaken. MoF keeps separate records of arrears reported by ministries/departments and government units. In 2016, total arrears amounted to approximately 8.5% of total expenditure. As of end-2016, the combined stock of health and fuel arrears amounted to 2.4% of GDP, which are expected to be cleared by 2019.27

27 IMF (2017): op. cit., p. 15. The stocks of health and fuel arrears as of end-2016 amount to approximately £702 million.
Cash releases are made to ministries/departments on a monthly basis, but apparently do not always match the amounts expected, which can hamper effective planning of service delivery.

The GoJ has a robust system in place for establishing strategic objectives and key performance indicators. All activities of ministries/departments are, in budget documentation, broken down into programmes with key performance indicators for the budget year and the two following years; these set out the actions to be undertaken and outputs to be produced (although generally not specifying the outcomes to be achieved). Resources received by individual front-line service delivery units are channelled via line ministries and are not publicly available. The extent to which budgeted resources reach service delivery units in a timely and transparent manner is not known.

Summary of GPP4:

The aggregate expenditure out-turn is limited and the revenue out-turn is relatively minor, which together result in minimal deviations of the fiscal deficit compared to the budget. A mid-year review report has been prepared since 2016. The stock of arrears is somewhat high, but plans for clearing these are in place and are monitored by the MoF. Ministries/departments are able to plan and commit expenditures in accordance with the budget, but insufficient cash releases can adversely affect planning. Information on resources received by service delivery units is not publicly available.

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### 3.5 GPP 5: Expenditure with the year is controlled

**Benchmark 7: In-year reporting of actual expenditure**

The GoJ's approach to internal control is based on an extensive system of ex-ante payment approval procedures (pre-audit verification) involving three different organisational entities within each ministry/department (Finance Department, Internal Control Unit (ICU) and MoF Inspection and Controlling Directorate). This is based on the existing regulations, which contain provisions allocating duties throughout a financial transaction process, although the segregation of duties is not explicitly addressed. The internal control procedures are built into GFMIS, which separates the financial statements from any documentation concerning the internal control procedures.


29 The 2016 FRA rated GPP 4 as ‘Low’. According to DFID's guidance (Annex 12 of the Smart Guide), GPP 4 should consider questions about the deviation between the budget and actual expenditures/revenues, whether there is a mid-year review process, if there are significant expenditure arrears, if ministries and agencies are able to plan and commit expenditures in accordance with the budget, and whether budgeted resources reach front-line service delivery units in a timely and transparent manner. The 2016 FRA covered these areas, but it concluded inter alia that reporting of arrears at the national level was not regular, although improving with GFMIS (i.e. the level of arrears was not considered), and it was stated that ministries were reported to keep records of the funds provided to service delivery units. However, the IMF in August 2015 in fact reported that the expenditure arrears related to fuel used by government agencies were projected to reach about 1.5% of GDP by end-2015 (approximately 5% of government expenditure). Also, there has at no point in time been any indications that information has been available as regards resources received by service delivery units. For example, the 2011 PEFA assessment report found that ‘No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last three years’ (p. 108) and the same was stated in the 2017 PEFA assessment report: ‘Information about the resources received by individual schools and health clinics is not collected’ (p. 34). It would therefore seem that the GPP 4 rating in the 2016 FRA would more correctly have been ‘Moderate’.
responsibility for different stages of automated expenditure processes. The possibility of circumventing controls appears to be very limited (as, in practice, no payments can be authorised and processed before the payment vouchers are verified and signed off by financial controllers), segregation of duties is in practice effective, and there appears to be relatively few errors. However, while the internal control framework is well understood and complied with, there are concerns that it is not cost-effective, and it is not clear whether initiatives are being taken to introduce a more appropriate and efficient control environment.

The Audit Bureau, working through units embedded in ministries/departments, used to be part of the internal control process. However, realising that this activity undermined the role of its own staff, the Audit Bureau in 2014 agreed a withdrawal plan with the MoF based on strengthening the capacities of the line ministry ICUs, including through training provided by the MoF and the Audit Bureau. By July 2017, the Audit Bureau had withdrawn all staff from pre-audit verification activities in all ministries/departments.

In the Jordanian public sector there has historically been a conceptual overlap and lack of distinction between internal control and internal audit. While this issue has been recognised and addressed through amended regulations, the ICUs in the ministries/departments continue to engage in a mixture of ex-ante transaction verification, financial inspection and ex-post audit in order to ensure that legal, financial and administrative procedures are followed on each transaction. The work of the ICUs is overseen by embedded staff from the MoF, who prepare monthly reports to the MoF’s Inspection and Controlling Directorate. Internal audit is thus not yet properly established and operational within the GoJ, and its absence weakens programme implementation.

An effective payroll management system is in place. The payroll function is decentralised to ministries/departments, while personnel records are kept in a database by the Civil Service Bureau (CSB). Civil servant appointments and promotions are subject to procedures established by the CSB. There is a direct, computerised link between personnel and payroll records, and also vis-à-vis remuneration through controls exercised by the CSB. All changes to the payroll and personnel records require CSB approval. The system is robust and helps to ensure budgetary control, data accuracy and immediate reconciliation. The ICUs in ministries/departments carry out pre-audit of payroll and report to the MoF and the Audit Bureau, and also the CSB if errors are detected. Payroll audits are carried out by both the CSB and the Audit Bureau, the latter based on International Organisation of Supreme Audit Institutions standards, which include a system review, and sampling and evaluating the regulatory framework. The error rate is estimated at 1%.

All government units prepare and submit in-year and annual financial reports as well as audited accounts to MoF. It is not clear, however, to what extent the GoJ and government units quantify

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31 All payments are processed through the GFMIS Payments Module and require that they are covered by a budgetary allocation, the quarterly general financial order and the monthly ceiling (cash allocation). A Financial Position Report is available which details invoices received, invoices paid, cash allocations, cash spent and pending invoices. Commitments are controlled in GFMIS through the Purchase Order Module, which requires finance to be allocated before an order can be placed.
33 MoF’s Inspection and Controlling Directorate prepares monthly reports to the Assistant Secretary-General for Administrative Affairs, copied to the Audit Bureau, that identify ‘violations’ of internal control procedures (which ministries/departments have opportunity to correct). Error rates before correction are estimated to affect 5–10% of transactions.
34 Internal control is the process by which an organisation governs its activities to efficiently and effectively accomplish its mission (including ex-ante internal financial control), while internal audit is an evaluation of the adequacy and effectiveness of controls (including independent advice to management on the performance of systems and the efficiency of service delivery).
35 By-law for Financial Control No. 11 (2014) and Prime Minister’s Instruction No. 9 (2015).
possible contingent liabilities in financial reports. By far the most significant public enterprises are the National Electric Power Corporation, which during 2013–2015 incurred heavy losses and built up considerable arrears that are now being paid, and the Water Authority of Jordan, which continues to incur losses.

MoF's financial reports include some financial assets (official reserves, bank deposits and advances), but not all financial assets are covered (e.g. tax arrears and the value of company shareholdings). The GoJ recently established a new entity to hold and manage shareholdings in about 20 companies which it does not fully control. Financial returns from these companies are categorised as property income under non-tax revenues, but the details are not published.

As regards fixed assets, each ministry/department maintains a register of fixed assets, including valuations and accumulated depreciation, but it is not clear that these are fully comprehensive and data has not yet been consolidated. The GoJ's decision by 2021 to prepare financial reports in accordance with the accrual-based IPSAS means that all fixed assets will need to be identified and valued. There are no rules concerning the disposal of assets.

**Benchmark 8: Systems operating to control virement, commitments and arrears**

The rules for in-year budget adjustment are clearly stated in the Constitution (Article 112, iii) and the annual General Budget Law, and mean that appropriations cannot be transferred from entity to entity except based on (new) legislation. The only exceptions are transfers from current to capital within ministries/departments, if approved by MoF and the GBD, but not in the opposite direction (except for Parliament and as regards security-related expenditure). Also, transfers are allowed between ministries/departments for capital projects financed by grants from the Gulf Cooperation Council. Furthermore, virement is allowed within a ministry/department, except transfers from Compensation of Employees to other current or capital expenditures. In-year budget reallocations in 2015 amounted to about 0.2% of total expenditures. Supplementary appropriations require parliamentary approval, except for externally financed investment, which can be increased without a supplementary budget, provided offsetting savings of current expenditure are available. The rules for in-year budget adjustment are observed by the Executive and thus effectively limit its discretion, and do not appear to reduce the effectiveness of budget execution.

MoF's Public Treasury Directorate manages the GoJ's TSA, maintained at the CBJ, through which all ministries/departments channel their revenues and expenditures. MoF has real-time access to all accounts and is thus able to monitor the transactions and cash position of every ministry/department. The balances of all sub-accounts are swept daily. Trust Accounts are also managed by the Public Treasury Directorate, but through a non-TSA special account. Each entity prepares an annual cash flow forecast that is updated on a monthly basis. Cash releases to ministries/departments are made on a monthly basis, but do not always match the amounts expected, which can create uncertainty.

The formal responsibility for managing public debt is in accordance with the Public Debt Management Law (2001), assigned to a committee consisting of the MoF, MoPIC and CBJ. However, all borrowing as well as the issuance of guarantees and the contracting of Public-Private Partnerships (PPPs) is subject to approval by the Cabinet. The practical administration of public debt is undertaken by the MoF’s Public Debt Directorate of the MoF, which works based on documented policies and procedures, and uses the Debt Management and Financial Analysis System managed by the United Nations Conference on Trade and Development. The

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37 While this should be included in the 2017 PEFA assessment report under PI-10 (iii), such assessment is in fact not provided.

