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JORDAN FISCAL REFORM II PROJECT

YEAR 1 RESULTS REPORT

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JORDAN FISCAL REFORM II PROJECT

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We also thank our USAID-FRP II partner, the King Abdullah II Center for Excellence, for their insights on to the ongoing public sector reform program, and the potential of FRP II to enrich that agenda.

Last, but certainly not least, we owe special thanks to our colleagues at USAID-FRP II. In particular, thanks go to Mark Gallagher, who provided extensive guidance throughout the research process, offered valuable feedback on drafts of the report, and gave this effort highest priority. We are also very grateful for comments from Christina Erickson, Bruce Bolnick and our FRP II Component Leads—Robert Wenzel, Osama Al-Azzam, Khalid Al-Hmoud, Glenn Mackenzie-Frazer, Widad Qutaishat, and Greg Robins—all of whom provided us with feedback and input. We have incorporated these inputs to the extent possible.

While we benefited from the assistance of all those mentioned, any factual errors, misunderstandings, misinterpretations, or omissions are solely the responsibility of the authors.

ABBREVIATIONS

ACH	Amman Customs House
ASEZA	Aqaba Special Economic Zone Authority
ASYCUDA	Automated System for Customs Data
ATS	Audit Tracking System
CBA	Cost-Benefit Analysis
CEF	Center of Excellence in Finance
CIT	Corporate Income Tax
DG	Director General
DLS	Department of Lands and Survey
EFT	Electronic Funds Transfer
FRP II	USAID/Jordan Fiscal Reform Project II
GBD	General Budget Department
GCC	Gulf Cooperation Council
GCR	Gross Compliance Rate (of the Value Added Tax)
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GOJ	Government of Jordan
GST	General Sales Tax
H.E.	His Excellency
IEF	Innovation and Excellence Fund
ICT	Information and Communications Technology
IMF	International Monetary Fund
ISTD	Income and Sales Tax Department
IT	Information Technology
JC	Jordan Customs Department
JD	Jordanian Dinar (the national currency)
KAA	King Abdullah II Award for Excellence in Government Performance and Transparency
KACE	King Abdullah II Center for Excellence
LTO	Large Taxpayers Office/Directorate
MENA	Middle East and North Africa Region
MOA	Ministry of Agriculture
MOF	Ministry of Finance
MOFTC	Ministry of Finance Training Center

MOPSD	Ministry of Public Sector Development
MOE	Ministry of Education
MOT	Ministry of Transportation
MPA	Mega Projects Administration
MTO	Medium Taxpayers Office/Directorate
MTDS	Medium Term Debt Strategy
M&E	Monitoring and evaluation
OBI	Open Budget Index
OECD	Organization for Economic Cooperation and Development
OJT	On-the-job training
PFM	Public Financial Management
PGA	Partner Government Agencies
PIT	Personal Income Tax
PSD	Public Sector Development
ROB	Results-Oriented Budgeting
ROG	Results-Oriented Government
SDI	Service Delivery Improvement
SG	Secretary General
SST	Special Sales Tax
STO	Small Taxpayers Office/Directorate
TRS	Time Release Study
UK	United Kingdom
USAID	United States Agency for International Development
VAT	Value-Added Tax

EXECUTIVE SUMMARY

In 2005, the Government of Jordan (GOJ) mapped out an ambitious National Agenda to accelerate economic growth, promote greater social inclusion, and expand the country‘s social, political and economic development. The National Agenda sets clear targets for achieving broad-based export- and productivity-oriented growth and creating an internationally competitive economy that attracts new investments and increases employment. The U.S. Agency for International Development‘s (USAID) Jordan Fiscal Reform II Project (FRP II), which began in November 2009, contributes directly to achieving these objectives.

USAID-FRP II aims to strengthen revenue administration, improve budget planning and execution, and ease the flow of goods across borders, while cultivating the demand and capacity for delivering improved public investments, better services, and greater efficiency across Jordan‘s public sector. The project‘s primary counterparts include the Ministry of Finance (MOF), the Income and Sales Tax Department (ISTD), the General Budget Directorate (GBD), Jordan Customs, the Ministry of Public Sector Development (MOPSD), King Abdullah II Center for Excellence (KACE) and the Prime Ministry.

This report takes a look back at FRP II‘s first year of operation, reviewing key project results, identifying factors that facilitated or impeded achievement of results, and recommending options for accelerating and enhancing project results and impact in the current and future years.

To be sure, project results were tempered by challenging economic conditions and, entering 2011, political developments in the region. Yet this report highlights a host of important accomplishments achieved through senior-level commitment, focused collaboration, and extensive capacity building.

Following is a summary of selected Year 1 results in brief:

- FRP II helped the ISTD develop methods for identifying and dealing with stop- and non-filers, using pilot activities to demonstrate the effectiveness of such methods in reducing non-compliance and bringing legitimate businesses into the tax net. ISTD plans to scale up this effort, implementing these methods countrywide in Year 2.
- The project supported major new outreach to the public in taxation and other areas. Information campaigns were launched, targeting individuals and businesses through radio, television and newspaper spots. The television and radio ads were broadcast at no cost to the ISTD—thanks to ISTD relationships with media outlets—saving the Government an estimated JD 50,000.
- Working collaboratively with ISTD counterparts, the team identified over JD 1.5 billion in tax arrears that are owed to the Government. The project has since developed methods for improving arrears analysis and developed procedures in tracking taxpayers down to encourage their compliance. Clearly, not all these arrears are recoupable and many will need to be effectively written off; but to assess their overall magnitude, it is important to understand that if all these arrears were to be collected, the overall budget deficit would be significantly reduced.
- The opening of two new Single Window facilities, at Jaber and Jordan Valley border crossings, signaled important achievements in customs modernization and trade facilitation. In total, eight Single Window locations are now operational, covering 80 percent of all imports into Jordan and

integrating border operations of four partner government agencies (PGAs). Further Single Window facilities will be opened in 2011 and additional PGAs will come under the umbrella, with the ultimate goal of a unified and fully automated single window in Jordan. Over time, this will make customs operations more cost-effective, while reducing delays and costs to importers.

- In the ISTD, the project cultivated a cadre of 17 in-house expert instructors, capable of training colleagues across an array of tax administration functions and skills sets. In the coming years, FRP II will look to extend this training model to other counterpart agencies, upholding the project‘s commitment to forging cost-effective and sustainable approaches to upgrading local capacity.

- Project assistance to both ISTD and Jordan Customs has raised awareness of the importance of customer service and risk management in promoting voluntary compliance. Based on FRP II recommendations, both ISTD and Customs leadership have taken steps to reduce the percentage of planned inspections, with an aim to conduct fewer but better inspections in the long run. And both departments have convened a number of workshops bringing together front-line staff, senior leadership and private sector stakeholders, for the first time providing a public forum for businesses to provide feedback and recommendations to enhance taxpayer services and trade facilitation at the border.

- With FRP II support and guidance, six pilot ministries refined their strategic and program goals, adopted new performance indicators, and instituted better methods for setting target values. The adoption of ROB processes at these pilot institutions not only exposed these agencies to modern approaches to budget planning and management, but also fostered healthy competition for program funds within agencies, triggered better engagement across GOJ agencies supporting common programs and objectives, and, ultimately, resulted in more cost-effective and better budget proposals.

- FRP II took over the management of the GFMIS Project Management Office when the GFMIS project was a year behind schedule and at risk of collapse. Within months, GFMIS implementation was back on track; and in November 2010, the system went ―live” in six pilot agencies, marking an important milestone for public financial management modernization in Jordan. The system will be rolled out to some two dozen additional GOJ agencies with FRP II support in 2011 and 2012. As system rollout continues, the GFMIS will give further Government entities access to financial information in ―real time” and provide critical tools to support better decisions, control spending, and raise accountability.

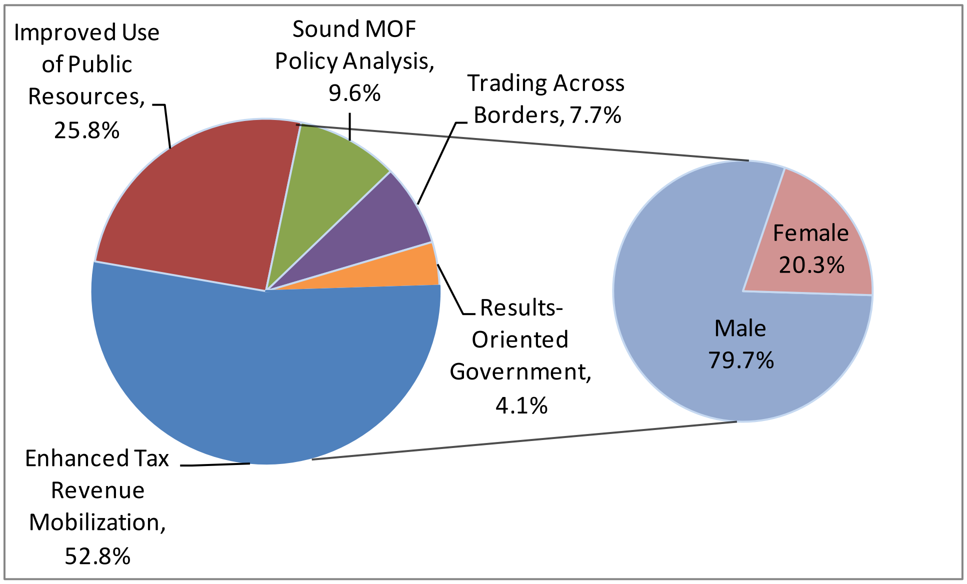
- The project team helped counterparts examine a number of important and potentially cost-saving policy proposals. Some of these analyses include, for instance, assessment of the impact of eliminating certain VAT exemptions; options for advancing the fiscal decentralization agenda; and, cost-benefit analyses of proposed ―mega projects” for the National Railway, the Amman-Zarqa Light Rail System, and upgrade of the Amman Customs House. These joint studies have demonstrated the power of analytic thinking in shaping policy discussions, and represent a crucial step in achieving FRP II‘s objective of adopting resource-saving reforms through sound, MOF-initiated policy analysis

- Working with MOF counterparts, the project helped forge a medium-term debt strategy envisioning a debt portfolio built on lower risk, lower cost, and longer maturities. At the same time, the team helped expand the dialogue on alternative financing options, including public-private partnerships (PPP) and Islamic *sukuk* financing, which allow the Government to share investment risk while simultaneously reducing pressure on the legal debt ceiling.

- FRP II sponsored a study of the structure of government, undertaken in cooperation with the Ministry of Public Sector Development (MOPSD). Based upon the findings and recommendations of the study, the Council of Ministers took an historic decision to restructure, merge, and eliminate 22 autonomous public institutions (APIs). The Government is carrying out these unprecedented reforms, which will eventually save the Government millions in budget expenditures.
- With dynamic leadership from the MOPSD, FRP II helped the Government of Jordan lay out a radical new Public Sector Development Strategy, transforming ―Results-Oriented Government" from an abstract concept into both a distinct FRP II project component, and an explicit objective of the GOJ.

Complementing the above, capacity building was a centerpiece of project achievements in Year 1. FRP II trained counterparts in a wide variety of areas, from training of trainers to customer service and taxpayer identification; from strategic planning to tax policy analysis; from economic and fiscal analysis to excellence models; and many, many other areas. In total, the project trained 2,662 people on topics spanning all six components, all five project objectives, and representing staff from secretary generals and directors, to departmental managers and front-line staff. (Figure 1)

Figure 1. Training participation, by objective and gender



More than 20 percent of these trainees were women. FRP II is committed to growing this percentage in the coming years, advancing the project's vision of creating an environment for learning and excellence for all in the public sector, regardless of gender, position or rank—providing routine opportunities for learning and professional development.

While assistance efforts do not always bring visible outcomes in just one year, USAID-FRP II efforts to date should be seen as part of a transformative process, through which knowledge transfer, collaboration, and practical application of new systems and methods contribute to sustainable results in the long run.

Furthermore, although much of FRP II's first year was devoted to capacity building and to establishing trust and working relationships with Government partners, the results of project assistance are clearly already substantial. The second project year promises to yield many more tangible results, building on

Year 1 accomplishments and teamwork. FRP II's ambitions are great, but so are those of USAID and counterparts in the Government of Jordan.

I. INTRODUCTION

A. BACKGROUND AND PURPOSE

This report takes a look back at the first year of the USAID-funded Jordan Fiscal Reform II Project (FRP II), reviewing key project results, identifying factors that facilitated or impeded achievement of results, and recommending options for accelerating and enhancing project results and impact in the current and future years.

FRP II formally began on November 1, 2009, when USAID and DAI signed the task order contract under the SEGIR GBTI II Indefinite Quantity Contract; the project concludes on October 31, 2013, with one possible option year concluding on October 31, 2014.

Implemented by the DAI/Nathan Group (DNG), FRP II contributes to achieving the objectives of Jordan's bold National Agenda: namely, to accelerate economic growth, promote greater social inclusion, and expand the country's social, political, and economic development. The National Agenda lays out clear targets for fostering broad-based, export- and productivity-oriented growth and creating an internationally competitive economy that attracts new investments and increases employment. In this context, FRP II supports the Ministry of Finance (MOF) and other key economic institutions to transform the Government of Jordan (GOJ) into a high-performing, results-oriented administration that taxes citizens fairly, spends money wisely, and moves goods smoothly, improving the lot of all Jordanians and enhancing stability in the country and across the region.