38 Ministry of Defence, Royal Medical Services, Public Security, Civil Defence and Gendarmerie Forces.
administration of debt is effective, and records are complete, accurate, updated and reconciled monthly. Likewise, monthly reports on debt and guarantees, including for government units, are published. However, public debt has increased significantly in recent years and has reached a very high level.\textsuperscript{39} Debt sustainability analyses are carried out regularly by the IMF. The MoF’s Public Debt Directorate prepares a medium-term debt management strategy that is updated annually.\textsuperscript{40}

**Summary of GPP 5:**

The internal control framework is extensive but, while well understood and complied with, it is unlikely to be cost-effective. Improved internal control capacity within ministries/departments has led the Audit Bureau to withdraw from the pre-audit verification process. However, internal audit is not yet properly established and operational within the GoJ. Payroll controls are effective and reconciled to personnel records, and payroll audits are carried out. The rules for in-year budget reallocations effectively restrict the discretion of the Executive. Appropriate cash flow planning and management procedures are in place, and the debt management administration is sound.

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### 3.6 GPP 6: Government carries out procurement in line with principles of value-for-money and transparency

**Benchmark 9: Appropriate use of competitive tendering rules and decision-making is recorded and auditable\textsuperscript{41}**

**Benchmark 10: Effective action is taken to identify and eliminate corruption**

The legislative and regulatory framework for public procurement is fragmented and lacks a unifying procurement law. There is a need for improvements in all parts of the procurement cycle, from the planning phase to contract execution, and the legislation should be clearly drafted, principle-based and value-for-money oriented. There are shortcomings in several implementation rules – including insufficient requirements for planning and preparation, vagueness in the choice of procedures and bid evaluation, and weakness regarding publication of procurement opportunities – which increase the risk of irregularities. It appears that a draft procurement law has been prepared, but no details are available and it is unclear to whether and when the Cabinet intends to propose it to Parliament.

The institutional framework and management capacity is characterised by unclear coordination and cooperation functions. Three state institutions cover different aspects of central procurement.\textsuperscript{42}

\textsuperscript{39} It is noted that while the Public Debt Management Law (Article 23) limits total outstanding public debt to 80% of GDP, total GoJ and GoJ-guaranteed gross debt had reached 95.1% by end-2016.
\textsuperscript{40} This was a structural benchmark for 2016 and 2017 under the IMF Extended Arrangement under the Extended Fund Facility. Two other benchmarks are approving an action plan to reorganise the Public Debt Directorate (which was met end-December 2016) and to finalize the reorganisation (which was deemed on track as of July 2017 by the IMF).
\textsuperscript{41} The assessment provided in this section is mainly based on ‘Report – Corruption Risk Assessment of the Public Procurement System in Jordan’ from November 2016. The report was prepared by the Support for Improvement in Governance and Management SIGMA, a joint initiative of the OECD and the European Union, based on a request by IACC to implement action 2.2 of the Action Plan for implementation of the National Anti-Corruption Strategy 2013–2017.
\textsuperscript{42} The General Supplies Department of the MoF is in charge of supplies, including moveable property and services; the Government Tenders Directorate of the Ministry of Public Works and Housing is responsible for civil works procedures and engineering services; and the Joint Procurement Department of the Ministry of Health oversees the procurement of drugs and medical supplies. Each entity has its own procurement guidelines and regulations.
but no entity is charged with policy and strategy development (in fact, Jordan has no strategy or plan for developing the public procurement system). The main procurement tasks within contracting authorities are carried out by members of tender, technical and receiving committees, but a strategic approach to capacity development is lacking, no regular training is provided, and there is a lack of recognition of procurement as a profession.

The operational capacity and market functionality of the procurement system is severely limited by the absence of valid statistical information and it is therefore not possible to undertake appropriate analyses. Competitive procurement is generally the default method. It appears, however, that the system has the following main characteristics:

- there is a disproportionate focus on bidder qualifications; lowest price criteria are almost exclusively used; and there is an excessive division of contracts and use of variation orders. Also, contract management is problematic due to insufficient resources for ensuring technical dialogue and performance monitoring.

The integrity and transparency of the procurement system in terms of monitoring of compliance and efficiency suffers from the lack of a dedicated institution in charge of public procurement. All procuring entities use internal processes to manage complaints, and an effective and independent complaint review procedure is lacking. Some procurement information is available on websites. The external audit undertaken by the Audit Bureau focuses on compliance (where a high number of procedural deficiencies have been identified), rather than on the performance of procurement operations. Audit Bureau staff participate as observers on tender committees, which is an important safeguard (assuming that their independence can be assured).

The only significant public procurement development since May 2016 appears to be that the MoF’s General Cooperation Agency to establish the Jordan Online E-procurement System. This is a system for the electronic management of procurement that includes a web portal, online bids for tender, electronic contracts, and online shopping malls. The system is planned to be completed during 2017 and used by the General Supplies Department, Government Tenders Directorate and Joint Procurement Department. The Korea International Cooperation Agency is providing USD8.5 million in funding. It is unclear, however, whether the initiative includes change management and will result in changes to procurement procedures, or will only make existing practices electronic.

Summary of GPP 6:

All aspects of the GoJ’s procurement system are characterised by deficiencies, including the legislative and regulatory framework as well as the institutional structure, which are thus subject to fiduciary risk. The weaknesses regarding operational capacity, integrity and transparency need to

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43 For tenders with values from JOD200 to JOD10,000, a Special Tender Committee is to be set up by the procurement entity of the ministry/department. For tender values of JOD10,000 up to JOD200,000, the Special Tender Committee must include a General Supplies Department representative and obtain a certificate of funds availability from GBD. For tenders above JOD200,000, the responsibilities depend on the specific type of procurement to be undertaken. It appears that civil works contracts, in particular donor-financed projects, are often managed by ministries/departments without the involvement of the Government Tenders Directorate.

44 A Central Government Complaints Management System is maintained in the Ministry of Public Sector Development as a central entity for receiving and monitoring the resolution of citizens’ complaints directly with all concerned government agencies. However, an independent public procurement appeal mechanism does not currently exist.


46 According to a recent OECD report, procurement reform in Jordan includes small and medium-sized enterprises, independent complaint unit and policies unit, green procurement, central unified legislation for all governmental entities, and e-portal/e-procurement (OECD (2016): ‘Stocktaking report on MENA [Middle East and North Africa] Public Procurement Systems’, p. 16), but it is not clear that all these are in fact being actively pursued by the GoJ.

be addressed so as to make the functioning of the procurement system more efficient, effective and accountable. An e-procurement system is under implementation. It is positive that the IACC took the initiative to establish the procurement system review, but no follow-up initiatives to strengthen the system and procedures appear to be planned by the GoJ.

<table>
<thead>
<tr>
<th>Previous risk rating (May 2016)</th>
<th>Substantial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current risk rating</td>
<td>Substantial</td>
</tr>
<tr>
<td>Trajectory of change</td>
<td>↔</td>
</tr>
</tbody>
</table>

### 3.7 GPP 7: Reporting of expenditure is timely and accurate

**Benchmark 11: Reconciliation of fiscal and bank records is carried out on a routine basis**

The TSA and GFMIS significantly facilitate the preparation of account reconciliations. All ministries/departments (except four military institutions) use GFMIS, where bank reconciliation is now a daily routine process, and the regulatory requirement to undertake monthly reconciliations is thus fulfilled. However, while the accounts of government units are part of the TSA, reconciliation is carried out only every six months.

The frequency of reconciliation of suspense accounts is unclear and also the extent to which clearance takes place at year-end, although it would appear that there is no such clearance. The same applies to advance accounts.

**Benchmark 12: Audited annual accounts are submitted to Parliament within the statutory period**

MoF’s in-year budget execution reports cover all expenditure, including that of deconcentrated governorates, but the breakdown of revenue and expenditure is comparable with the original budget only for the economic classification. The published monthly reports provide information based on economic classifications only at an aggregate level. However, a more detailed breakdown by administrative unit, function and programme is available internally through GFMIS. Although there are no concerns about the accuracy of in-year budget execution data, it is noted that reports show only payments and do not include commitments. Also, it appears that not all government units are covered with the General Government Finance Bulletin.

The fiscal relationship between the GoJ and municipalities (of which there are 100) is regulated by the Law on Municipalities (2015). Municipalities are in principle financially independent, but rely on transfers to supplement their own revenues. The Ministry of Municipal Affairs supervises the local administrative issues of the municipal councils. The horizontal allocation of transfers to municipalities is determined by a Cabinet-approved formula that is presently based on population size, distance from a regional centre, unemployment rate and poverty rate. Funds are transferred from the MoF via the Cities and Villages Development Bank, a development bank, to the municipalities. The MoF has real-time information regarding the bank balances of municipalities. Municipalities submit annual financial reports to the MoF. Consolidated information about municipal finances is published only with significant delays. The GoJ's annual financial statements are prepared by the MoF's Public Accounts Directorate in accordance with the cash-based IPSAS and thus provide full information on revenues.