National Agenda goals driving FRP II:

- Reduction in public debt-to-gross domestic product (GDP) ratio
- Greater reliance on taxation to fund the budget
- Improved budget performance and greater control over spending
- Control and adjustment in the wage bill
- Control over and better performance of capital spending
- E-government
- Reduction in budgetary subsidies
- Public pension system reform
- Reform of tax and customs to eliminate bureaucracy and facilitate trade
- Enhanced government efficiency (including international rankings)

FRP II has five explicit objectives and comprises six components. Project objectives are as follows:

Objective 1: Enhanced revenue mobilization through better revenue administration

Objective 2: Adoption of resource-saving reforms in selected government programs through sound policy analysis initiated by the MOF

Objective 3: Improved efficiency of use of public resources through stronger public financial management

Objective 4: Increased efficiency in trading across borders

Objective 5: Results-oriented government

The six component work areas are:

A. Tax Revenue Mobilization

B. Public Financial Management

C. Ministry of Finance Capacity and Organization

D. Customs Administration and Trade Facilitation

E. Results-Oriented Government

F. Government Financial Management Information System (GFMIS)

Each component team works according to a defined annual work plan, with dedicated staff embedded within counterparts‘ facilities. The project‘s cross-cutting team, including project management and administration, outreach, events, monitoring and evaluation (M&E) and information technology (IT) units, helps ensure that FRP II‘s component teams have the tools and support they need to meet the project‘s objectives and expected results.

B. METHODOLOGY

This results report is the culmination of a detailed review of documents, technical studies, data and project progress reports, as well as consultation and interviews with many persons engaged with FRP II, including USAID/Jordan, project team members, intermittent technical advisors, partner organizations and, of course, Jordanian counterparts from several Government agencies.

Given the short time frame for preparing this results report, the authors were only able to confer with a small sub-set of the myriad counterparts who have collaborated with and benefited from FRP II assistance, including individuals and units of the Ministry of Finance (MOF), Ministry of Public Sector Development (MOPSD), Jordan Customs, Income and Sales Tax Department (ISTD), General Budget Department, the Projects Administration in the Prime Minister‘s offices, and GOJ line ministries. The authors are grateful for their time, their feedback on project accomplishments and implementation challenges, and their thoughtful recommendations for enhancing project impact in Year 2 and beyond.

To the extent possible, this report presents data and figures to demonstrate quantitative evidence of project results over the first year of operations. As project implementation continues and more concrete evidence of impact come to light, subsequent annual results reports will document these achievements.

Due to time and resource constraints, it was not possible to independently and completely verify all the information contained herein; nevertheless, the report and its contents have been reviewed and validated by FRP II staff.

C. GUIDE TO THIS REPORT

Chapter II of this report takes a high-level view of recent economic and fiscal trends in Jordan, with special reference to developments over the past year. This provides the reader with some perspective on the environmental conditions under which USAID-FRP II and our counterparts forged partnerships and embarked on an ambitious agenda, starting in late 2009 and extending through the end of 2010. The chapter is supplemented by several tables and figures that are presented in Annex A.

Chapters III – VII review first-year achievements and results in Jordan, organized by FRP II objectives:

(1) Tax revenue mobilization,

(2) Cost-savings through sound MOF policy analysis,

(3) Improved use of public resources,

(4) Increased efficiency in trading across borders, and

(5) Fostering results-oriented government.

Finally, Chapter VIII provides strategic recommendations to expand and enrich USAID-FRP II assistance to the Government of Jordan, as well as selected items for further dialogue with Jordanian counterparts intended to deepen and expand project impact in the coming years.

Annex A, as mentioned, presents additional data reflecting key economic and fiscal trends over the period 2005 – 2010. Annex B provides a list of person consulted for this exercise, while Annex C identifies an assortment of laws, regulations and documents reviewed for the preparation of this report.

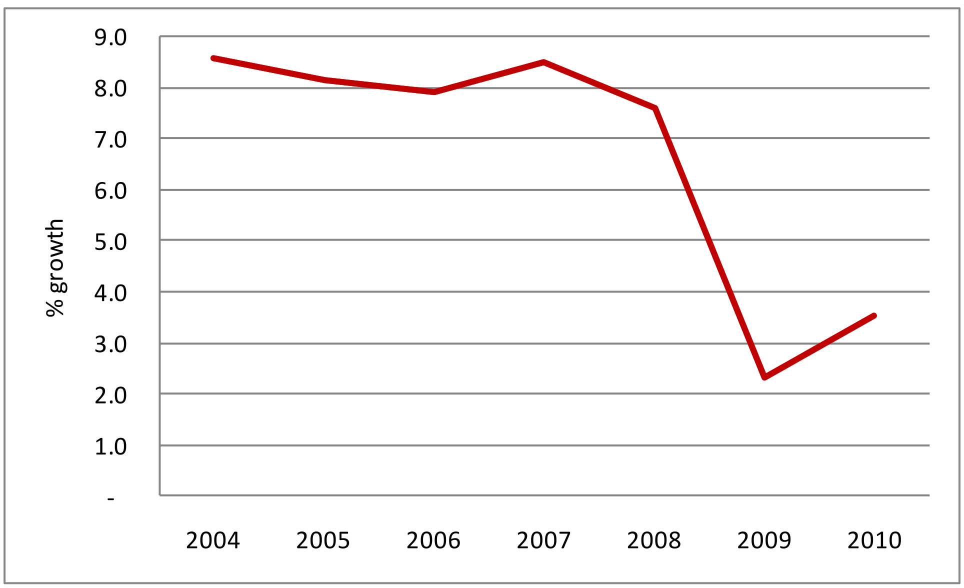
II. ECONOMIC AND FISCAL TRENDS

This section reviews recent economic and fiscal trends and performance in Jordan, with particular attention to developments over the past year. Selected economic and fiscal indicators are reviewed and analyzed to provide additional context for this report. ―Annex A: Data Tables" provides detailed data on economic and fiscal trends over the last several years in Jordan.

A. ECONOMIC TRENDS

Following a decade of strong growth, the Jordanian economy faltered in 2009 as the global and regional recession took hold. Real growth in gross domestic product (GDP) plunged to 2.3 percent, the country's lowest annual growth rate over the decade. However, as Figure 2 shows, real GDP growth rose again to 3.5 percent in 2010, indicating early signs of an economic recovery.

Figure 2. Real GDP growth in Jordan, 2004-2010



The economic slowdown was largely caused by a drop in foreign inflows, including grants and foreign direct investment, as well as a falloff in private remittances—reflecting the economic troubles gripping the Middle East and North Africa (MENA) region. These factors had a particularly severe impact on economic activity in three major sectors—manufacturing, trade, and finance and business services. (Figure 3)

At the same time, while gross private investment increased by 3 percent in terms of GDP, gross government investment, government consumption and private consumption fell by a combined 7 percent of GDP year on year, highlighting the continuing economic and fiscal challenges facing Jordan.

Figure 3. Growth in major sectors (%), 2004-2010

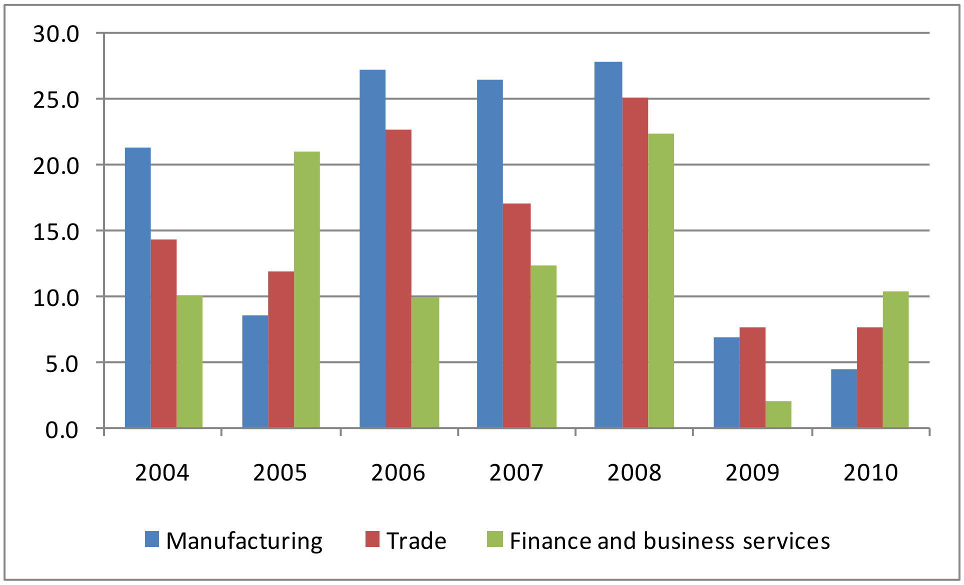
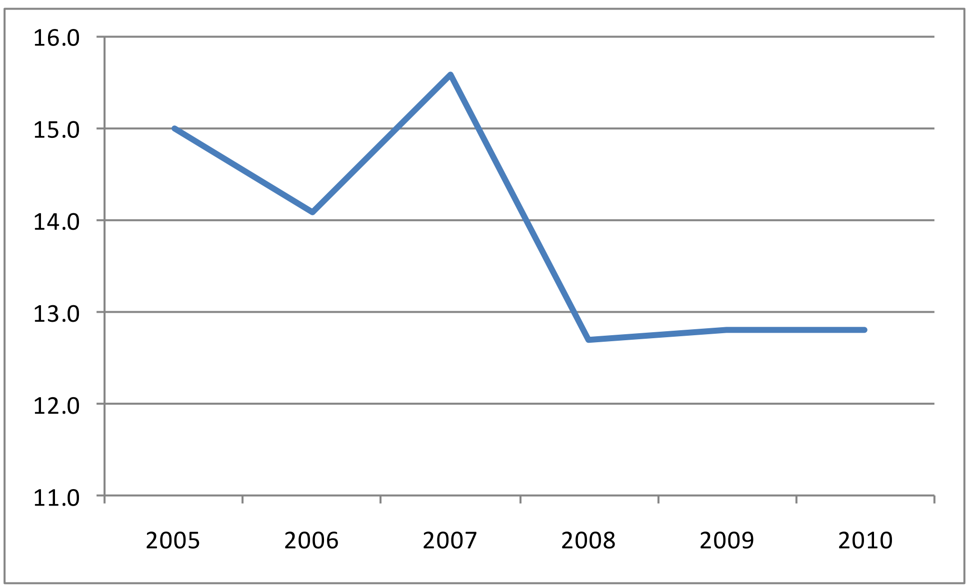


Figure 4. Unemployment rate (%), 2005-2010



In spite of these trends, other developments helped the Jordanian economy avert even grimmer outcomes. The unemployment rate, while at 13 percent still high, remained stable in spite of declining activity in major sectors. (Figure 4) Inflation fell from 14 to 5 percent between 2009 and 2010—in spite of higher international prices for food and fuel—thanks in large part to sound monetary management. The trade deficit narrowed to 17 percent of GDP, after hovering near 30 percent for several years. The current account deficit fell from 4.5 to just 1.0 percent of GDP. And, while Jordan's financial sector took a major hit in 2009, credit growth accelerated in 2010, reinforced by monetary easing and strong supervision and regulation of the sector.

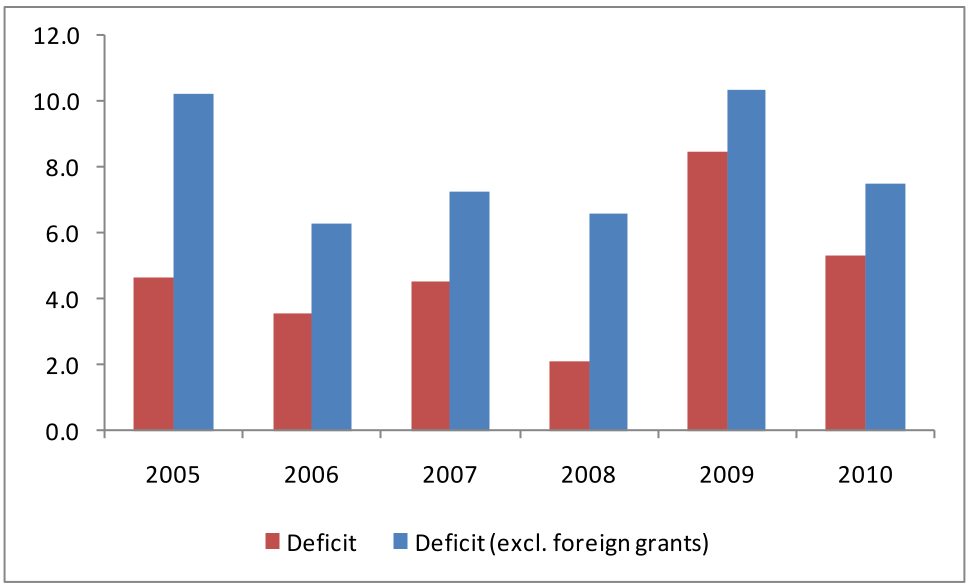
B. FISCAL DEVELOPMENTS

Economic conditions since 2008 have had a particularly severe impact on the fiscal landscape in Jordan. Pressures on the GOJ's fiscal position intensified in 2009 with a significant decline in both revenues and external grants, widening the budget deficit and increasing the Government's overall financing requirement. In 2009, the deficit soared to 8.5 percent of GDP, amid revenue shortfalls and a severe decline in domestic activity.

Committed to reducing the deficit without raising taxation, the Ministry of Finance took aggressive measures in 2010, adopting a fiscal consolidation plan that included rationalization of exemptions; containment of the public sector wage bill; reductions in capital expenditures; and phasing out of fuel and food subsidies.[1]

The policy proved successful. As Figure 5 shows, the overall fiscal deficit (including grants) declined by close to 3 percentage points of GDP, from 8.5 to 5.4 percent of GDP, mainly due to the sharp cuts in capital spending and a hiring freeze for civil servants.