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48 While the subjects are included in the 2017 PEFA assessment report under PI-27 (ii), the assessments are not definite.
expenditures, financial liabilities and cash balances for ministries/departments (i.e. they do not include government units). The 2015 financial statements were submitted by the MoF to the Audit Bureau in April 2016, which is quite timely by international standards. The MoF prepared a cash flow statement for the first time for 2016. The GoJ plans to introduce full accrual accounting by 2021 based on its Roadmap for IPSAS Implementation, which is ambitious given the current status.

**Summary of GPP 7:**

Bank account reconciliation by ministries/departments is undertaken on a daily basis, but only every six months by government units. The frequency of reconciliation of suspense accounts and advance accounts is unclear, and it appears that these accounts are not cleared at year-end. The MoF’s in-year budget execution reports cover all expenditure and are published monthly, but have some limitations in terms of information provided. The GoJ’s annual financial statements are now prepared in full accordance with international standards.

<table>
<thead>
<tr>
<th>Previous risk rating (May 2016)</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current risk rating</td>
<td>Low</td>
</tr>
<tr>
<td>Trajectory of change</td>
<td>↑</td>
</tr>
</tbody>
</table>

### 3.8 GPP 8: There is effective independent scrutiny of government expenditure

**Benchmark 13: Government accounts are independently audited**

External audit of ministries/departments, government units, municipalities and the SSC is the responsibility of the Audit Bureau, which is established based on the Constitution (Article 119, i) and the Audit Bureau Law (1952, as amended).\(^{49}\) The Audit Bureau is not fully independent of the Executive as regards appointment and dismissal of its head as well as with respect to the approval of its budget. A proposed new Audit Law was presented to Parliament in 2013, but was not acted upon and therefore withdrawn.

The Audit Bureau’s focus has traditionally been compliance audit and financial audit, and until mid-2017 significant resources were also devoted to pre-audit activities in ministries/departments. Performance audits and environmental audits have been undertaken since 2004. It is not clear to what extent the Audit Bureau undertakes audit based on the application of the International Standards of Supreme Audit Institutions, or consistent national auditing standards, and also whether audits highlight relevant material issues and systemic and control risks.\(^{50}\) An audit opinion on the annual financial statements has been issued only for 2015 onwards.

The Constitution (Article 119, i) requires that the Audit Bureau submits an audit report to Parliament at the beginning of each ordinary (annual) session. The Audit Law (Article 22) requires the Audit Bureau to submit observations on each year’s final account to Parliament. The audited annual financial statements have in recent years been submitted to Parliament about 13–15 months after the end of the fiscal year.

\(^{49}\) Amendments were made in 1959 (law no. 21), 1962 (law no. 6), 1963 (law no. 47), 1987 (law no. 31), and 2002 (law no. 3).

\(^{50}\) While these subjects should be included in the 2017 PEFA assessment report under PI-30 (i), such assessments are in fact not provided.
The exact procedure for follow-up on audit observations is not clear, but it appears that auditees generally correct errors identified during compliance audits and that action is taken by the Executive in cases where there is no follow-up. The latter includes cases being submitted to the MoF, the courts, and the IACC.

**Benchmark 14: Government agencies are held to account for mismanagement**

**Benchmark 15: Criticisms and recommendations made by the auditors are followed up**

Parliamentary practice provides for audit reports to be considered by the Finance Committee. While there were previously very long delays in Parliament's scrutiny of audit report, the latest available data suggests that the procedures have been improved considerably.

The Finance Committee discusses audit findings with ministry officials and is supported in this task by an Audit Analysis Unit. The Committee's recommendations are submitted along with the audit report to Parliament in plenary. Meetings are generally open to the public and attended by the media and civil society organisations. Plenary sessions are televised, but not Committee meetings. A report on the review of audit reports is published on Parliament's website.

**Summary of GPP 8:**

The Audit Bureau is charged with external audit of all public sector entities. It is not fully independent of the Executive, and a new Audit Law proposed in 2013 was not adopted by Parliament. The audit focus is mainly on financial compliance, but some performance audits and environmental audits are undertaken. The Audit Bureau has recently withdrawn from undertaking pre-audit in ministries/departments. It is not clear which standards are applied by the Audit Bureau. An annual audit report is submitted to Parliament and the timing has improved in recent years, as has the scrutiny process of Parliament's Finance Committee. The follow-up on audit findings and recommendations is not quite clear, but includes cases sent to the courts and the IACC.

<table>
<thead>
<tr>
<th>Previous risk rating (May 2016)</th>
<th>Moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current risk rating</td>
<td>Moderate</td>
</tr>
<tr>
<td>Trajectory of change</td>
<td>↔</td>
</tr>
</tbody>
</table>

**3.9 Overall assessment**

The overall fiduciary risk level is assessed as moderate (pre-mitigation), which is similar to the 2016 FRA and means that the trajectory of change overall is considered stable. This is based on the specific risk rating deemed as having improved for GPP 7 (expenditure reporting) and deemed unchanged for the remaining seven GPPs.

It is clear that the GoJ's PFM reform continues to see steady, albeit slow, progress, and several positive developments have taken place since May 2016. These include:

- New Organic Budget Law prepared and submitted to Parliament for approval;
- Macro-Fiscal Unit established in the MoF;

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51 While the subjects should be included in the 2017 PEFA assessment report under PI-30 (iii), such information is not provided.
52 The 2015 audit report was submitted to Parliament on 9 February 2016 and Parliament's recommendations were submitted to the Office of the Prime Minister on 13 April 2016, i.e. after approximately two months.
- GFMIS fully rolled out and all modules except for budget preparation functional;
- PIM Unit set up in MoPIC and being made operational;
- Budget transparency improvement;
- Mid-year budget review process initiated;
- Annual financial reporting now in accordance with international standards;
- Expenditure arrears being monitored and reduced;
- The Audit Bureau withdrawn from pre-audit activities in ministries/departments; and,
- E-procurement system under implementation.

The changes in the GoJ’s PFM system and procedures in recent years have resulted in improved performance, which is evidenced with the latest PEFA assessment, as shown below.

**Chart 1: Overall scores of 10 PEFA-based PFM performance assessments**

<table>
<thead>
<tr>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Morocco 2009</td>
<td>3.04</td>
</tr>
<tr>
<td>Ethiopia 2015</td>
<td>3.00</td>
</tr>
<tr>
<td>Kuwait 2010</td>
<td>2.84</td>
</tr>
<tr>
<td>Tunisia 2016</td>
<td>2.83</td>
</tr>
<tr>
<td>Jordan 2018</td>
<td>2.80</td>
</tr>
<tr>
<td>Jordan 2011</td>
<td>2.70</td>
</tr>
<tr>
<td>Yemen 2008</td>
<td>2.50</td>
</tr>
<tr>
<td>Kenya 2012</td>
<td>2.38</td>
</tr>
<tr>
<td>West Bank &amp; Gaza 2013</td>
<td>2.25</td>
</tr>
<tr>
<td>Sudan 2010</td>
<td>1.71</td>
</tr>
</tbody>
</table>

Source: Calculated based on PEFA assessments applying the 2011 methodology by quantifying the performance indicator scores for each of the 10 country-level reports using the following conversion: A = 4, B+ = 3.5, B = 3, C+ = 2.5, C = 2, D+ = 1.5 and D = 1.

The graph shows that the PEFA score of Jordan improved notably from 2011 (quantified average score of 2.70) to 2016 (2.80). The latter compares well to the average worldwide PEFA score for lower-middle income countries (2.45) and upper-middle income countries (2.87).

However, a large number of weaknesses remain across all PFM elements, and some areas have seen little or no developments, e.g. procurement and external audit. Procurement (GPP 6) thus continues to be the only GPP with a 'substantial' risk rating, which is problematic given that the risk of corruption associated with procurement is potentially higher than for other areas.

A list of the fiduciary risks that have been identified based on the above assessment is provided in Annex C, which can help facilitate the preparation of the 2018 ASP. It is **recommended** that the mitigation measures be reviewed/established based on the MoF’s new PFM reform plan for 2018 onwards, once available.
4 Assessment of the risk of corruption at the country level

This chapter provides an update on the specific risk of corruption presented in the 2016 FRA. It is based on new results from perception surveys as well as information obtained during consultations and as part of the document review.

4.1 Recent anti-corruption reform initiatives

A new Integrity and Anti-Corruption Law came into force in June 2016, which integrated the Ombudsman and the Anti-Corruption Commission institutions into the IACC. The law defines acts deemed as corruption (Article 16), which include ‘wasta’.53 Also, the law provides the IACC with a prosecution department specialising in corruption cases with public prosecutors appointed annually by the Judicial Council.

The GoJ in December 2016 launched the National Strategy for Integrity and Anti-Corruption 2017–2025, which is under the mandate of the IACC to implement.

It is also noted that King Abdullah in a discussion paper on the rule of law, published in October 2016,54 specifically mentions the issue of ‘wasta’ and nepotism. It notes that these do not only impede the country’s progression, it erodes achievements by undermining the values of justice, equal opportunity and good citizenship, which are the enablers of development in any society […] [such] practices have deprived institutions from qualified personnel and leadership […] It should be emphasised here that meritocracy should be the only basis for appointment.

This expression in the public discourse for a need to strengthen good governance in the public sector is taking place alongside what seems to be relatively more frequent news reports about high-profile corruption cases (although prosecution of these appears to remain somewhat selective).

4.2 International perception surveys

4.2.1 Transparency International’s Corruption Perception Index

The Corruption Perception Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index that draws on corruption-related data from expert and business surveys. The 2012–2016 results for Jordan are shown below.