Figure 5. Fiscal deficit (% of GDP), 2005-2010



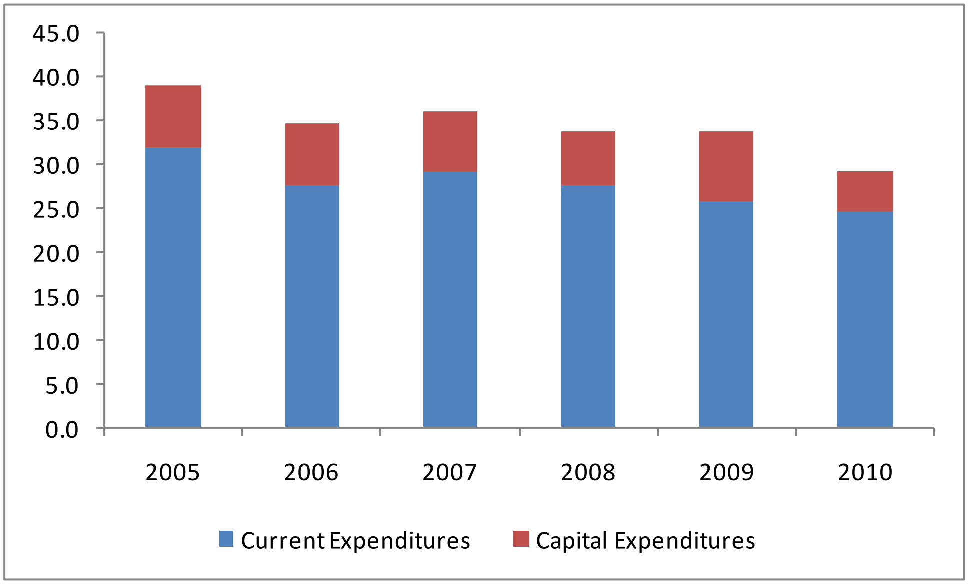
EXPENDITURE TRENDS

Figure 6 below illustrates the differing effects of spending cuts on both current and capital expenditures. From 2009 to 2010, current spending fell only 1 percent of GDP, and even rose by 5 percent in nominal terms. In contrast, capital spending was cut nearly 40 percent in nominal terms, falling from 8.1 percent to a mere 4.6 percent of GDP between 2009 and 2010. While not sufficient to fully close the budget gap,

[1] In January 2011, the Government reinstated some of these subsidies, approving measures to ease citizens' economic hardship at a total cost of 2.4 percent of GDP. These included: wage and pension increases; subsidies for basic foods; and a reduction in the fuel tax.

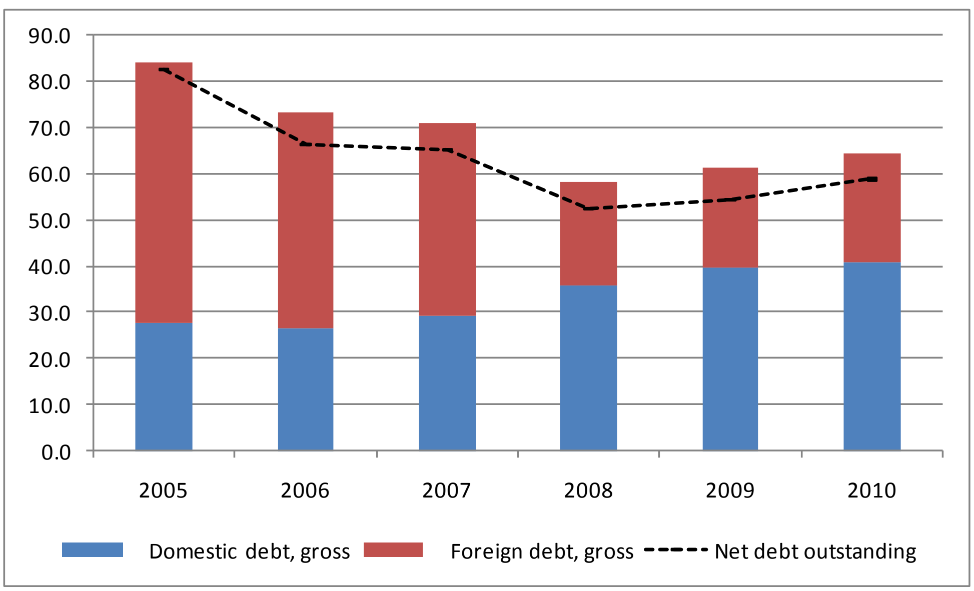
these cuts played an important role in reducing the deficit by nearly 3 percentage points of GDP in just a year's time.

Figure 6. Government expenditures (% of GDP), 2005-2010



Thanks to the fiscal consolidation measures, the public debt-to-GDP ratio rose only moderately, from 54 percent of GDP in 2009 to just under 59 percent of GDP at the end of 2010, keeping debt below the Government's legislated 60 percent of GDP debt ceiling.[2]

Figure 7. Total outstanding debt (% of GDP), 2005-2010



[2] Worth noting, the GOJ's gross debt climbed above 60 percent of GDP in 2009, and rose again to nearly 65 percent of GDP in 2010. (Figure 7) Yet, on a net basis, public debt at the end of 2010 was equal to only 58.8 percent of GDP—still below the 60 percent legal debt ceiling. The Public Debt Law is ambiguous on whether the debt ceiling is calculated using net or gross debt. MOF counterparts claim that the appropriate metric is *net* outstanding debt.

The sharp reversal in the proportion of foreign to domestic debt holdings, shown in Figure 7 below, was a similarly positive development—reflecting an explicit Government strategy to deepen domestic debt markets and reduce currency exposure.

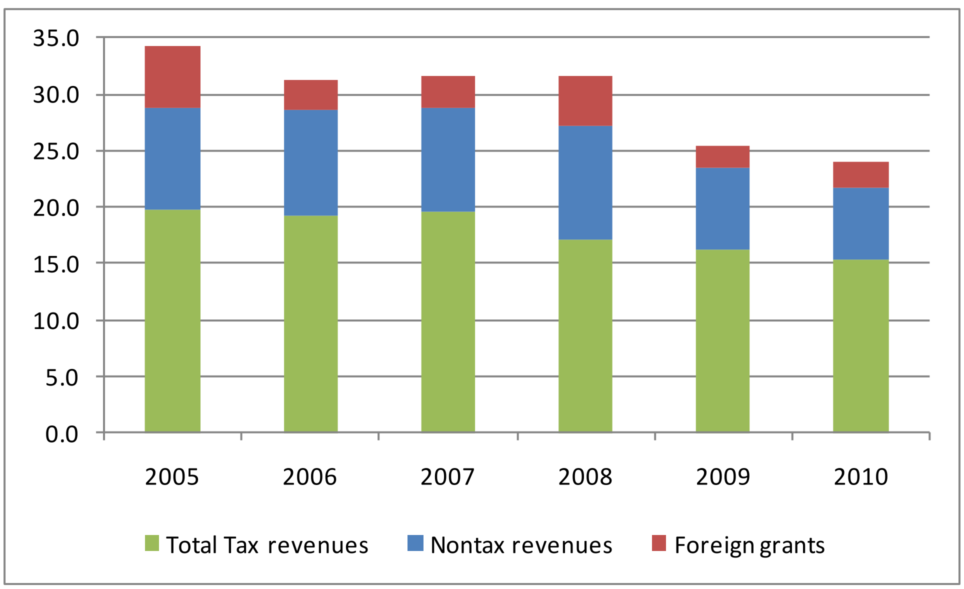
REVENUE PERFORMANCE

While the MOF's bold fiscal stance helped the Government narrow its deficit in 2010, challenges on the revenue side of the budget persist.

Figure 8 below illustrates the steep decline in GOJ revenues since 2007. In particular:

- Domestic revenues (excluding grants) fell from nearly 29 percent of GDP in 2007 to 23.5 percent of GDP in 2009, then to 21.8 percent of GDP in 2010.
- Grants dropped from over 4 percent of GDP in 2008 to just over 2 percent of GDP in both 2009 and 2010.
- Nontax revenues fell from 8.0 percent of GDP in 2008, to 7.2 percent of GDP in 2009, then fell again to 6.3 percent in 2010, thanks in part to a Council of Ministers decision in 2009 to temporarily reduce land and property registration fees by 50 percent.
- Tax revenues declined from nearly 20 percent of GDP in 2007 to 16 percent of GDP in 2009; the decline in tax revenues slowed in 2010, falling to 15.3 percent of GDP.

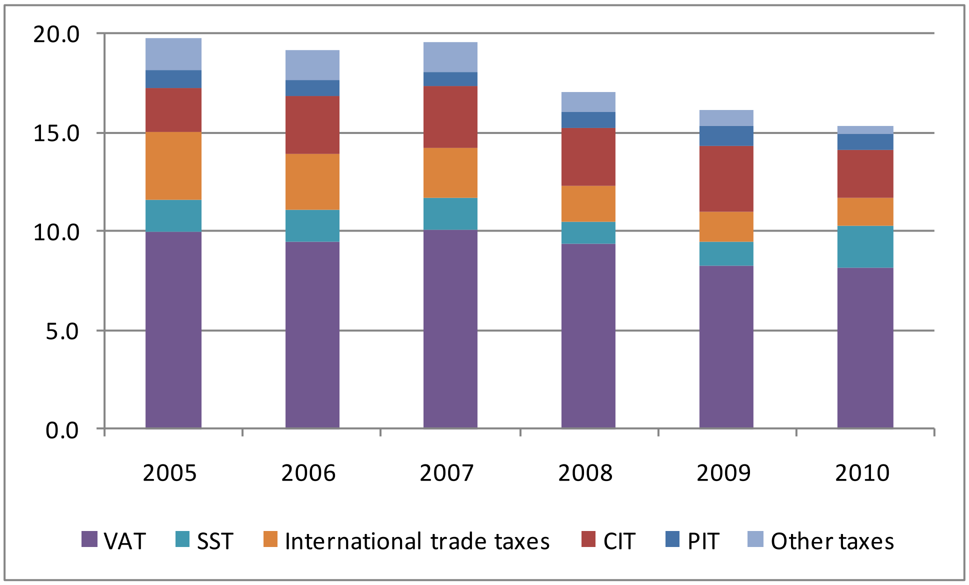
Figure 8. Government revenues (% of GDP), 2005-2010



To put Jordan's fiscal deterioration in perspective, total Government revenue fell by roughly 10 percent of GDP between 2005 and 2010—an amount equivalent to the GOJ's entire annual capital budget before the 2010 spending cuts.

Figure 9 shows the falloff in tax revenues between 2007 and 2010, by major tax type. Notably:

Figure 9. Tax revenues (% of GDP), by tax, 2007-2010

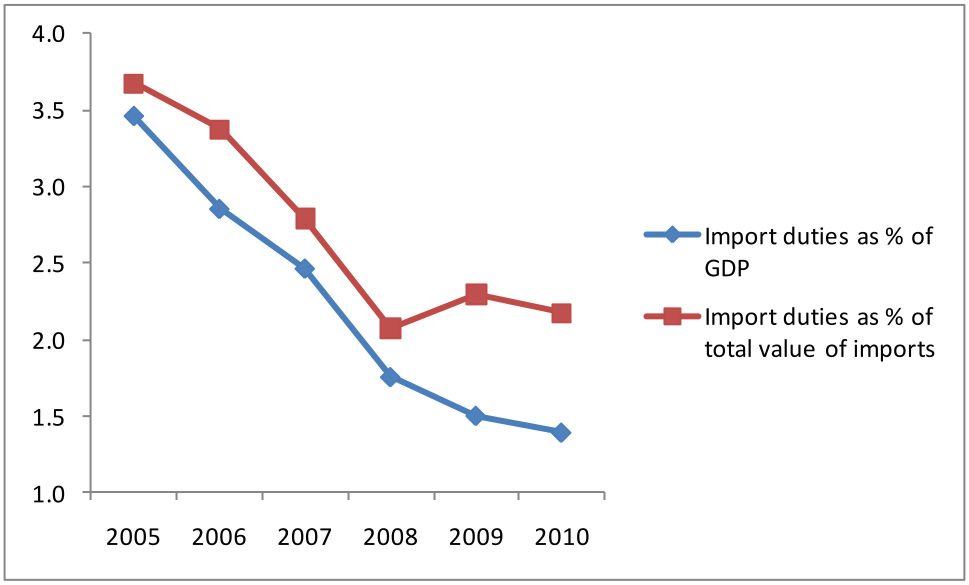


- Revenues from the general sales tax (GST), comprising value-added tax (VAT) and the special sales tax (SST), grew both in nominal terms and as a percentage of GDP from 2009 to 2010. The growth was modest, equivalent to 0.7 percent of GDP, and due mostly to a sharp increase in revenues from the SST, i.e., excise taxes levied on tobacco, alcohol, and various other items.
- Despite overall GST revenue performance, VAT collections dropped nearly 2 percent of GDP, from 10.1 to 8.2 percent of GDP, between 2007 and 2009; this was mainly the result of a steep decline in private consumption by households and individuals. VAT revenues declined only slightly in 2010, as consumption levels stabilized.
- Revenues from the corporate income tax (CIT) fell by nearly 1 percent of GDP, mainly due to a sharp decrease in company profits in 2010. The new (temporary) Income Tax Law of 2009 also eliminated certain tax reliefs and lowered marginal rates of taxation for corporations, but these provisions did not take effect until January 2011.[3]
- Revenues from the personal income tax (PIT) fell as well, albeit by only 0.2 percent of GDP, as the new Income Tax Law flattened the PIT rate schedule, lowered marginal tax rates to 7 and 14 percent, and raised the basic deduction for PIT to JD 12,000 per individual (JD 24,000 per family), effectively exempting 98 percent of the population from paying the tax. These provisions went into force on July 1, 2010, which may have saved the Government a steeper falloff in PIT revenues from 2009 to 2010.

[3] 2010 profits were calculated according to the old Income Tax Law.

- Revenues from the property transfer tax fell from 0.8 to 0.4 percent of GDP between 2007 and 2010, thanks in part to a temporary reduction of the standard tax rate, from 10 to 4.5 percent.
- International trade taxes declined by roughly 50 percent between 2007 and 2010, driven by a 17.7 percent real decline in domestic imports over that period, as well as a steady decline in duties on imports since the mid-2000s. Figure 10 shows the falloff in import duties, both in terms of GDP and relative to the total value of imports of goods and services.