53 “The acceptance of nepotism and favouritism by public administration employees, which revokes a right or validates what is void.”
The table shows that corruption among public officials and politicians in Jordan is perceived to be relatively high. It improved for 2015, but then deteriorated for 2016. The perceived corruption level for Jordan in 2016 was similar to countries such as Italy, Saudi Arabia, South Africa and Greece.

### 4.2.2 World Bank Institute’s Worldwide Governance Indicators

The Worldwide Governance Indicators (WGIs) cover six key dimensions of governance and measure the quality of governance, including ‘Control of Corruption’.\(^{55}\) They compile perceptions from a diverse group of respondents collected in surveys and other cross-country assessments.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Countries</th>
<th>Ranking</th>
<th>CPI Score*</th>
<th>Confidence Range</th>
<th>Surveys Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>176</td>
<td>58</td>
<td>48</td>
<td>43–54</td>
<td>7</td>
</tr>
<tr>
<td>2013</td>
<td>177</td>
<td>66</td>
<td>45</td>
<td>41–49</td>
<td>7</td>
</tr>
<tr>
<td>2014</td>
<td>175</td>
<td>55</td>
<td>49</td>
<td>44–54</td>
<td>7</td>
</tr>
<tr>
<td>2015</td>
<td>168</td>
<td>45</td>
<td>53</td>
<td>48–58</td>
<td>7</td>
</tr>
<tr>
<td>2016</td>
<td>176</td>
<td>57</td>
<td>48</td>
<td>43–53</td>
<td>8</td>
</tr>
</tbody>
</table>

* Trend: -

<table>
<thead>
<tr>
<th>Year</th>
<th>Control of Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>60.66</td>
</tr>
<tr>
<td>2013</td>
<td>60.19</td>
</tr>
<tr>
<td>2014</td>
<td>59.62</td>
</tr>
<tr>
<td>2015</td>
<td>64.42</td>
</tr>
<tr>
<td>2016</td>
<td>64.42</td>
</tr>
</tbody>
</table>

\(^{55}\) The Control of Corruption dimension is defined as the extent to which public power is exercised for private gain, including petty and grand forms of corruption as well as the ‘capture’ of the state by elites and private interests.

The Control of Corruption dimension is defined as the extent to which public power is exercised for private gain, including petty and grand forms of corruption as well as the ‘capture’ of the state by elites and private interests.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Government officials in the executive branch do not use public office for private gain</td>
<td>0.57</td>
<td>0.57</td>
<td>0.59</td>
<td>0.66</td>
<td>↑</td>
</tr>
<tr>
<td>2.2 Government officials in the judicial branch do not use public office for private gain</td>
<td>0.67</td>
<td>0.69</td>
<td>0.71</td>
<td>0.71</td>
<td>↑</td>
</tr>
<tr>
<td>2.3 Government officials in the police and the military do not use public office for private gain</td>
<td>0.62</td>
<td>0.69</td>
<td>0.76</td>
<td>0.77</td>
<td>↑</td>
</tr>
<tr>
<td>2.4 Government officials in the legislative branch do not use public office for private gain</td>
<td>0.40</td>
<td>0.31</td>
<td>0.32</td>
<td>0.56</td>
<td>↑</td>
</tr>
<tr>
<td>Global ranking (Jordan / total no. of countries)</td>
<td>33 / 97</td>
<td>33 / 99</td>
<td>32 / 102</td>
<td>33 / 113</td>
<td>↑</td>
</tr>
</tbody>
</table>

Rating scale: 0.00 (lowest, i.e. not good) to 1.00 (highest, i.e. good).

The overall score for Jordan was relatively stable from 2012/13 to 2015, but then improved for 2016. As the underlying results show, this was in particular due to improvements in perceived corruption among government officials in the legislative branch as well as in the police and military. Jordan's global (relative) ranking has steadily improved over the past four years.

4.2.4  World Economic Forum's Global Competitiveness Index

The Global Competitiveness Index (GCI) ranks countries based on macro-economic and micro/business aspects of competitiveness, including a 'institutions' pillar that for ethics and corruption covers 'Irregular Payments and Bribes' based on an executive opinion survey.\(^{56}\) The results for Jordan for 2012–2016 are shown below.

Table 5:  World Economic Forum's GCI, 2012–2016

<table>
<thead>
<tr>
<th>Irregular payments and bribes</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Irregular payments and bribes</td>
<td>4.8</td>
<td>4.9</td>
<td>4.6</td>
<td>4.4</td>
<td>4.7</td>
<td>↔</td>
</tr>
</tbody>
</table>

Rating scale: 1 [very common] to 7 [never occurs].

The results for Jordan indicate that it is less common for firms to make irregular payments and pay bribes to government entities/officials, and that this is quite stable over time.

The World Economic Forum’s Global Competitiveness Report also includes a survey of the 'most problematic factors for doing business'. The results for Jordan for 2012–2016 are shown below.


<table>
<thead>
<tr>
<th>Most problematic factors for doing business – Corruption</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most problematic factors for doing business – Corruption</td>
<td>6.0%</td>
<td>6.0%</td>
<td>12.2%</td>
<td>4.9%</td>
<td>7.5%</td>
<td>↑</td>
</tr>
<tr>
<td>Ranking (out of 16 factors)</td>
<td>9th</td>
<td>9th</td>
<td>2nd</td>
<td>10th</td>
<td>7th</td>
<td>↑</td>
</tr>
</tbody>
</table>

From a list of factors, respondents were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

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\(^{56}\) Average score across five survey questions: In your country, how common is it for firms to make undocumented extra payments or bribes connected with (a) imports and exports; (b) public utilities; (c) annual tax payments; (d) awarding of public contracts and licenses; (e) obtaining favourable judicial decisions?
The survey shows that while business executives in earlier years did not see corruption as a particularly problematic factor for doing business, this changed significantly for 2014, where it was seen as the second most problematic factor (after 'restrictive labour regulations'). The results for 2016 indicate that corruption continues to be seen as a challenge.

4.3 Transparency International's Global Corruption Barometer

Transparency International carried out a survey on corruption from September 2014 to November 2015 in nine countries and territories of the Middle East and North Africa. For Jordan it observed that while 75% of respondents felt that corruption had risen in the past 12 months prior to the survey, and that 61% of respondents were of the view that the government was handling corruption badly, only 4% of respondents had actually paid a bribe, given a gift or done a favour in order to obtain a public service. It thus seems likely that this reflects, as also pointed out in the report, that 'wasta' is not viewed as bribery and thus contributes to the low bribery survey result.

4.4 Summary

The specific risk level is assessed as substantial (pre-mitigation), which is similar to the 2016 FRA and means that the trajectory of change is unchanged.

This assessment is based on the latest international perception surveys which show that while corruption remains somewhat high, there is no clear trend as regards deterioration or improvement, neither in absolute nor relative terms. However, this may possibly be due to the surveys not yet capturing some of the more recent anti-corruption reform initiatives, including the new legislation and new national strategy. It would furthermore be supported by what appears to be more public acknowledgement of the need to strengthen good governance in government institutions.

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5 Assessment of the fiduciary risks for the education sector

This chapter provides a brief commentary on the fiduciary risks identified for the education sector in the 2016 FRA. This is followed by an assessment of MoE-relevant fiduciary risks, a review of selected aspects of the Jordan Compact Education Programme, and then a status summary of the World Bank's 2016 education public expenditure review.

5.1 Follow-up on education sector risks stated in the 2016 FRA

The 2016 FRA assessed the overall level of fiduciary risk for the MoE as 'moderate' (Chapter 14). It included a list of eight fiduciary risks and safeguards for the education sector (Table 9 in Chapter 14). These have been reviewed as part of the update process, in which it was found that only three risks are formulated with reference to the education sector:

(i) 'Risk relates to focus on intensive pre-audit with three layers of pre-audit for each transaction and one of post-audit. For the MoE as a whole this is not cost-effective and detracts from normal internal audit functions, especially post-audit and systems work' (GPP 5).

(ii) 'Accountability units within ministries (including the MoE) may not be effective' (GPP 8).

(iii) 'Parliament reviews audit reports and agrees remedial measures, but with delays. Effectiveness of Audit Bureau team in MoE difficult to assess, but there are rising numbers of overall unresolved recommendations' (GPP 8).

As is clear from the 2016 FRA country-level assessment, risk (i) is in fact a general issue across GoJ ministries/departments, which is also discussed in Chapter 3 of this report. The meaning of risk (ii) is not clear and hence cannot be made subject to follow-up. Risk (iii) is clearly articulated and the issue of external audit observations was raised with the Audit Bureau's representative at the MoE as part of the consultation process, but no information has been received.

5.2 Assessment of the MoE's PFM system and capacity

Based on the ASP and FRA update activities undertaken, i.e. document review and in-country consultations, it seems clear that the main fiduciary risks related to the MoE are to be found in two specific areas:

- Payroll – this is based on a simple materiality assessment and takes into account that salaries, wages, allowances and social security contributions make up about 85% of the MoE’s annual spending.

- Procurement – this is based on a risk assessment regarding the likelihood of 'errors' and takes into account that the MoE undertakes procurement within a challenging governance context and using a public procurement system that has very substantial weaknesses.

Relevant safeguards are discussed in Section 5.3 below.

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58 This is not surprising considering that the assessors noted that they had ‘not become aware of any risks that exist in the education sector that do not also exist at country level. The only issue is that MoE is a large ministry with many employees, and risks that may exist in payroll or procurement across ministries are likely to have a larger impact in such a ministry. However, it should be noted that there are a number of risks at central level that either do not exist at the level of the education sector or exist in a much reduced form’ (Chapter 12).