Figure 10. Trends in import duties, 2005-2010

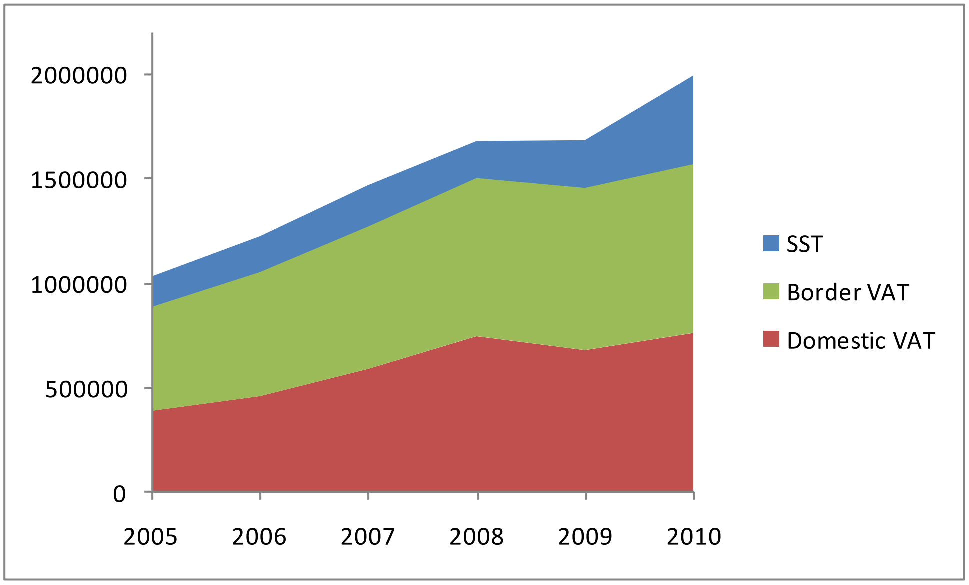


Trends in tax revenue performance were not *all* downward over this period. As mentioned above, revenues from the special sales tax, essentially excises levied on specific commodities, roughly doubled between 2008 and 2010, thanks in large part to increases in rates of SST on alcohol, tobacco products, gasoline and mobile phone calls—all part of policy measures designed to help close the fiscal deficit.

Also noteworthy, while VAT revenues from both domestic transactions and imports have fallen off considerably since 2007, collections appear to have stabilized in 2010, with particularly encouraging signs from domestic collections. From 2009 to 2010, domestic VAT collections rose 12 percent in nominal terms, and 0.1 percent in terms of GDP, compared to only 2 percent nominal growth on border VAT collections. The improvement in domestic VAT revenue performance is at least partially the result of enhanced efforts to collect the VAT by the Income and Sales Tax Department, one of FRP II's key counterpart agencies. Worth noting, domestic VAT revenues are now roughly equal to border VAT collections.[4] (Figure 11)

[4] It is difficult to establish the precise trends in border (Customs) collections, since we were unable to obtain revenue data that disaggregated the VAT revenues from the SST revenues collected by Customs.

Figure 11. GST revenues from domestic and international transactions, 2005-2010



C. IMPACT ON MEETING FRP II OBJECTIVES

Without a doubt, challenging economic and fiscal conditions have presented real challenges for achieving the Government of Jordan‘s policy objectives—and, by extension, FRP II‘s objectives. The National Agenda sets out ambitious targets to be achieved by 2017, including achieving real GDP growth of 7.2 percent per annum; reducing public debt to 36 percent of GDP; converting the fiscal deficit into a surplus; and reducing unemployment to 6.8 percent. While far-reaching results cannot be expected in the very first year of a development assistance program, important developments since FRP II began have complicated efforts to attain both GOJ and the project‘s own performance targets. In particular:

(1) **Economic conditions have taken a toll on Government revenue.** The large decline in household final consumption from 2008-09 seems to have had a particular impact on revenues from the value-added tax—the largest contributor to Government receipts in Jordan. As consumption levels stabilize and tax administration improves, VAT revenues should rebound. Yet ongoing economic troubles in many of Jordan‘s donor countries continue to affect the availability of foreign grants, on which the Government has historically depended to fill its spending gap. Chronic revenue shortfalls threaten the fiscal balance, not to mention the sustainability of Jordan‘s firm public debt stance.

(2) **New tax laws have simultaneously narrowed the tax base and lowered rates.** In an attempt to lessen the burden of taxation on Jordanian society, starting in 2010, the Government lowered marginal rates for corporate income tax (CIT) and flattened the personal income tax (PIT) from a five-rate regime with progressive rates from 5 to 25 percent, to a streamlined two-rate regime. Most notably, the new (temporary) Income Tax Law introduces a basic personal deduction of JD 12,000 per individual, or JD 24,000 per family—equivalent to roughly 8 times per capita GDP in the country.[5] Estimates suggest that less than 2 percent of the population will now be subject to

[5] Jordan‘s GDP per capita was approximately JD 3,000 in 2010.

the PIT, exempting the majority of Jordanians from the tax base and substantially reducing the potential for tax revenues. While broadly welcomed by taxpayers, these changes come at the expense of Government revenues.

(3) **Domestic pressures challenge Government efforts to restore fiscal balance.** The Government has done a laudable job in narrowing the fiscal deficit in 2010, and is set to reduce the gap even further in 2011. Yet challenges have intensified amid growing instability in the region, including regime change in Egypt and Tunisia and still-unfolding crises in Syria, Yemen and Libya. Responding to popular demands for economic relief, the Government of Jordan recently issued a series of budget supplements in 2010, and a new economic relief package in January 2011, containing measures ranging from wage and pension increases, to renewed subsidies for food and fuel. Such actions, while seen as politically necessary, complicate efforts to reduce the deficit and generate resource savings in the public sector.

(4) **The Government's focus on spending cuts in 2010 has compromised efforts to deepen "results-oriented budgeting."** In 2010, several line ministries submitted quality budgets yet had their spending requests slashed nonetheless. The cuts were arbitrary and across the board, affecting all GOJ agencies and aimed almost entirely at capital spending. Although every ministry had strategic plans and key performance targets, not one agency was asked to estimate the cost, in terms of reduced services and benefits that would result from these budget cuts. There was little if any consultation on how spending reductions would affect the construction of roads, the delivery of health care, or the smooth flow of goods across Jordan's borders.

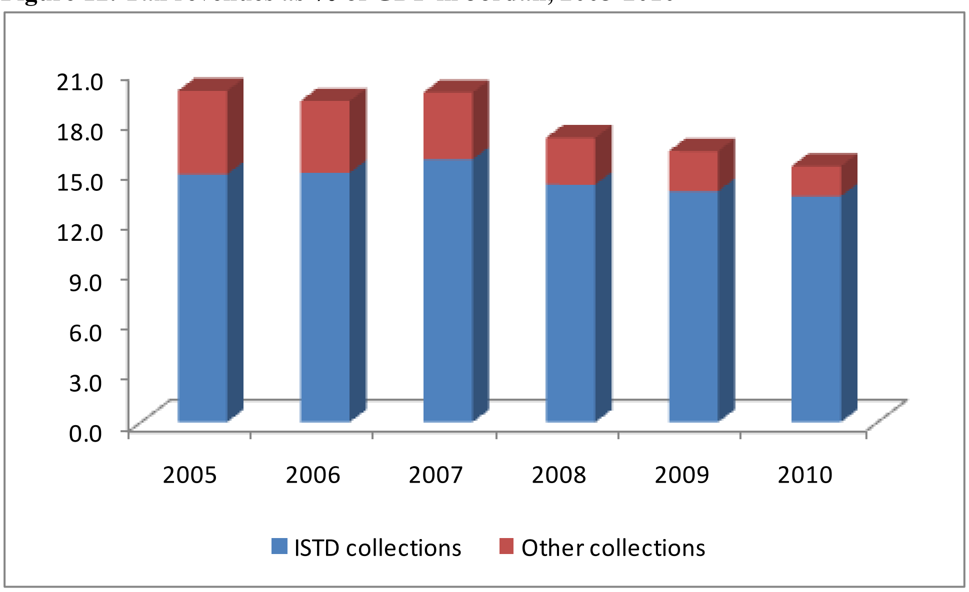
Notwithstanding the challenging economic and political factors, the Government of Jordan and FRP II have laid important foundations for progress. The sections that follow review progress and results to date by project objective.

III. ENHANCED TAX REVENUE MOBILIZATION

A. BACKGROUND

Challenging economic conditions since 2008 have put the Government of Jordan under considerable fiscal stress, even as the Government strives to meet Jordan's ambitious National Agenda goals. Nowhere has the pressure been more intense than at the Income and Sales Tax Department (ISTD), responsible for collecting more than 80 percent of the government's tax revenues. Revenue performance had been improving steadily from the time of the merger of income tax and sales tax departments in 2005. However, as Figure 12 shows, after 2007, the tax revenue-to-GDP ratio began to decline.[6] Between 2007 and 2009, ISTD collections fell from 15.7 percent to just 13.7 percent of GDP, in large part due to a sharp falloff in VAT collections. In 2010, ISTD collections fell again, but only by 0.2 percentage points, to 13.5 percent of GDP—in spite of the slow economic recovery, and in spite of the new (temporary) new Income Tax Law, which lowered CIT and PIT rates, flattened their rate schedules, and raised the PIT's tax-free threshold to a generous JD 12,000 per individual (JD 24,000 for families).[7]

Figure 12. Tax revenues as % of GDP in Jordan, 2005-2010



[6] "ISTD collections" reflect those taxes administered by the ISTD. "Other collections" is predominantly comprised of international trade taxes (administered by Jordan Customs), but also includes property transfer taxes (administered by Department of Lands and Surveys) and other minor taxes administered by assorted GOJ agencies.

[7] The Government passed amendments to the General Sales Tax Law in 2009, which also took effect in 2010, but these changes had less of an impact on the tax base that did the new Income Tax Law.

B. CREATING A MODERN, EFFECTIVE TAX ADMINISTRATION

Under pressure to shore up revenues and meet budgetary needs, ISTD took several steps in 2010 to expand its reach into the taxpayer population and raise tax compliance. Through a combination of technical guidance, training, and collaboration in developing new systems and methods, FRP II supported ISTD‘s vision of building a stronger, more modern tax administration—one that enforces the law, treats taxpayers fairly, and operates efficiently with minimum compliance costs.

Strong commitment and enthusiasm from ISTD leadership was critical in advancing this agenda. Early in 2010, ISTD and the FRP II team formed a Tax Revenue Mobilization Steering Committee, chaired by H.E. the Director General of ISTD, under which 12 working groups were created spanning tax administration processes from audit and collections, to taxpayer services, to communications and outreach. The working groups were designed to address ISTD needs hastened by the enactment of new income and sales tax legislation, and by operational weaknesses identified through a series of headquarters discussions, field office visits and detailed investigations conducted with FRP II assistance.

Simultaneously, ISTD and FRP II set to work to lay out an agenda for tax administration reform and modernization. In the project‘s first month, FRP II‘s Tax Revenue Mobilization Component Lead held nearly three dozen site visits and one-on-one sessions, both at ISTD Headquarters and at field offices, to understand the myriad issues, identify needs and determine priorities.

Another key step in this agenda-setting process was the preparation of a comprehensive Tax Benchmarking Study, an in-depth assessment of the structure, performance and productivity of the tax administration. Among its main conclusions, the study found that ISTD devoted a disproportionate amount of resources and attention to audit activity, at the expense of collection and compliance activities. As a result, collection units remain chronically understaffed, while compliant taxpayers are audited year after year.

Expected Results:

- Taxpayers understand their rights and obligations
- ISTD staff implement new laws
- More businesses register for tax
- Improved taxpayer services
- Strong IT, HR, and controls in the ISTD
- Increased quality, not quantity of audits
- Reduced stop filers / delinquents
- Market value basis for property assessments

The Benchmarking Study provided a clear roadmap for transforming tax administration, while at the same time highlighting the need for changes beyond ISTD itself, especially with respect to tax policy in Jordan.

REACHING OUT TO TAXPAYERS

Helping the ISTD communicate the implications of the new tax laws was one of the project‘s first priorities. With FRP II support, ISTD embarked on a strategic outreach effort, aimed at informing taxpayers about the new legislation. Working collaboratively, ISTD and FRP II developed and placed a series of advertisements in seven Jordanian newspapers. A total of 3,500 CD-Roms, containing the new laws, regulations and instructions were distributed to taxpayers, tax preparers and other ISTD ―clients" across the Kingdom. At the same time, targeted training was rolled out to ISTD employees to broaden and deepen their understanding of the changes.

In September 2010, FRP II helped the tax administration run a second information campaign, delivered through radio, television and newspaper ads targeted to individuals and businesses. The newspaper ads, sponsored by FRP II, were published in five local newspapers, receiving wide readership. The television and radio commercials were broadcast at no cost to the ISTD—saving the Government an estimated JD 50,000—thanks to government relationships with Jordanian media outlets. Estimates suggest that the campaign reached nearly 70 percent of the target audience, who were exposed to the campaign messages roughly once every five days.

As the project‘s first year came to a close, FRP II was helping ISTD leadership design and implement a large-scale outreach and communication campaign, to be implemented over the next two years, delivering messages that raise awareness of the tax laws, publicize the image of a modern and efficient ISTD, and highlight filing deadlines and other compliance issues. Collectively, these campaigns, activities and media spots are contributing to growing public awareness of the tax laws. Complementing these messages with concrete reforms to improve ISTD performance and customer service will be essential to fostering greater public acceptance of the benefits of complying with taxes.

Pictured: 2010 taxpayer awareness ad.

PURSUING STOP- AND NON-FILERS

Responding to one of the Tax Benchmarking study‘s key findings, in March 2010 ISTD collaborated with FRP II advisors to complete a careful review of the Department‘s stop-filer and non-filer programs. Historically subject to neglect, the identification of stop- and non-filers garnered new attention as a result of this review, which highlighted a large population of unregistered and inactive taxpayers with potentially vast revenue implications for the Government.

With FRP II support, ISTD‘s Non-Filer Committee designed a program using third-party data cross-checking to identify nearly 2,000 attorneys and medical professionals who were conducting business but not registered taxpayers. Using available information, the Committee initiated a 60-day pilot from May to July 2010, contacting 104 unregistered lawyers and physicians in West Amman. Very limited resources were devoted to this pilot, but the results were positive. After just one contact, one third of these non-filers came to the West Amman tax office to register and clear up their tax status.

The non-filer pilot helped ISTD achieve a main objective of its 2010-2014 Strategic Plan: namely, to raise performance in identifying and registering taxpayers. Also encouraging, the pilot resulted in JD 1,620 in additional collections for the Government—a small but important ―wi" for the ISTD. Emboldened by this initial success, the Department laid ambitious plans to scale up the pilot in 2011 to go nationwide, targeting not only lawyers and doctors, but also other professionals contributing to the high rate of non-compliance throughout Jordan. FRP II will pay very close attention to the scaling up of this activity and ensure that it is given adequate resources and attention from ISTD.

Complementing the non-filer effort was a new pilot activity to track and pursue stop-filers: registered taxpayers who may have been filing, but then stopped filing without notice. From May to November 2010, ISTD and FRP II identified a total of 1,062 potential GST, SST and Income Tax stop-filers. Plans to work these cases were laid in 2010, pending assignment of additional staff and resources to the Tax Compliance Directorate. In the meantime, ISTD began to address systemic problems at various tax offices that caused many active filers to be categorized mistakenly as stop-filers, laying the groundwork to roll out a national stop-filer program as part of a permanent Compliance Program.

To support these efforts, FRP II advisors helped ISTD counterparts develop manuals, training materials, and operating procedures to support stop- and non-filer management. Additionally, several ISTD instructors received training and then took the lead in delivering non-filer and stop-filer training to dozens of ISTD staff in the second half of 2010, part of broader plans to accelerate and expand the reach of the Department‘s Compliance Program in the coming years.

ADDRESSING TAX ARREARS

As with stop- and non-filer control, the 2010 Benchmarking Study also identified poor attention to tax arrears as a major source of revenue losses for the Government. Following up on this finding, ISTD and FRP II advisors conducted an in-depth review of the tax arrears program, identifying more than JD 1.5 billion in outstanding taxes owed to the Government—more than enough to eliminate Jordan‘s overall fiscal deficit. After careful analysis, approximately JD 400 million of these arrears was deemed to be ―collectible.” The remainder represented uncollectible amounts owed by defunct or bankrupt businesses, deceased individuals, and a diffuse population of taxpayers now residing outside Jordan.

Working in concert with FRP II, ISTD developed and began to implement a tax arrears action plan, including new methods to improve analysis of these arrears and the taxpayers who owe them. Responding to the plan, H.E. the Director General of ISTD issued a decision to reclassify tax arrears cases by value and age, pending legislation proposed by FRP II to allow ISTD to write-off bad debts and shift its attention to delinquent taxpayers who remain within their reach.

While the new tax arrears program has yet to bear significant results for Government collections, the analysis and decisions taken to date offer promise for the future. Driven in part by the fiscal challenges facing the GOJ, interest in tax arrears has grown rapidly, prompting requests from senior Government officials to ISTD to produce regular statistics on arrears trends.

At the same time, FRP II assistance has helped to strengthen cooperation between ISTD and the Ministry of Justice concerning tax arrears cases in the judiciary awaiting resolution. At one point in 2010, there were nearly 3,000 tax arrears appeals cases pending in the court system, with disputed amounts equal to more than JD 400 million. Greater inter-agency cooperation in the coming years—including joint training on tax legislation and greater information sharing—should bring resolution to many of these cases, resulting in collection of long overdue revenues for the Government.

PROMOTING BETTER BUT FEWER AUDITS

ISTD leadership has demonstrated similar commitment to modernizing its audit program. Progress on rolling out the Audit Tracking System (ATS)—the Department‘s new audit case management system—gained renewed momentum. Following an ATS study and recommendations prepared with support from FRP II advisors, H.E. the Director General issued internal instructions ordering ISTD Directorates to accelerate ATS deployment, starting with the Large Taxpayer Office (LTO) at ISTD Headquarters. FRP

II continues to assist ISTD counterparts in applying modifications to the system, based on auditors‘ feedback. As of this writing, all LTO auditors were trained to use the ATS, and the new system and related training were being extended to Medium Taxpayer Offices (MTOs) throughout Amman.

Once fully deployed, the ATS will allow auditors, audit managers, directors, and ISTD leadership to track and monitor actions being taken in audit cases as they occur. This will help to improve audit performance and oversight while reducing the opportunities for errors and discrepancies.

As ISTD management gradually turns its focus to modern risk management, the FRP II team is helping its counterparts develop and roll out training, manuals, and new methods to improve audit selection and productivity. If successful, ISTD‘s limited resources—which are now being used to a large degree on low-value, unproductive audits—could be applied more efficiently and effectively, helping the tax administration identify the greatest risks, enforce tax laws, and determine the correct taxes due, while at the same time rewarding compliant taxpayers by leaving them alone.

An encouraging sign was a recent ISTD decision, based on FRP II recommendations, to reduce the percentage of planned audits of Income Tax returns from 39 to 37.8 percent. While merely a small step—international standards suggest that just 1 - 5 percent of taxpayers should be subjected to audit—the move signals growing acceptance within ISTD that it is not the quantity, but the *quality* of audits that matters for raising tax compliance. FRP II will continue to work with the ISTD to reduce the percentage of planned audits to be more consistent with international standards.

EXPANDING THE CUSTOMER FOCUS

Several activities and initiatives completed during FRP II‘s first year helped ISTD leadership recognize and embrace the importance of taxpayer services and their role in improving performance, raising compliance, and ultimately collecting tax revenues.

In March 2010, for instance, FRP II helped ISTD convene a Customer Service workshop, bringing together front-line staff and seeking their recommendations to improve the tax administration‘s taxpayer services program. The approach—soliciting feedback from front-line employees—was unprecedented in ISTD‘s history. Among the workshop‘s key ―takeaways” was a solid recognition that customer service staff needed more systematic training, focusing on skills for communicating with taxpayers, delivering various taxpayer services, and understanding and advising on tax laws and regulations.

The March workshop was followed in July 2010 by a second workshop, for the first time providing a public forum for taxpayers to provide feedback to ISTD to enhance its customer services. Conducted under the patronage of H.E. the Minister of Finance, the workshop attracted more than 90 representatives from businesses and professional associations as well as ISTD senior leadership, and received media coverage from four television stations, six newspapers, and the Petra News Agency.

Inspired in part by the event‘s success, the Ministry of Finance, and subsequently the Customs Department as well, organized similar workshops for their customer bases. The ISTD, meanwhile, formed a special Customer Service Committee to review, prioritize and implement a number of the recommendations proposed by workshop participants. These have since been translated into standard trainings covering basic taxpayer services methods, communications skills for auditors and collectors, and telephone techniques for ISTD operators who regularly interact with the public.

With FRP II support, the ISTD has also developed new procedures to establish a ―one-stop shop” for taxpayer assistance, making services from tax registration and tax clearance to technical advice and assistance available at one ―window." All of these efforts are supportive of broader ISTD goals aimed at improving taxpayer relations and enhancing ISTD's image in the public domain.

FOSTERING SUSTAINABLE TRAINING

Complementing all the assistance described above and in the project's quarterly and monthly reports, FRP II's approach to building ISTD capacity has demonstrated the power of leveraging counterparts' ability to train and mentor, and provided a model for other project components to emulate. FRP II has used this methodology—engaging ISTD employees and managers in joint development, customization and delivery of all types of technical and administrative training—to cultivate expert training instructors from among ISTD's headquarters and field offices who are capable of leading, developing and disseminating new training on their own. Figure 13 illustrates the six steps that comprise the methodology.

A concrete example is Orientation Training for the King Abdullah II Award for Excellence in Government Performance and Transparency (KAA)—designed with FRP II support to raise awareness of the KAA and the role Government employees play in attaining the award. Since September 2010, managers from all ISTD offices have received and then delivered KAA orientation training to each of their respective offices. Nearly 700 ISTD employees were trained by their colleagues, and another 800 are slated to attend the training in 2011.

Figure 13. Cultivating in-house trainers at the ISTD

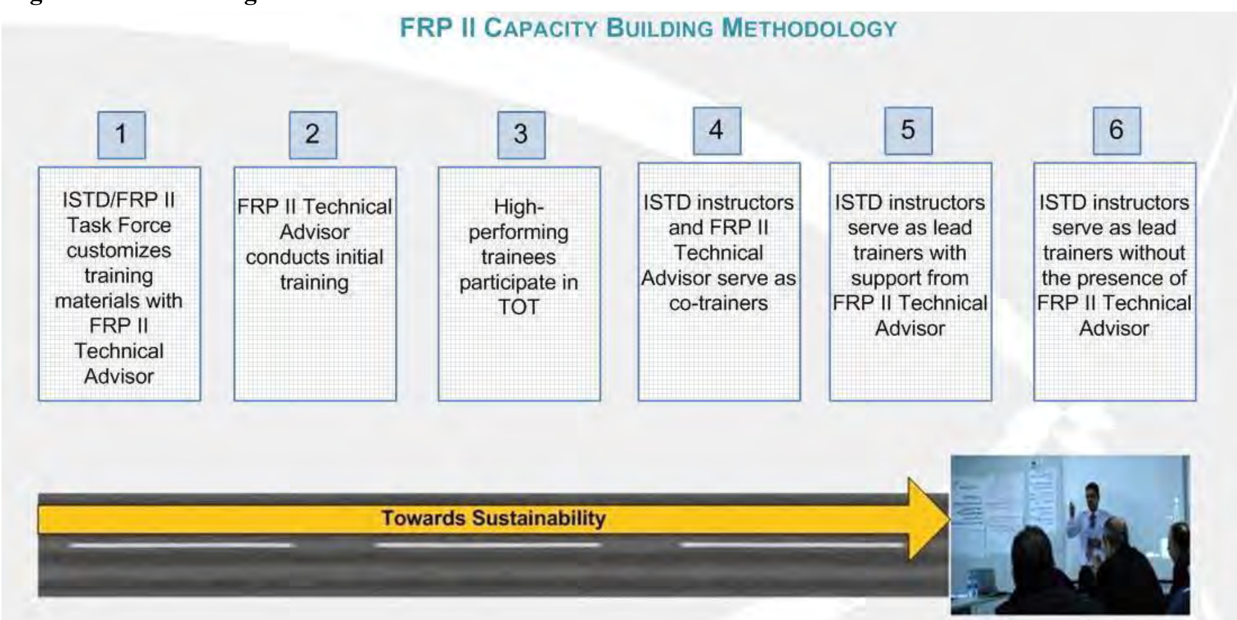


Photo: ISTD instructor leads Taxpayer Services training.

As of February 2011, 17 ISTD professionals from diverse parts of the organization had completed the expert instructors' program. This group now forms the core of a growing cadre of knowledgeable trainers who include a cross-section of headquarters and field operations staff; represent large, medium and small taxpayer offices; and, significantly, include both men and women.

Recognizing the impact of training on employee productivity and morale, support from ISTD leadership for a permanent training program has grown, whereas only a year ago there was little internal interest in sustainable training. Training modules developed during the first year with FRP II assistance are now 100 percent ISTD-led, supported by manuals and training materials enriched with practical cases from ISTD's own files, and available on CD-Rom and through the Department's knowledge management portal. Further demonstrating its commitment to capacity building, ISTD has jointly invested with FRP II in renovating and equipping five new training rooms, for the first time providing suitable on-site facilities for convening ISTD workshops, trainings and other learning events.

In the coming years, more effort will be required to align ISTD's capacity building program with its human resources management functions. Specifically, there is a need to define and systematize training curricula for entry-, mid-, and senior-level employees and managers; define career paths for staff in all ISTD operational areas; standardize succession planning to facilitate smooth transitions when staff leave or get promoted; and, set criteria against which to monitor, evaluate and reward staff performance. FRP II is helping ISTD explore these concerns in the project's second year.

C. IMPROVING COMPLIANCE – PRELIMINARY SIGNS

Despite economic conditions and a mounting fiscal deficit, there are early signs that the Government has managed to keep collections relatively stable while also laying foundations for potentially strong revenue recovery in the coming years. For instance, revenues from the general sales tax, the largest contributor to tax revenues in Jordan, grew both in nominal terms and as a percentage of GDP from 2009 to 2010. The growth was modest, equivalent to only 0.5 percent of GDP, and due mostly to a sharp increase in revenues from the special sales tax.

Yet revenues from the value-added tax (VAT)—which accounts for roughly 80 percent of overall GST collections, and represents the largest single contributor to tax revenues in Jordan—rose only modestly in nominal terms, and even fell slightly (from 8.2 to 8.1 percent) in terms of GDP. Applying USAID's tax system benchmarking methodology (see www.collectingtaxes.net/),[8] one actually sees that the GST ―Gross Compliance Rate" (GCR), a good indicator of a government's productivity in collecting the VAT, remained unchanged from 2009 to 2010, hovering at just under 67 percent of potential.[9] (Figure 14) On a positive note, Jordan's VAT Gross Compliance Rate did remain just slightly above the regional and international averages for this indicator—suggesting that the Jordanian Government performs about as good as the rest of the world in collecting the VAT.

The expectation is that GST compliance will gradually rise to pre-crisis levels as ISTD intensifies efforts to pursue stop-filers and non-filers, and as the Department improves audit productivity through better case selection and management.