59 In addition to the issue of materiality, such a high proportion of non-discretionary costs raises concerns about the sustainability of continually rising recurrent costs in the education sector over the long term (Global Action Canada (2017): ‘Mission Report – Public Financial Management Specialist, March, p. 4).
FRAs carried out during 2016–2017 by other donors assess the MoE’s PFM system and procedures as having an overall rating of satisfactory. For Global Action Canada, it is recommended to use the country system, but to monitor closely the capacity at the sub-national level to absorb and manage funding as well as to ensure the additionality of external funding for the sector (though this is due to the macro-economic environment rather than PFM-specific concerns). KfW in its diagnostic assessment finds that the MoE’s PFM procedures are sufficiently documented, staff adequately qualified, and duties strictly segregated, but even so the project will use a special account mechanism (and hence be off-budget), although it will otherwise be managed based on MoF’s ordinary PFM procedures and using the GFMIS.

5.3 Jordan Compact Education Programme

The implementation arrangements for the Jordan Compact Education Programme as regards the funding modality have been developed on a solid decision-making basis outlined in DFID’s Business Case. The special account modality was deemed to be relatively low risk, in clear alignment with delivery of the MoE’s Acceleration Plan and the Jordan Compact, helping to ensure prompt fund disbursement, and was considered a strong option to attract more donors into the pooled funding partnership.

The selection of the special account mechanism meant that donor funding would be off-budget, which could be considered contrary to good donor practice (as pointed out by the MoF and GBD during the consultations) and potentially could increase the administrative burden on the MoE, as well as undermine efforts to strengthen its own PFM system. However, in fact the applied special account approach uses all elements of the PFM system, with the one exception that funds are not channelled through the treasury system (i.e. the deviation from the country system is limited).

In terms of safeguards it is noted that Jordan Compact Education Programme, as supported by DFID, does not cover payroll. This is instead funded by KfW through a separate 'teacher salary' project that covers 4,700 teachers and 1,200 additional staff, and which includes a payroll verification process. The project, similar to the Jordan Compact Education Programme, applies a special account mechanism and is being implemented using the MoE’s ordinary PFM system and procedures. The only additional difference is that KfW will have an annual audit carried out by an independent external auditor, i.e. it will not rely solely on the Audit Bureau’s activities.

The implementation of the Jordan Compact Education Programme uses the MoE’s procurement system and procedures, which means that donor funds are subject to the fiduciary risks that this represents (see Chapter 3 for the country-level assessment of the procurement, which is fully applicable to the MoE). It is in addition to this understood that delays were experienced at the start of implementation in September 2016 for the school year 2016/17 – seemingly caused by a lack of prior planning, capacity restrictions, and inadequate coordination between the MoE’s DCU and...
and the Procurement Department – which meant that many packages of furniture, equipment and textbooks are only being belatedly procured. This resulted in slow use of funds from the special account, which necessitated revisions to the financial plans of the programme and also hampered the planned disbursement of funds for some donors.

While the involved entities within the MoE state their intention to avoid similar implementation problems for the school year 2017/18, it is – based on the available information – not clear that the necessary actions have been planned and will be put into practice. This represents a development risk in that project objectives may not be achieved due to limited capacity and other limitations. In order to safeguard DFID funding from both fiduciary and development risks, it is therefore **recommended** that DFID, together with other donors and stakeholders, following the outcome of the 2017 external audit, consider whether a programme-specific procurement assessment is required to establish the exact procurement procedures and involved entities, identify the specific weaknesses and related risks that apply to implementation, and on that basis if/as required, propose mitigation measures (e.g. developing guidelines, establishing monitoring framework, and building up staff capacity).^65^

As regards external audit, the Joint Financing Agreement states that the 'MoE will conduct an internal financial and compliance audit of the Programme each year including the Special Account' and that the audit report and management letter will be submitted to the MoE by 30 June (Section X). It would seem that the term 'internal' was erroneously included in the paragraph since it surely would have been the intention of all stakeholders to have an external audit carried out (especially considering that the MoE in fact does not have a functional internal audit function). Also, it is not clear from the Joint Financing Agreement which entity will undertake the audit (e.g. the Audit Bureau or a private firm). It is noted that the Memorandum of Understanding (MoU) between DFID and the GoJ mentions ‘Audit Bureau (or equivalent)’, but it is not clear that the Audit Bureau will be undertaking such an audit unless it is specifically requested to do so. Also, the stated deadline for the audit in the MoU is nine months from year-end, which is a three-month difference, and it also is not clear whether this refers to the UK fiscal year (1 April–31 March) or that of the GoJ (1 January–31 December). It is understood that donors expect that the special account will be audited annually by the Audit Bureau as part of the financial audit. However, since this is a general audit that does not report specifically on the special account, it is **recommended** that DFID, together with other donors, arrange for an external audit to be undertaken annually by a private firm based on ToR agreed with the MoE.

The Jordan Compact Education Programme is implemented within the MoE by the DCU in collaboration with other departments. The DCU has four donor-funded staff members who support the financial management and procurement tasks. While this addresses the immediate technical capacity needs of the programme in terms of implementation, it will be necessary to resolve the procurement-related issues outlined above in order to ensure that the team can properly manage the fiduciary aspects of the programme. It is also **recommended** that DFID considers how to ensure the sustainability of the DCU in terms of the capacity of staff once the donor-supported financing for staff ends.

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^65^ The draft fiduciary systems assessment for a new World Bank education sector P4R as regards procurement lists a number of procurement mitigation measures, including: (1) revisions of technical specifications of regularly supplied goods and schools construction based on observed quality and entailed maintenance/replacement cost; (2) systematic integration of procurement processing and contract management; (3) creation/nomination of an independent complaints unit; and (4) deployment of decentralisation of decisions at the level of schools.
5.4 Education PER

In 2016, the World Bank carried out a PER of the education sector,\textsuperscript{66} which assessed education outcomes, education learning environment, education spending and teacher compensation. As regards education spending, the following observations were made:

- Spending on education as a share of GDP and total public spending is comparable to OECD averages, but represents a higher than expected share when taking into account GDP per capita;
- Recurrent spending on education is substantial (95% of actual expenditure in 2013) and the share of capital spending correspondingly low (5% in 2013);
- Basic education captures the majority of capital spending and exhibits relatively high recurrent unit costs (as compared to kindergarten, secondary and vocational education); and,
- Capital spending in the education sector is classified both under the MoE and MoPIC (the bulk is treasury-financed spending under the MoE, while some donor-financed loans are under MoPIC).

The following recommendations were made in the report:\textsuperscript{67}

- As no single GoJ entity currently has a complete picture of capital spending within the education sector, the accounting of capital spending should be consolidated under the MoE (and, if possible, also the management of capital spending so as to determine priority needs and deploy resources accordingly);
- In order to make informed decisions about expanding existing schools or building new ones, the MoE needs to strengthen its planning capacity by employing more robust planning tools, including a geographic database that maps schools across the country, in addition to using existing systems (e.g. the Education Management Information System); and
- The MoE should thus consider how the budget preparation process can be amended from the present basis of using the previous year’s budget figures and demographic needs (projected enrolment) to a ‘projectised’ approach that more directly targets the issue of geographic variations in education sector outcomes.

From the information available, it is not clear whether the MoE agreed with the World Bank's analyses. Also, it has not been possible to obtain details as to the status in implementing the recommendations (if and as relevant).

6 Observations on the World Bank-managed 'Economic Opportunities for Jordanians and Syrian Refugees P4R'

DFID provides financial support to the World Bank-managed 'Economic Opportunities for Jordanians and Syrian Refugees' programme, which delivers a transformative agenda set out in the Jordan Compact to:  

(i) turn the refugee crisis into a development opportunity;  
(ii) rebuild Jordanian host communities; and  
(iii) support Jordan's macro-economic framework. It is based on the P4R modality, which means that funding is on-budget and uses the country systems of the GoJ for results-based disbursements and budgetary implementation.

The programme is based on disbursement-linked indicators that are assessed regularly in terms of target achievement through a verification process managed by a Programme Management Unit (PMU) set up in MoPIC. Some disbursement-linked indicators are reviewed by the Audit Bureau and others by private firms. The PMU is proactively engaged in the verification and results monitoring process.

The World Bank carried out a comprehensive fiduciary systems assessment, which is well-documented in the Programme Appraisal Document. The assessment rated the overall fiduciary risk as 'moderate' and concluded that the programme's fiduciary framework is adequate to support implementation and to achieve the desired results, and that the key institutions involved have acceptable financial management and procurement systems for the purposes of the programme.

According to the World Bank, it monitors the implementation of the financial management-related mitigation measures on a regular basis and during missions. It is understood from the World Bank that the measures have been implemented, but the specific monitoring activities and the results do not appear to be documented. As regards implementation of the procurement-related mitigation measures, it is understood from the World Bank that the PMU in MoPIC, as part of its monitoring responsibility, is expected to report on these indicators. However, it does not appear that the PMU has undertaken such monitoring.

DFID's Business Case, which appears to be a solid decision-making basis for the intervention, identified 'Fiduciary Strengthening' as a technical assistance need. However, it is not clear which activities are planned in this regard.

On this basis, it is therefore recommended that DFID undertakes regular follow-up vis-à-vis the World Bank to assess its monitoring of progress regarding the GoJ's implementation of the fiduciary mitigation measures.