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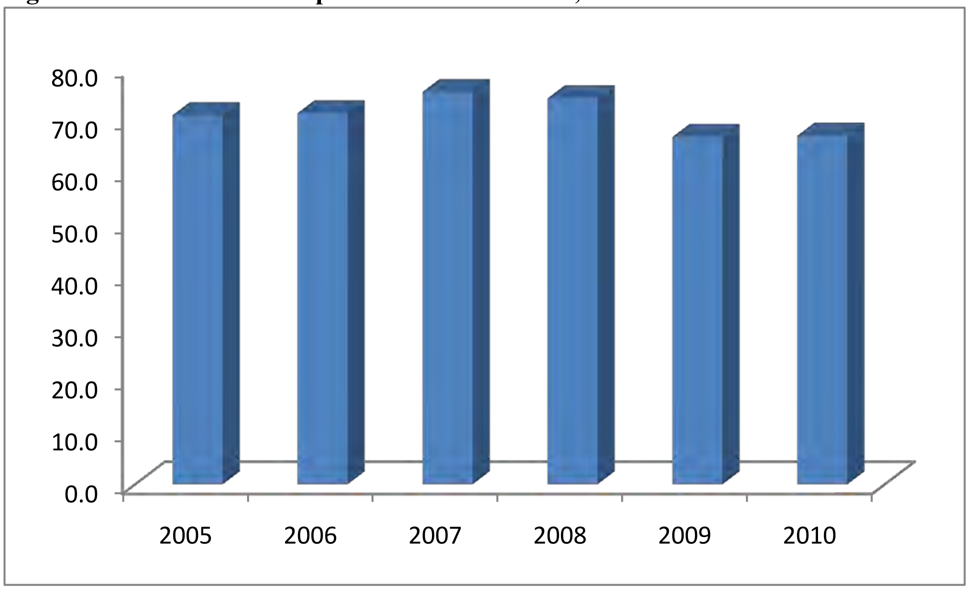
[8] The Collecting Taxes comparative data system examines national tax systems from many perspectives, including in terms of revenue productivity. Tax revenue productivity measures a country's performance in collecting revenues from a particular tax, taking into account the specific features of that tax in that country. For more information, see USAID-FRP II (2010), *Benchmarking the Tax System in Jordan*.

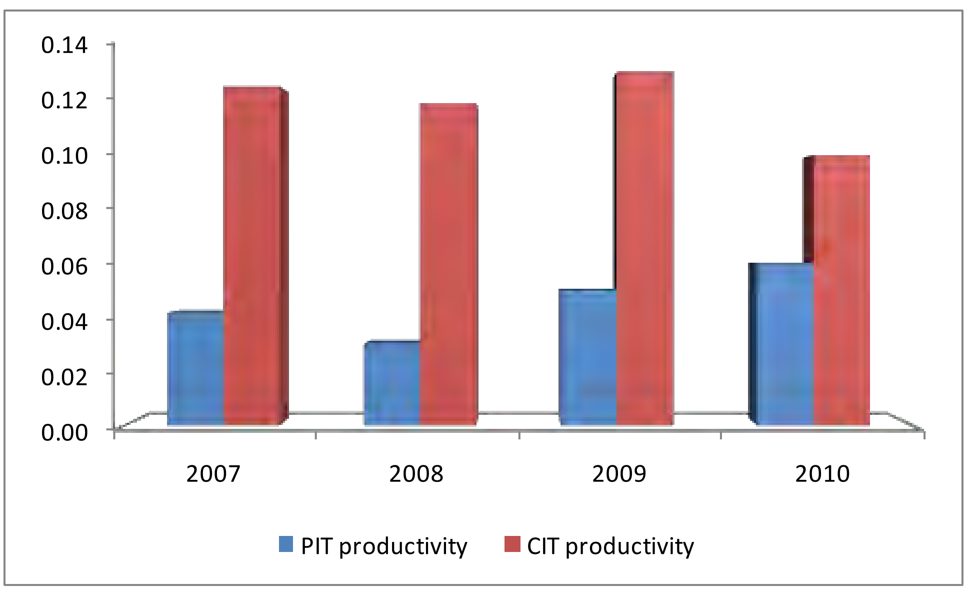
[9] The VAT gross compliance rate is a measure of how well the VAT produces revenue for the government. VAT GCR is calculated as net VAT collections divided by potential VAT collections, expressed as a percentage. Only private (household final) consumption is included in potential VAT collections, since VAT is generally only applied to final consumption by households and individuals.

Figure 14. VAT Gross Compliance Rate in Jordan, 2005-2010



Income tax performance, meanwhile, was mixed. On the one hand, as Figure 15 shows, CIT collections and revenue productivity both declined in 2010, due not only to weak economic activity, but also to policy changes introduced in the temporary Income Tax Law.

Figure 15. Revenue productivity from the income tax, 2007-2010



Yet on the other hand, revenues from the personal income tax, though dropping JD 25 million (or 0.2 percent of GDP) between 2009 and 2010, fell by less than expected given the rate cuts and the generous allowances introduced in the new legislation. In fact, as Figure 15 shows, PIT revenue productivity actually rose in 2010, from 0.05 to 0.07, bringing Jordan on par with its regional neighbors on this particular indicator.[10]

This trend may be illusory, however, since the PIT provisions in the new law did not take effect until the middle of the year. It remains to be seen how revenue performance will respond to the new legislation in 2011, its first full year in force. With approximately 98 percent of the tax base exempted from personal income tax as a result of the change in the tax-free threshold, unless the ISTD accelerates implementation of its stop- and non-filer programs in 2011—with concerted attention to the large population of unregistered Jordanian professionals—the prospects for a rebound in PIT collections appear slim.

D. EASING THE COMPLIANCE BURDEN

Fostering a business- and ―citizen-friendly" tax system requires a combination of sound tax policies and a modern, efficient tax administration that enforces the law, treats taxpayers with dignity, and operates with minimum compliance costs. Providing simple and straightforward procedures to help taxpayers meet their tax requirements is particularly important for promoting expansion and growth of small businesses, which typically face disproportionate burdens from complex rules and compliance requirements.

Recognizing the impact that compliance burdens place on taxpayers of all shapes and sizes, FRP II has worked since its inception with the MOF and ISTD to better understand taxpayer concerns, increase voluntary compliance, and minimize tax evasion by making it fairer and easier to pay tax.

UNDERSTANDING TAXPAYER PERCEPTIONS

During FRP II's first year, the project helped ISTD conduct a study to understand perceptions and attitudes with respect to taxes and the tax administration in Jordan. Through focus groups and in-depth interviews, the study provided valuable insights into how taxpayers feel about the tax system, and why they behave as they do.

Study participants expressed resentment, for instance, at the randomness of tax audits, and the tendency for auditors to over-assess taxes arbitrarily. Such practices create unnecessary burdens and disruption for many taxpayers, and create distrust in the tax system and in Government. Furthermore, study participants expressed a common sentiment that there is little relationship between the taxes they pay and the benefits they receive.

With FRP II support, ISTD is completing a taxpayer compliance cost study, based on a survey of 1,000 firms and tax agents, to be published in the first half of 2011. This will be the first study of its kind in Jordan, and will likely shed new light on the burdens that taxpayers confront in meeting their tax obligations. It is also significant that the ISTD has taken an active interest in this exercise. With FRP II, ISTD senior managers formed a taxpayer compliance cost committee to develop the survey objectives, establish the methodology, and design the survey questionnaire. Once the study is completed, ISTD and

[10] The PIT revenue productivity indicator measures how well the personal income tax in a country does in terms of producing revenue for the government. It is calculated by taking the actual PIT revenue collected as a percentage of GDP, divided by the weighted average PIT rate. The weighted average PIT rate is the weighted average of the lowest and highest marginal PIT rates, given the income level at which each rate kicks in. For all countries, the PITPROD indicator falls between 0 and 1.

FRP II will jointly convene a public forum to present and discuss the study's findings—demonstrating the Department's growing commitment to understanding and addressing the costs its customers face in dealing with the tax system.

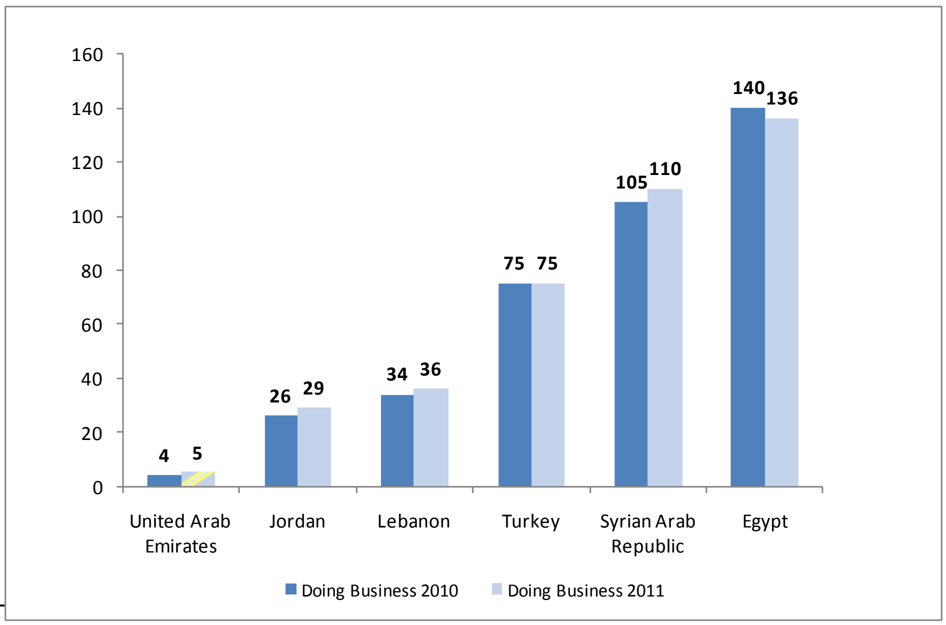
THE "DOING BUSINESS" PERSPECTIVE

The World Bank's Doing Business Project has attracted wide attention with its annual *Doing Business* report, assessing the ease of doing business across countries, including in terms of reporting and paying taxes. While not without its flaws, the ―Paying Taxes" survey provides a useful reference point for examining the burdens that businesses face from one country to the next in complying with tax laws.

To its credit, Jordan ranked an impressive 29th out of 183 countries in 2010 in terms of ease of paying taxes, remaining both regionally and internationally competitive in the survey. In fact, in the Middle East, Jordan continues to rank second, bested only by the United Arab Emirates, an oil-rich country with a very lean tax regime.

Still, as Figure 16 shows, Jordan fell three places in the global rankings from 2009 to 2010. This development reflects two basic factors: First, based on the ―Paying Taxes" methodology, Jordan did not introduce any concrete measures to reduce the administrative requirements for tax compliance. And, second, at least three other countries did see reductions in their compliance burdens, helping them to move up the rankings this year, while pushing Jordan down several places in the process.[11]

Figure 16. Ease of Paying Taxes: Jordan falls in the rankings



[11] See *Doing Business'* Paying Taxes site at: http://www.doingbusiness.org/ExploreTopics/PayingTaxes/. The survey includes two indicators of administrative burden:

- The total number of tax payments per year; and
- The time it takes to prepare, file and pay (or with-hold) the corporate income tax, the value-added tax and social security contributions (in hours per year).

It also measures the total tax rate, as a percentage of profit, that a hypothetical business faces from the main taxes and fees it must pay on a regular basis.

On a promising note, Jordan should see a marked improvement on the next Paying Taxes survey. With the introduction of the temporary income tax law of December 2009, three other laws, including those on the Social Services Tax and the Education and Vocational Training Fund, were repealed. These changes, however, did not take full effect until January 2011. It is expected, therefore, that the *Doing Business 2012* study will reflect the reduction in tax burden brought about by these legislative changes—not to mention the reduced burden resulting from the lowering of CIT and PIT rates..

E. EXPANDING THE TAX BASE

A core concern of FRP II activity is to help the Government of Jordan expand the tax base through stronger, more modern tax administration.

Unfortunately, efforts to expand the tax base and bring more businesses into the tax net have yet to bear significant results. While at the end of 2009, the ISTD had over 80,000 ―active" businesses in its taxpayer database, as of March 2011, there were only 72,456 active taxpayers on record, including 45,654 companies (with employees) and 26,802 individuals (without employees). This means, in effect, that there are only 48 active taxpayers per ISTD tax staff—down from 53 taxpayers per tax staff in 2009—still among the lowest ratios for this indicator in the entire world.

FRP II tax administration advisors have suggested that this shrinking of the taxpaying population was more the result of efforts to clean up the ISTD's database—eliminating thousands of taxpayers who are legally no longer required to file—than an indication of any significant deterioration in the ISTD's actual tax base. Once the database cleansing process is completed and a strong compliance program implemented, it is anticipated that the tax base, and ultimately tax compliance, will grow substantially in the coming years.

F. DEEPENING REFORM AND MODERNIZATION IN 2011

In 2011, FRP II looks to help the Government of Jordan build on foundations laid in the project's first year, setting in motion a robust compliance program, enhancing customer service, and strengthening revenue collection while lowering compliance costs. Several developments offer promise for deepening of reform efforts.

Underscoring the Government's commitment to change, H.E. the Minister of Finance, Dr. Abu Hammour, and H.E. the Director General for ISTD, Mr. Mousa Al-Mawazreh, have both fully endorsed a comprehensive tax administration reform program, developed in partnership with FRP II. In Year 2, FRP II is supporting the Government's commitment to reform and modernization by sustaining and accelerating in areas ranging from better engagement with taxpayers, to identifying non-filers and stop-filers, to employing smart risk criteria in conducting taxpayer audits.

With FRP II support, ISTD has completed and approved a far-reaching IT Strategic Plan for the entire organization. The plan envisions a future of automated processes, secure data systems, broader informational requirements, and an IT infrastructure capable of supporting current business processes and future expansion. Several new state-of-the-art servers and additional hardware and software procured with

FRP II support will soon give the tax administration powerful tools for managing and monitoring information in ―real time,” enabling better decision making, better customer service, and quicker response to risks.

The MOF has also shown interest in revisiting the income tax law to bring the legal framework more in line with international best practices. In 2010, FRP II provided several recommendations to strengthen the law by adding articles addressing mergers and acquisitions, transfer pricing, and small business (e.g., accelerated depreciation of fixed assets). The project has also supported critical analysis to identify policy options that can enhance tax revenue mobilization. For instance, a recent FRP II analysis estimated ―tax expenditures,” or Government revenues foregone due to tax exemptions, tax holidays, and other tax reliefs, to equal 22 percent of GDP—roughly equivalent to Jordan‘s entire public sector revenues (excluding grants) in 2010. H.E. the Minister of Finance continues to meet with USAID and project advisors regularly to discuss these and broader policy concerns, yet decisions on most of these tax proposals remain to be taken.