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69 The World Bank's Aide Memoire from March 2017 under the subject 'risks, procurement and fiduciary aspects' mentions only the following: 'The Mission assessed that no change is required to the existing risk rating of the project. There are no changes to the procurement or fiduciary aspects of the program. These continue to be rated satisfactory' (World Bank (2017c): 'Hashemite Kingdom of Jordan – Program for Results – Economic Opportunities for Jordanians and Syrian Refugees' P159522, Aide Memoire, Implementation Support Mission, 14–23 March 2017, p. 7).

70 The World Bank in this regard stated that ‘If PMU cannot handle this, then, even though this is not a DLR, a report on these Performance Indicators could be added to the tasks expected from the Verification Agency.’
Bibliography

DFID (2016c): 'Business Case – Jordan Compact Economic Opportunities Programme'.
OECD (2016): 'Stocktaking report on MENA Public Procurement Systems'.
Data sources for Chapter 4

Transparency International's Corruption Perception Index: www.transparency.org/


Annex A  Terms of Reference (ToR)

Terms of Reference for:
Annual Statement of Progress (ASP) and refresh and possible expansion of the existing DFID Jordan – Fiduciary Risk Assessment (FRA)

1. OBJECTIVE:

1.1 DFID Jordan is seeking to contract a competent consultant(s) for two deliverables:
- To complete an Annual Statement of Progress (ASP) for the existing DFID Jordan – Fiduciary Risk Assessment of the National Level and Education Sector in Jordan (conducted in May 2016);
- To refresh and potentially expand the existing Fiduciary Risk Assessment (FRA) to take account of the findings of the recent PEFA (2016) and to cover the activities funded through the World Bank financed Economic Opportunities for Jordanian and Syrian Refugees Programme for Results (P4R);

1.2 An ASP is required for the FRA of the national level and education sector produced in 2016. In view of the recent PEFA this represents a good opportunity to refresh and expand the original FRA, and to also cover the funding DFID Jordan is providing through the World Bank’s P4R programme which uses Government of Jordan financial systems and other institutional arrangements to disburse funds and implement activities.

1.3 The main objectives of this exercise are: (i) to provide assurance that the fiduciary and other systems used to implement these DFID funded programmes ensure that funds are used for the intended purposes and (ii) review and make recommendations on mitigating any significant risks to the use of funds within government systems, covering institutional arrangements, financial management, procurement and governance systems; (iii) advise on a suitable process for strengthening fiduciary capacity and monitoring future performance of both programmes.

2. RECIPIENT:

2.1 The primary recipients of the assessment will be the DFID Jordan country office, GoJ Ministries, the World Bank and other stakeholders involved in implementation of the P4R and education sector programmes. The outputs will increase DFID Jordan understanding of fiduciary issues around implementation of these programmes, and will be used to develop a practical action plan to strengthen key aspects of the financial management and internal control systems used during the implementation of the P4R programme. The ASP will assess progress achieved on fiduciary risk issues highlighted during the FRA of education sector in 2016 and respond to any issues highlighted. All deliverables will be shared with relevant GoJ Ministries and other stakeholders.

3. SCOPE OF WORK:

3.1 The key tasks the consultants should deliver will include:
- Agree a work plan with DFID Jordan
- Become thoroughly conversant with DFID’s Smart Guide to Fiduciary Risk (2016) and other associated guidance.
- Become thoroughly conversant with the findings and conclusions of existing diagnostic studies previously undertaken including, but not limited to: DFID – Fiduciary Risk Assessment of the National Level and Education Sector in Jordan (2016); Fiduciary Systems Assessment (Annex 5 of the Programme Appraisal Document (PAD) for the World

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71 Key stakeholders include MOPIC; Ministry of Finance (MoF) Ministry of Labour (MoL) ; Ministry of Industry, Trade & Supply (MoITS); Jordan Investment Commission (JIC); JMSO
Bank financed Economic Opportunities for Jordanian and Syrian Refugees Programme for Results (P4R); the 2016 and 2011 Public Expenditure and Financial Accountability (PEFA) reports, the EU’s 2015 PFM Annual Monitoring Report, USAID’s 2013 assessment of PFM in the Ministry of Education, and any other previous PFM assessments and national FRA reports as well other relevant documents.

- Using the framework outlined in section 5 of these Terms of Reference, undertake: a) undertake an ASP for the FRA completed in 2016; and (b) to take account of the findings of the recent PEFA and to refresh and potentially expand the original FRA, particularly to cover the funding DFID Jordan is providing through the World Bank’s P4R programme.

- Complete the ASP using the DFID template; and review and potentially expand the FRA Report. The report should:
  - set out clearly an assessment of the level of fiduciary risk, generally within Jordan’s Public Financial Management systems, and specifically relating to the GOJ Ministries and Agencies involved in the implementation of the World Bank P4R programme;
  - include an ASP for the FRA conducted in 2016, which examined fiduciary risks in central government systems and specifically in the education sector and the use of the Trust Fund mechanism.
  - Update the FRA recommendations on mitigating risks and monitoring future performance, particularly with regard to the implementation of both the World Bank P4R programme.
  - Update recommendations on content and process for strengthening fiduciary capacity, including any within the P4R programme, outlining any issues that need to have been addressed in relation to implementation capacities and disbursement of funds.

- Discuss the draft FRA Report and ASP with DFID Jordan and incorporate comments in the Final Report, to be approved by DFID Jordan.

4. OUTPUTS:

4.1 The consultant(s) will be required to deliver the following outputs:

4.1.1 Inception Report /Work Plan showing the timing of the major activities described in the terms of reference and the major milestones for the delivery of outputs, to be discussed and agreed with DFID Jordan, World Bank and relevant Government of Jordan ministries and agencies;

4.1.2 Draft ASP and refreshed and/or expanded FRA with a presentation to DFID Jordan, (and possibly to World Bank and relevant Government of Jordan ministries and other stakeholders involved in the P4R and education sector programmes). The updated FRA report should not exceed 35 pages (excluding Annexes), with an executive summary of up to 5 pages. The DFID report template should be used to complete the ASP.

4.2.3 Final FRA Report and ASP: within 4 days of receiving comments from DFID Jordan.

5. APPROACH AND METHODOLOGY:

5.1 The ASP should review the findings and recommendations of the DFID FRA. This was focused on the Ministry of Education’s PFM systems, but also examined the national system and the extent to which general findings on the national system were replicated within the education sector.

5.2 The new PEFA assessment in 2016 provides an opportunity for a refresh and potential expansion of the FRA based on the more robust PEFA data. The FRA refresh should also consider whether the systems used in the World Bank P4R programme provide reasonable

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72 A final draft of the 2016 PEFA assessment is available but not yet published.
73 Implementation capacities includes managerial capacity (ability to plan, monitor and coordinate activities), administrative capacity (ability to procure good and services, to manage and maintain assets, and to recruit and retain personnel), financial capacity (ability to produce project budgets, to ensure quality and timely financial accounting and reporting) and technical capacity (ability to carry out the technical aspects of the financial support).
assurance that programme financing will be used for the intended purposes, and should examine the Programme’s institutional and governance arrangements, and financial management and procurement systems.

5.3 In order to minimise the burden on public bodies in Jordan the consultant(s) should draw on existing sources of information as far as possible and conduct interviews to fill gaps in information and/or update old data and verify analysis in existing diagnostics.

5.4 In setting out their proposed approach, the consultant(s) will follow the DFID guidance on fiduciary risk assessments contained in the 2016 Fiduciary Risk Assessments Smart Guide (here onwards referred to as the “FRA guidance”). The ASP and FRA should reassess:
   - the capacity of the Government Ministries and other stakeholders to manage programme funds for intended purposes. For each area of the assessment, an updated risk assessment should be made (high, substantial, moderate or low);
   - the financial management and internal control systems used by Government Ministries and Agencies during programme implementation;
   - the risk that funds are not used for intended purposes (both in terms of fraud and in terms of non-fraudulent spending not linked directly to intended objective); do not provide value for money (inefficient use of resources) or cannot be adequately accounted for;
   - the risk of corruption by Government Ministries and other stakeholders during programme implementation;
   - how material the above potential risks are in terms of impact; and how significant is the potential impact of these risks.

5.5 A consultative approach is required, which incorporates not only the assessment of financial management systems but also a discussion on pragmatic and practical solutions within the Government Ministries and stakeholders concerned. Furthermore, in line with the Government of Jordan’s Aid Policy, which provides guidance on aid harmonisation, recommendations will need, to the largest possible extent, to respect principles of low transaction costs for government and alignment to national systems.

6. QUALIFICATIONS AND COMPETENCES REQUIRED:

6.1 International Expert

- At least 10 years of professional experience and expertise in public financial management and accountabilities issues, including detailed knowledge of the entire PFM cycle (budget planning & preparation, budget execution, accounting, reporting, internal auditing, external auditing and legislative scrutiny)
- A good working knowledge, and experience of one or both, of, DFID’s approach to managing fiduciary risk and its methodology for carrying out Fiduciary Risk Assessments and of the PEFA Framework approach;
- Excellent oral and written communication skills in English, working knowledge in Arabic being an added value.

7. REPORTING AND DFID CO-ORDINATION:

7.1 The consultant will report to the Senior Responsible Officer (SRO) for the DFID Jordan Economic Opportunities Programme. The DFID Departmental Procurement Officer (DPO) will provide support for all contractual and administrative issues.