Finally, there has been certain progress toward improving and modernizing the property tax system. In the project‘s first year, FRP II consultants undertook a series of assessments to determine the Government‘s readiness for improvements in property tax policy and administration. The current dual system of taxing property—first at transfer, then again through annual assessments—is insufficiently harmonized and, due to the high rates, incentivizes evasion. The MOF has produced draft legislation that introduces important changes: in particular, establishing market (capital) value as the sole basis for valuation of land and structures, and unifying the annual taxes on property, sewerage and education. However, the legislation‘s lack of conceptual clarity on a number of key issues threatens to halt its progress if brought before Parliament. As such, in 2011, FRP II is working with a team of senior officials from the Ministry of Finance, Ministry of Municipalities, Department of Lands and Survey (DLS), and Greater Amman Municipality (GAM) to help counterparts forge consensus on issues from the tax base and rate(s), to the specific approach to appraisals, to exemptions and revaluations. FRP II anticipates producing a revised draft law that reflects the will of all relevant counterparts within the Government of Jordan, to be ready for presentation to Parliament.

In addition FRP II is working on property tax valuation improvements, notably researching the potential for a Computer-Assisted Mass Appraisal (CAMA) model to more frequently and fairly estimate property values. A key precursor to this in 2011 will be a sales-assessment ratio survey, aimed at giving the Government an independent check on the quality of their assessments and providing a reliable data set to inform the CAMA. Complementing these efforts, FRP II has conducted capacity building for officials from MOF, DLS and GAM in principles and techniques underlying CAMA models along with basic statistics. Additionally, a pilot CAMA has been developed for Irbid.

IV. COST-SAVINGS THROUGH SOUND MOF POLICY ANALYSIS

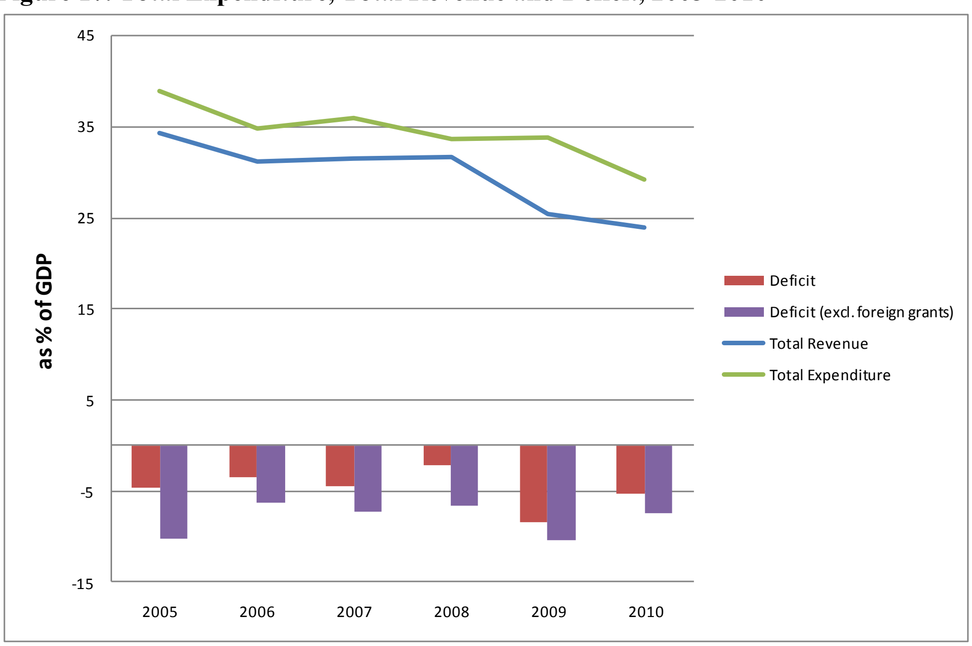
A. BACKGROUND

In the midst of an economic slowdown that has widened the fiscal deficit and intensified a host of domestic pressures, the Ministry of Finance faces the challenge of implementing policies that restore growth, foster macroeconomic stability, respond to citizens‘ demands, and address the needs of Jordan‘s most vulnerable groups—all while containing costs. Managing this balancing act requires sound analysis of policy options to ensure more informed and cost-effective decisions on the use of public resources.

Despite economic and political pressures, the MOF has enjoyed relative stability and consistency in its leadership since FRP II assistance began in late 2009. First appointed in December 2009, H.E. the Minister of Finance, Dr. Abu Hammour, was asked to continue in this role even after the Cabinet was dismissed and a new government formed in February 2011. Indeed, in recognition of his commitment to rational, growth-oriented policies, in April 2011 Dr. Abu Hammour was named ―Best Minister of Finance in the Middle East and North Africa" by UK-based *Banker Magazine*.

Error! Reference source not found. illustrates the results of H.E. the Minister of Finance‘s efforts to rationalize spending and reduce the deficit in 2010. Unfortunately, efforts to increase revenue collections have not yet borne fruit, largely due to the economic downturn that has affected consumption, trade and incomes

Figure 17. Total Expenditure, Total Revenue and Deficit, 2005-2010



countrywide.

FRP II Expected Results:

- Sustained budget savings from improved policy analysis
- MOF producing in-house, polished policy analyses
- Improved management of public and external debt
- Improved government budget oversight and analysis
- Number of direct reports to the Minister of Finance reduced
- Units consolidated to enhance efficiency, improve coordination, and optimize the use of resources
- Core operations (treasury, accounting, human resources management, etc.) strengthened
- Use and application of IT within the MOF strengthened
- Internal controls in the MOF strengthened
- MOF administration improved

Despite the acute challenges confronting Jordan, FRP II has worked closely with Jordanian counterparts in the Ministry of Finance to improve policy analysis, promote sound policy decisions, and achieve resource savings across Government, all while building sustainable MOF capacity to drive the policy-setting agenda in the future. Project assistance to date has focused primarily on three targets: the Studies and Economic Policy Department (SEPD), the nexus for policy research, analysis and planning in the MOF; the Public Debt Directorate (PDD), the unit responsible for public debt policy and management; and, the MOF Training Center, which plays an integral role in shaping and developing the MOF‘s human talent.

B. SUPPORTING JOINT ANALYSES

The MOF‘s Studies and Economic Policy Department was created in 2000, designed to produce objective analysis of economic and fiscal policy options and their impact. As conceived, the SEPD was to have the staff and capacity to provide analysis on topics ranging from the macro economy, trade, and tax and spending programs, to labor, employment and any other economic policy concerns on which the Minister or the Government might need guidance.

Faced with a high turnover rate and a hiring freeze, the SEPD has struggled to carry out its mandate for rigorous policy analysis. To supplement the capacity of its seven existing analysts, FRP II provided three interns in the project‘s first year to support the Department‘s analytic work.

In addition to sponsoring interns, FRP II assistance has taken two main forms; first, SEPD and FRP II work jointly on policy analysis for the Minister of Finance, helping to build practical, on-the-job skills; and second, FRP II advisors build SEPD staff analytic capabilities through targeted training activities.

During the first year, six reports and policy papers were drafted with support from FRP II. These include a paper on VAT exemptions, a fiscal decentralization policy paper, a delegation of authority report, and three fiscal monitoring reports drafted with SEPD analysts. While early collaboration has been positive, FRP II is committed to continuing its work with SEPD, transforming the department into a proactive source for policy analysis on which the Minister of Finance and other senior decision makers can rely.

VAT EXEMPTIONS FOR ESSENTIAL FOODSTUFFS

In mid-2010, H.E. the Minister of Finance approached FRP II to examine VAT exemptions for 13 essential foodstuffs that had been in place since 2008. Facing an unprecedented rise in prices of basic foods that year, the MOF justified these exemptions as an attempt to minimize the effect of mounting pressure on the ―wallets” of Jordanian families. Two years later, with food prices down substantially from their 2008 peak and prices relatively stable, the Ministry sought to determine the effect of continuing these exemptions, versus reinstating VAT and customs duties on the 13 items.

Working with an SEPD analyst, FRP II advisors conducted a study on the fiscal burden and social implications of the exemption policy and provided the Minister with recommendations. The study found that, since 2008, VAT exemptions for these 13 foodstuffs resulted in a loss of over JD 113 million in tax and customs revenues for the Government. The Minister accepted the findings, which have subsequently contributed to policy discussions among senior Government officials. Ultimately, many of the recommendations put forth in the study have been enacted: only two of the exemptions on food items have been canceled, consistent with the study‘s recommendations; and an increase in SST on mobile phone cards, cigarettes and alcohol was introduced. Increasing SST on these items has a greater positive impact on revenue, while allowing the Government to continue exemptions on food items that have an impact on Jordanian families‘ well-being.

FISCAL DECENTRALIZATION WHITE PAPER

With FRP II support, another SEPD analyst traveled to Georgia State University in Atlanta to participate in training on fiscal policy, public financial management, fiscal decentralization and local governance. Following a month of in-class training, the analyst worked closely with world-class advisors at the university to draft an in-depth policy paper on options for fiscal decentralization in Jordan. This ―white paper” is the first such paper to lay out an agenda for rationalizing the intergovernmental fiscal system in the Kingdom.

DELEGATION OF AUTHORITY

FRP II carried out a Functional, Institutional and Organizational Review of the Ministry of Finance, and found, among other conclusions, that H.E. the Minister spends much of his time addressing administrative duties, limiting his ability to focus on critical policy concerns. Chief among these was time spent processing and responding to routine mail from MOF departments. FRP II advisors, including legal advisors, worked with MOF staff to recommend procedural changes enabling the Minister to delegate authority to Jordan Customs and the Department of Lands and Survey. Accepted by the Minister and pending Cabinet approval, this delegation of authority will reduce the Minister‘s mail by 70 percent.

C. FOSTERING BETTER MACROECONOMIC MODELING AND REVENUE FORECASTING

The MOF has developed and annually updates a Medium-Term Fiscal Framework (MTFF) that links the Government‘s policy priorities with fiscal targets and projections. While the MTFF was constructed with nearly a dozen tools and models to support policy analysis and forecasting, FRP II discovered that SEPD staff who manage the MTFF were actively using only three of these tools: a macroeconomic structural model, an annual revenue forecasting model, and a monthly revenue estimation model.

FRP II advisors determined that these tools—in particular the macroeconomic model—were inadequate, and that the data set informing model outputs was incomplete and full of inconsistencies. This assessment formed an important basis for FRP II‘s work with the SEPD during the project‘s first year, in which technical assistance focused on building stronger foundations for data gathering, modeling, and fiscal forecasting.

Embedded within the SEPD office, FRP II advisors have worked closely with SEPD staff to better equip them to develop and use models and revenue forecasting tools. Through this process, SEPD staff are gaining confidence in the accuracy of the model inputs and, in turn, the accuracy of their outputs. In the future, better data and a more detailed MTFF reporting format will make MTFF reports more useful for policy analysis and macro-fiscal planning. The process and progress to date of ensuring more accurate reports is described in the sections below.

ENHANCING DATA QUALITY AND UNDERSTANDING OF ECONOMIC RELATIONSHIPS

As FRP II advisors began to review the models used by the MOF, accuracy of the database used to inform model outputs was called into question. A comprehensive review of the databases was undertaken by FRP II advisors and SEPD staff, and has ultimately resulted in an improved data set. The new data set reconciles data across sectors for a period spanning 1990 – 2010, including both annual and quarterly figures. Previous data included only annual observations. Data are organized into six sectors: real sector, prices, labor, money and banking, government, and external sector (balance of payments data). The data set consolidates data from three main sources: the Central Bank of Jordan‘s statistical bulletins, the MOF‘s Central Government Finance Bulletins, and Jordan‘s Department of Statistics. This consolidation and reconciliation process has cultivated new understanding among SEPD staff about inter-sectoral linkages in the economy.

Equipped with an improved data set, FRP II advisors and SEPD staff have moved on to constructing a macroeconomic model capable of forecasting output, national expenditure accounts, balance of payments accounts, and monetary and government accounts.

IMPROVED MACROECONOMIC MODELS

An initial FRP II assessment found the macroeconomic model, used for nearly all SEPD forecasting exercises, inadequate and often inaccurate. Working collaboratively with SEPD staff, FRP II advisors began the process of constructing a new macroeconomic model, with an emphasis throughout the process of building SEPD staff capacity. Analysts learned modeling techniques by building versions of macro models, working closely with experienced FRP II modeling experts.

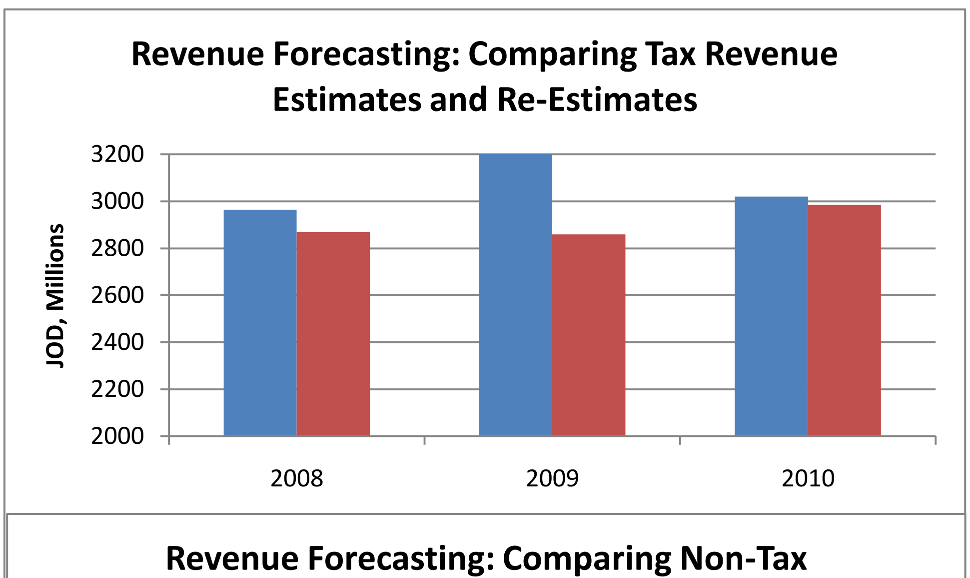
The first version of the new model is subdivided into six blocks, or sub-models, corresponding to the six sectors described above. Each block is composed of several identities and behavioral equations that, at once, describe the intra-sectoral relationships and, at the same time, explain the behavior of the main macroeconomic variables based on economic theory and factors specific to the economy of Jordan. FRP II advisors assigned each SEPD staff a sector and then worked with those staff to build their familiarity with the data, the equations, estimation outcomes and interrelationships among the variables of interest. Following that first version of the new model, several iterations were produced, incorporating improvements to the input data and equation specifications, while maintaining the overall structure of the first version. These iterations have, in turn, resulted in the introduction of a more robust model, both in terms of data inputs and estimation outputs.