8. STAFF INPUTS AND TIMING:

8.1 The assignment will require up to 20 days between … July/Aug EXACT DATES TBC. Fieldwork should take place in …, with the final report due to be presented by end … 2017.

Timelines envisaged as following:
Initial reading and preparation
5-7 days fieldwork in the Jordan;
Presentation of initial findings to DFID Jordan at the end of fieldwork;
Draft FRA report and ASP to be submitted to DFID Jordan 7 days after the end of fieldwork;
DFID Jordan to respond within 3 days;
Consultants to finalise reports within 4 days;

**Indicative Timetable**

<table>
<thead>
<tr>
<th>Actions</th>
<th>Timeframe (from contract start date)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Mobilization, initial review and discuss scope/requirements/timings with DFID and workplan</td>
<td>Week 1</td>
</tr>
<tr>
<td>2. Approval of arrangements and workplan by DFID Jordan</td>
<td>Week 1</td>
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<tr>
<td>3. Field trip to Jordan</td>
<td>Week 2</td>
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<tr>
<td>4. Presentation to DFID Jordan</td>
<td>Week 2</td>
</tr>
<tr>
<td>5. Submission of draft FRA and ASP</td>
<td>Week 3</td>
</tr>
<tr>
<td>DFID Jordan to provide written comments</td>
<td>Week 4</td>
</tr>
<tr>
<td>6. Submission of final FRA and ASP</td>
<td>Week 5</td>
</tr>
</tbody>
</table>

**9. INDICATIVE LIST OF PERSONS AND ORGANISATIONS TO MEET:**

The main Government of Jordan ministries to be consulted are:
9.1 Ministry of Planning and International Cooperation (MOPIC)
9.2 Ministry of Finance
9.3 Ministry of Education (MoE)

Specific contacts for the Education Sector:
9.4 Development Coordination Unit and Managing Directorate of financial affairs at the MOE
9.5 Other donors doing Direct Budget Support in Jordan: EU, USAID, Canada, KFW
9.6 Relevant departments of the Ministry of Finance.

Specific contacts for the P4R programme:
9.7 The World Bank
9.8 MOPIC PMU
9.9 Other GoJ ministries and agencies involved Ministry of Finance; Ministry of Industry, Trade & Supply; Ministry of Labour; Ministry of Works & Housing; Jordan’s audit institutions; Jordanian Anti-corruption Commission (JACC); Jordan Investment Commission

Other organisations depending on information gaps from the review of existing reports

**10. BACKGROUND DOCUMENTS:**

- DFID Fiduciary Risk Guide 2016
- PEFA (2016) – a final draft report is available.
- World Bank Project Appraisal Document (PAD) for P4R programme.
- EU PFM Annual Monitoring Report, Jordan 2015 and Annex on Assessment of Eligibility of Transparency and Oversight of the Budget
- USAID- Public Financial Management Risk Assessment Framework Stage 2 Risk Assessment The Hashemite Kingdom Of Jordan Ministry Of Education
- KFW Appraisal for German Government

**11. BACKGROUND INFORMATION**
11. **Joint Donor Statement:** On January 12, 2016, the Minister of Education Mohammad Thneibat called a meeting with donors to propose a plan to provide access in the 2016-2017 school year to an additional 50K Syrian students. The plan as presented costs around US$28M per year and aims to preserve quality for all students. The total immediate cost of educating Syrians in Jordan, including the additional 50K students, is US$82.8M per year.

12. On February 4, 2016, donors and Governments met for the London conference on the Syrian crisis. In response to the pledges made at that conference, education donors in Jordan WILL fund the additional 50K Syrian students in the coming school year, per the Ministry of Education’s plan, with additional requests based on best practice and preservation of quality education. Donors support the immediate provision of space for an additional 50,000 students in the school year 2016/2017 through second-shift/Saturday schooling.

13. As donors, we support the full integration of refugees into the public school system. The immediate integration of all students presents both the best development solution for Jordan and the best option for the children. We advocate that the Ministry of Education utilize the international development and humanitarian assistance provided as part of the response to the crisis to expand and build the public education system in Jordan and to improve the overall quality of education for all students.

14. **Background:** Currently, the MOE provides education for 143,259 Syrian refugees. About half of these students attend schools in 98 double-shifted schools – schools which were double shifted to quickly address education needs of Syrians. These 98 double-shifted schools are funded by the EU and the MOE. The MOE estimates that Jordan currently needs 5,000 classrooms to meet current demand for education without affecting the quality of education. In five years that need to include most out of school children, may rise to 10,000 additional classrooms. UNICEF in Jordan estimates 60K additional students will need informal learning spaces. Nonformal education may need to be expanded as well, and there are several policy opportunities to address with the Ministry of Education.

15. **Proposal:** As donors, we propose a donor mechanism to provide the needed funds to the MOE to ensure as many students as possible attend formal school starting in 2016. This fund would continue to cover the recurrent costs of second-shift students until they are fully absorbed into the expanded Jordanian education system.

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**Appendix B from Ministry of Education**

**Trust Account**

16. The Trust Account may be classified as a general account for the cash balance which held within the official Central Bank account and subsidiary account used to control certain funding source among multi-funding sources for the same project or to recording certain activity of the project.

17. For the purpose of the financial management and accountability, the “Special Account” will be established as per the request of funding agency(ies) or any temporary activity in the Central Bank of Jordan to record the money received and expended for the activities according to the donors funding policies.

18. Regarding the Trust Account, we suggest the following options:

- The first option is to open the Trust Account through the official letter sent by the Ministry of Education to the Central Bank of Jordan with the permission of the Ministry of Finance.
- The second option is to use the existing Trust Account of the MoE (common Trust Fund Account)

19. For both options, the money received is used to finance the project’s components, which involve the provision of any classification such as salaries, goods, and services which may be funded through the donations.

20. Moreover, the amounts that may be credited to the trust account are generally determined in the donors’ terms and include the amount appropriated by the donor’s contributions.

21. The payments that are paid out of the trust account shall be made exclusively for Eligible Expenditures that provide a mechanism for recording money pertaining to a particular purpose within the project.
22. In case of immediate needs for funding, as it is this case, and to respond to the identified needs to accommodate students in the next scholastic year, it is essential that donors make an initial deposit at the request of MoE up to the agreed amount generally for an amount of the planned expenditures for the first semester. The donors will replenish the trust or special account within the agreed ceiling as soon as it is received within the agreed period and accepted appropriate evidence of expenditures using the agreed upon form prepared for this purpose.

**Accounting & Reporting of Trust account.**

23. The Trust Division in the Managing Directorate of Financial Affairs is responsible for ledger accounting of the MoE trust accounts' transactions and maintaining proper accounting for the credits and debits of a trust account for accurate control. All transactions of the trust account will be used according to the terms, conditions and regulations of Ministry of Finance’s financial System, as well as the donor’s terms and conditions articulated in the financial agreement. The Trust Account is administered by the General Financial Management Information System (GFMIS) and should apply this system which is centralized and controlled by the Ministry of Finance.

24. The Trust Account accounting records are maintained in a manner which permits the preparation of separate reports for the different fund groups or activities.

25. In addition, all expenses are made of generating a check or drafts through the MoE, when all official approvals have been initiated. The checks are drawn in consecutive numerical order by the central Bank of Jordan.

**Signatures**

26. The signing of a check or draft will be initiated by the MoE authorized staff in the Trust division. The checks are signed by the Treasurers, Head of Trust Division, Head of Disbursement Division, Accounting Director and Managing Director of Financial Affairs based on the national financial regulations.

**Internal Control**

27. To ensure the implementation of policies and procedures efficiently and effectively, the Government of Jordan developed the internal control which provides reasonable assurance on the organizational operations.

28. The internal control plan consists of all methods used to safeguard assets, to promote accuracy and reliability of the organization’s accounting data and records, to ensure compliance with all policies and procedures prescribed by management, and to promote the operational efficiency of the organization.

29. The internal control systems conform the generally accepted characteristics, which include: -

- The organizational plans that provide the segregation of functional responsibilities.
- The accounting reconciliation that are carried out regularly.
- The record of Expenditures.
- All invoices, bills, statements, letters, vouchers and other documents pertaining to disbursements preserved and systematically filed by each entity.

**Responsibility for reconciliations**

- A certain accountant through the Trust division office is principally responsible for the accuracy of the computer-prepared reports.
- The Reconciliation Statement of budgetary activity and account balances report and the files are of highest importance as they assure that the allocated funds are being utilized as planned by the donors and the transactions reflected on the reports are correct.

(b) **World Bank – Programme for Results**

30. The Government of Jordan (GoJ) and the international community requested World Bank Group (WBG) support to respond to the Syrian refugees’ crisis. The parameters of the response were defined in the Jordan Compact, which was adopted in the “Supporting Syria and the Region” Conference held in London on February 4, 2016. The World Bank P4R programme supports the economic opportunity aspects of the Compact.

31. The World Bank’s P4R will help Jordan cope with the impact of refugee inflows on their economic and social fabric and turn this into an opportunity. It will support both Syrian refugees and the Jordanian host communities and funding will be provided on concessional terms through use of an IDA Credit and support from the Global Concessional Financing Facility (GCFF). The GCFF enables middle-income countries affected by refugee impact to borrow at
below regular multilateral development bank rates. It represents a coordinated response to the Syrian crisis, bridging the gap between humanitarian and development assistance and enhancing coordination between the United Nations (UN) and multilateral development banks.

32. The Programme for Results (PforR) addresses three broad themes:
   - Labour market reform to allow more active (formal and legal) participation of Syrian refugees in the labor force.
   - Improving the investment climate, including regulatory reform and trade and investment facilitation.
   - Creating an environment to attract investments through investment promotion and facilitation activities.

33. These measures, combined with the efforts of the international community to help Jordan expand its markets (notably through the European Union (EU) market access and interventions by donors in ‘jobs for work’ programs, vocational training, small and medium enterprise (SME) incubation, and financing) are expected to make a significant impact on job creation and developing economic opportunities for both Jordanians and Syrian refugees.

34. The counterpart agency for the PforR is MOPIC, which is responsible for overall implementation of the Compact. MOPIC has established a PMU to manage the implementation of the Compact, and this unit is also responsible for P4R implementation, which relies on MOPIC and the general arrangements the Government has established for the coordination of the Compact implementation with key line ministries and agencies.

35. A Fiduciary System Assessment (FSA) of the P4R programme was conducted by the World Bank during programme appraisal. The FSA considered whether programme systems provided reasonable assurance that funds will be used for the intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The World Bank from this assessment, and a review of existing analytical and diagnostic work, concluded that the overall fiduciary and governance framework provided reasonable assurance that the financing processes would be used for the intended purposes to support the implementation of PforR. The overall fiduciary risk was rated as Moderate. The main risks and corresponding mitigation measures are specified in Annex 5 of the PAD.

### P4R Implementing Agencies

<table>
<thead>
<tr>
<th>Implementing Entities of the Economic Development Program</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>MoITS</td>
<td>Enhancing the business and investment environment to be more competitive through developing economic policies and legislation to guarantee protection of the rights and interests of both the consumers and the business sector.</td>
</tr>
<tr>
<td>MOL</td>
<td>The ministry is in charge of granting work permits to Syrian refugees and contributes to raising the rate of economic participation through active labor market policies and providing social protection to them and regulating the labor market.</td>
</tr>
<tr>
<td>JIC</td>
<td>Jordan investment promotion agency in charge of marketing Jordan as an investment destination, targeting new investors and providing aftercare services to existing investors.</td>
</tr>
<tr>
<td>Jordan Standards and Metrology Organization</td>
<td>A key institution in improving quality standards and granting quality certification to exporters to the EU. JSMO aims at enhancing confidence in the market services and products through building and implementing standards that are compatible with the best international practices in the fields of quality infrastructure of metrology, standards, conformity assessment, market surveillance, and accreditation in cooperation with the partners and through providing a supportive environment.</td>
</tr>
</tbody>
</table>

**Annex A:** Jordan Fiduciary Risk Assessments at National Level and for the Education Sector (May 2016)

**Annex B:** Annual Statement of Progress (DFID template)
## Annex B  List of persons consulted

The following GoJ officials and donor representatives were consulted as part of the assignment.

<table>
<thead>
<tr>
<th>DFID</th>
<th>Donors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms Claire Innes – Head of Office</td>
<td>Ms Shauna Flanagan – First Secretary, GAC</td>
</tr>
<tr>
<td>Ms Katrina Stringer – Education Adviser</td>
<td>Ms Giulia Pietrangeli – Attaché, Economic Affairs and PFM, EU Delegation</td>
</tr>
<tr>
<td>Ms Dana Yanis – Education Programme Manager</td>
<td>Ms Sarah Christin Meier – Project Manager, KfW Development Bank</td>
</tr>
<tr>
<td>Mr Christopher Eleftheriades – Economic Advisor</td>
<td>Mr Sascha Stadtler – Senior Project Manager, KfW Development Bank</td>
</tr>
<tr>
<td>Mr Salah Al-Jamaani – Economic Opportunities Programme Manager</td>
<td>Ms Lisa Stegall – Transaction Manager, KfW Development Bank</td>
</tr>
<tr>
<td>Mr Ianto Jones – Deputy Head</td>
<td>Mr Jad Mazahreh – Senior Financial Management Specialist, World Bank</td>
</tr>
<tr>
<td>Mr John Pryor – Education Programme Manager</td>
<td>Mr Sepehr Fotovat – Senior Procurement Specialist, World Bank</td>
</tr>
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<thead>
<tr>
<th>MoE</th>
<th>Donors</th>
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<td>Mr Fawaz Al-Hammouri – Deputy Head, Development Coordination Unit</td>
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<td>Mr Naser Al Nadi – Financial Officer, Development Coordination Unit</td>
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<td>Mr Mohammad Al Manaseer – GFMIS Officer</td>
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<td>Mr Ameen Al Sayed – Internal Auditor/Treasury</td>
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<td>Mr Hussein Al Shar’aa – Director, Procurement, Supplies and Inventory Department</td>
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<td>Ms Laila M. Hasani – Engineer, Procurement, Supplies and Inventory Department</td>
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<td>Mr Hussam Abu Ali – Assistant Secretary General for Financial Affairs</td>
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<td>Mr Firas Al Mallah – Head of Research Directorate</td>
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<td>Mr Khaled Wishahy – Director, Education and HR Development Sector Directorate</td>
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<td>Mr Anthony Pusatory – M&amp;E and Reporting Manager, Jordan Compact PMU</td>
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<td>Dr Abed Kharabshheh – President</td>
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<td>Mr Ibraheem Al-Majali – Secretary General</td>
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<td>Mr Mohammad Hiassat – Manager, Directorate of Quality Assurance and Control</td>
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<td>Mr Adel Al Badour – Head of Representative Unit, MoE</td>
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<td>Ms Shauna Flanagan – First Secretary, GAC</td>
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<tr>
<td>Ms Giulia Pietrangeli – Attaché, Economic Affairs and PFM, EU Delegation</td>
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<td>Ms Sarah Christin Meier – Project Manager, KfW Development Bank</td>
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<td>Mr Sascha Stadtler – Senior Project Manager, KfW Development Bank</td>
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<td>Ms Lisa Stegall – Transaction Manager, KfW Development Bank</td>
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<td>Mr Jad Mazahreh – Senior Financial Management Specialist, World Bank</td>
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<td>Mr Sepehr Fotovat – Senior Procurement Specialist, World Bank</td>
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Annex C  Identified country-level fiduciary risks

In order to facilitate the preparation of the 2018 ASP, the following provides a list of the identified main fiduciary risks at the country level together with planned measures (to the extent that reform initiatives addressing the identified risks are known):

1) The legislative basis for the budget preparation process is weak in terms of defining institutional roles and responsibilities.
   Measure: A new Organic Budget Law has been prepared and is expected to be approved by Parliament soon.

2) Parliament's approval of the annual budgets continues to be late.
   Measure: Initiatives to improve parliamentary procedures are on-going (UK Embassy project with Parliament and the Ministry of Political and Parliamentary Affairs through Global Partners Governance).

3) There are some quality issues regarding the MoF's medium-term macro-economic forecasts and fiscal impact analyses.
   Measure: MoF's new Macro-Fiscal Unit is expected over time to address these issues (the IMF's Fiscal Affairs Department mobilises TA missions to support the Unit).

4) GFMIS does not yet allow for preparing and submitting budget.
   Measure: Work is on-going to enable full utilisation of the GFMIS budget preparation module (GFMIS development is being supported through USAID’s Fiscal Reform and Public Financial Management project, implemented by Deloitte Consulting LLP and Urban Institute).

5) The harmonisation of ministry-level costed strategic plans vis-à-vis national policies and strategies is weak as are the linkages to the financial planning within ministries.
   Measure: – [no known reform activities].

6) Revenue administration remains a challenge as reflected in considerable tax arrears and delays in implementing agreed reforms.
   Measure: Initiatives are in place to reduce the stock of tax arrears (targets under the European Union's 'Support to Public Finance and Public Administration Reforms’ sector programme).

   Measure: A new Income Tax Law and a new tax exemptions framework are being prepared for submission to Parliament, and will be implemented once approved (Structural Benchmarks under the on-going IMF programme).

7) The stock of expenditure arrears is relatively high.
   Measure: Plans for clearing energy sector and health sector arrears by 2019 are being implemented by MoF (IMF monitors these arrears through its regular Article IV consultations).

8) The amount of resources that reach service delivery units and how they are used cannot be easily verified.
   Measure: – [no known reform activities].

9) The internal control framework is extensive, but not cost-effective.
   Measure: – [no known reform activities].
10) Internal audit is not yet properly established and operational, and systemic deficiencies thus have a high likelihood of remaining undetected.

   **Measure:** – [no known reform activities].

11) The procurement system is not well-functioning, and GoJ procurement may thus not be efficient and effective, or provide value-for-money.

   **Measure:** – [no known reform activities].

12) Bank account reconciliation by government units is undertaken only every six months, which means that inaccurate data could remain undetected for long periods.

   **Measure:** – [no known reform activities].

13) The frequency of reconciliation of suspense accounts and advance accounts is unclear, and it appears that these accounts are not cleared at year-end.

   **Measure:** – [no known reform activities].

14) The Audit Bureau is not fully independent of the Executive.

   **Measure:** – [no known reform activities].

15) It is not clear that follow-up on audit observations by the Audit Bureau and Parliament is comprehensive and effective.

   **Measure:** – [no known reform activities].

It is understood that the MoF will be preparing a new PFM reform plan for 2018 onwards which, once available, should be reviewed so as to identify initiatives that are likely to address the existing fiduciary risks.