Following a recent modeling workshop, SEPD analysts were tasked with writing policy briefs for different scenarios based upon results yielded using the new macro model. This practice is preparing analysts to use the macro model to generate better policy analysis.

IMPROVING REVENUE AND SECTORAL FORECASTS

The MTFF relies upon detailed forward forecasts of fiscal and economic trends in Jordan. Historically, forecasting has been plagued by inaccuracy. To demonstrate this fact, Figure 18 and Figure 19 depict the extent of imprecision in projecting tax and non-tax revenues, respectively, over the last three years. In 2009, for instance, the MOF underestimated tax revenues by 12 percent; and in 2008, the Ministry underestimated non-tax revenues by 33 percent—the most extreme examples of forecasting inaccuracy in recent years.

Figure 18. Tax revenues: estimates vs. re-estimates



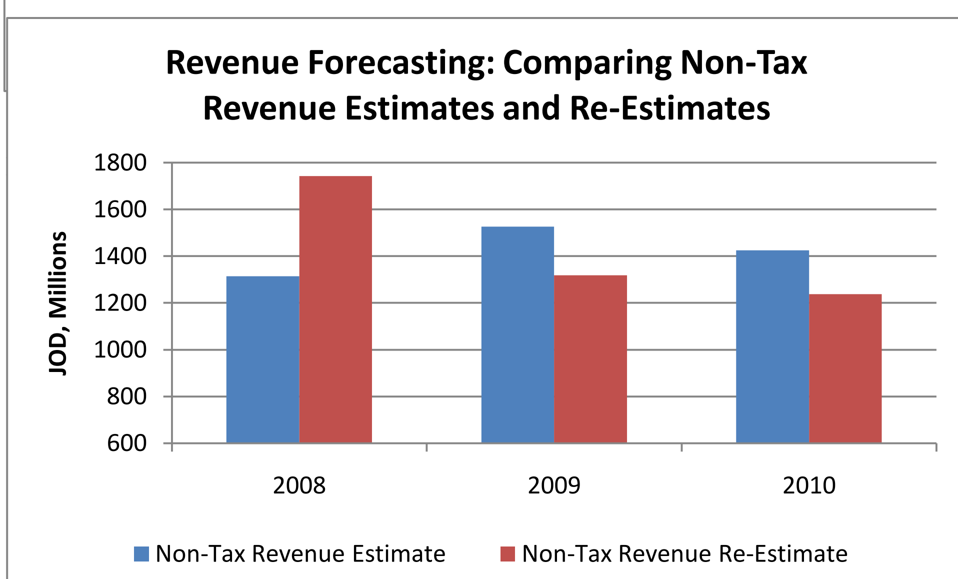


Figure 18 seems to indicate that tax revenue estimates were improving in 2010: the 2010 re-estimate is only 1 percent less than the original estimate for the year's tax collections. It is worth noting, however, that a budget supplement in 2010 included JD 105 million in additional tax revenue. If it were not for this supplement, the re-estimate would have come in 4.6 percent lower than the estimate. In short, revenue forecasting remains problematic.

During the first year and beyond, FRP II and SEPD staff have worked together to build the foundations for improved revenue forecasting, by developing and maintaining a more accurate and comprehensive dataset, and by applying better macroeconomic models.

The current version of the model is a basic macro-fiscal forecasting tool, utilizing a number of simple behavioral equations to generate predictions of standard macroeconomic aggregates, by quarter. The model generates initial predictions for GDP, revenue and expenditure lines, household consumption, government consumption, capital investment, foreign trade, price deflators, and other standard macroeconomic aggregates. Using this model, which is still under development, SEPD staff are working towards producing higher quality sectoral and revenue forecasts on an annual and quarterly basis. With better forecast data, the MOF will rely less and less on aggregated revenue and expenditure figures, leading to a more detailed and accurate MTFF, and more meaningful and informed policy analysis.

PROVIDING TOOLS AND TECHNIQUES FOR BETTER FORECASTING, ANALYSIS, AND DECISION MAKING

Overall, the processes described above allow the SEPD to be directly involved in building and maintaining the tools necessary to produce better economic forecasts, and better fulfill its initial mandate as stipulated upon the establishment of the directorate in 2000. Forecasts will lead to a better MTFF and will enable more accurate analysis of different fiscal policy options. Throughout the first year of FRP II's work, SEPD staff have shown a marked improvement in their level of confidence about their roles as analysts capable of positively affecting policy decisions. The regular presence of FRP II technical advisors, embedded within the SEPD for months, has bolstered the confidence of SEPD analysts and accelerated skills development. On-the-job mentoring and collaboration will help ensure sustainability of these capacity building initiatives.

D. STRENGTHENING DEBT MANAGEMENT

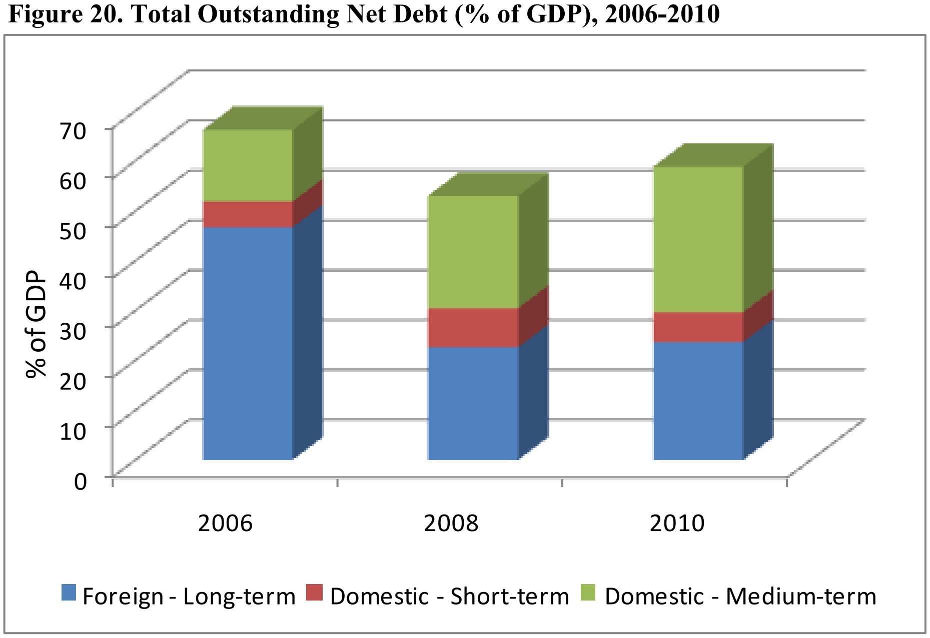
The Public Debt Management Law of 2001 provides the legal framework for government borrowing, determines requirements for servicing public debt obligations, and designates the Public Debt Department (PDD) as manager of public debt. In an effort to curb excessive debt accumulation, in 2008 this law was revised stipulating that public debt must be kept beneath a ceiling of 60 percent of GDP. Furthermore, neither domestic nor external debt could exceed 40 percent of GDP, assuring that debt would not accumulate disproportionately in either category.

Other than these guidelines, an articulated strategy for management of public debt did not exist at the inception of FRP II. Furthermore, PDD staff were not involved in the process of negotiating loans, and analytic capabilities among PDD staff were secondary to back office, operational and accounting functions.

In early 2010, an FRP II Public Debt Advisor conducted an executive and operational review of the PDD, ultimately proposing a new organizational structure for the Department. Many of the recommended changes were adopted successfully. According to the PDD Director, the most far-reaching was the recommendation to build the capacity of the Department‘s ―middle office,” focused on analytic and statistical work. While progress has been slowed by delays in hiring several new analysts to enhance analytic functions, FRP II continues to support the training and capacity building needs in the PDD middle office.

At the end of 2010, net public debt (excluding bank deposits) hovered just under 59 percent of GDP, highlighting the urgency of forging a clear strategy for public debt management, and justifying support to analytic staff in the PDD to plan debt servicing. Gross outstanding debt, however, was 64.6 percent of GDP in 2010. The Public Debt Law is ambiguous as to whether the debt to GDP threshold is calculated using net or gross debt levels. As Figure 20 shows, though the percentage of outstanding net debt has declined from pre-2008 levels, the magnitude of the debt burden relative to economic activity remains significant.

Figure 20. Total Outstanding Net Debt (% of GDP), 2006-2010



Jordan‘s public debt is a mix of long-term external securities, short-term domestic securities (maturing in one year or less), and medium-term domestic securities (maturing in more than one year). Risk characteristics of the debt portfolios take into account refinancing risk, interest rate risk and exchange rate risk. Jordan‘s level of risk on the former two is high, while its exchange rate risk is low.

Overall, 66 percent of Jordan‘s public debt is due within three years. This is influenced largely by domestic debt, with an average time to maturity of just over two years—compared to more than six years for externally held debt. Shorter maturity horizons create a high refinancing risk for Jordan‘s debt portfolio.

At first glance, Jordan‘s debt portfolio is not highly sensitive to interest rate changes. Only 21 percent of public debt is held with variable interest rates. Yet, the fact that many of Jordan‘s domestic securities will mature in the short-term means that, though interest rates are currently fixed, the need to re-price is soon approaching, which essentially means that interest rate risk is higher for those securities.

With 85 percent of debt held in either Jordanian Dinars or US Dollars (to which the value of the Dinar is fixed), Jordan faces very little currency risk.

MEDIUM-TERM DEBT STRATEGY

In the absence of a Medium-Term Debt Strategy (MTDS), professionals in the PDD have had little official support for PDD recommendations on the most advantageous and least costly approaches to debt management. However, external pressure to formalize a debt strategy has intensified. For instance, the European Union has established a condition precedent contingent upon Jordan‘s completion of a MTDS by June 2011.

Responding to these pressures, FRP II has worked collaboratively with PDD staff to develop a MTDS, the first of its kind in Jordan. Assistance first focused on training counterparts to use the MTDS tool, which provides inputs for the MTDS. After learning how to populate the tool with macroeconomic and primary deficit data, and using it to generate forecasted market variables, FRP II public debt advisors and PDD staff have used outputs from the MTDS tool to draft the MTDS.

The MTDS discusses the composition of Jordan‘s current debt portfolio, particularly vulnerabilities in the current makeup of debt, and suggests seven different future debt strategies, assessing each for four distinct risk scenarios. The MTDS ultimately recommends specific strategies that will ensure a combination of least cost and least risk. In general, borrowing in US dollars is most beneficial, as interest rates are lower, which means that debt servicing costs are also lower. US dollar-denominated securities lessen Jordan‘s currency risk, and can offer longer average maturities, therefore reducing refinancing risk. The MTDS also suggests extending the average maturity of domestic market debt and maximizing concessional debt so as to reduce cost.

The strategy is currently in draft form and under review by the Ministry of Finance. FRP II will continue to provide technical assistance as the MTDS is revised, until the strategy is approved by the lower and higher debt committees and submitted for approval to the Council of Ministers. Following strategy approval, further capacity building with the PDD will continue, focusing on debt management and risk analysis. Additional training is also necessary to ensure PDD staff are able to produce all the necessary information from the debt system, prepare the data inputs for the MTDS tool, and update the MTDS document in the future.

INTRODUCING NEW FINANCING MODELS

Having already reached the legally imposed debt ceiling, the Government of Jordan now faces the difficult task of financing major new capital investments with extremely restricted access to debt. Chapter V discusses FRP II's support for establishing a framework for public-private partnerships (PPP) in Jordan, which should open doors to new infrastructure financing mechanisms for the Government.

At the same time, alternative financing models, such as Islamic financing (or *sukuk*), present additional opportunities to expand private financing of major initiatives without violating the debt rule. Used commonly in the Gulf Cooperation Council (GCC) countries, *sukuk* financing gives investors an equity stake in infrastructure projects, offers the prospect of significant returns from future revenue streams, and has no impact on the debt level.

E. CULTIVATING EXCELLENCE BY INVESTING IN JORDANIAN HUMAN CAPITAL

MINISTRY OF FINANCE TRAINING CENTER

The Ministry of Finance has its own dedicated Training Center (MOFTC), responsible for addressing the training needs of the Ministry's staff. The Center has the potential to instill excellence in MOF staff, and to train professionals to better contribute to resource-saving reforms. Relative to these long-term objectives, however, the MOFTC has been somewhat underutilized since its inception. During the project's first year, an FRP II human resources and training advisor worked closely with staff from the MOFTC and the MOF's Human Resources directorate to assess the capacity building needs of MOF staff, and to develop a road map for MOFTC to meet those needs with cutting-edge training programs. Building upon those foundations, the MOFTC has articulated a vision of becoming a regional provider of public financial management training and a center for excellence in finance for the Middle East and North Africa region.

In support of this objective, FRP II sponsored a study tour for five participants from the MOF to the Center of Excellence in Finance in Ljubljana, Slovenia. The five-day study tour enabled the participating Secretary General and directors to meet firsthand with CEF leadership and staff and learn from their experience and success in positioning the institution as a pioneer in fostering regional cooperation and learning on public finance issues. On returning from Slovenia, MOFTC staff, with support from FRP II, drafted a 2011-13 Strategic Plan, focusing on building and refining the Center's training techniques and training calendar. Endorsing the plan, FRP II designed its second-year work plan to be fully compatible with the three-year plan. To further underscore its commitment to developing MOFTC, FRP II assigned a dedicated intern to the Training Center to assist in implementing the plan.

Collaboration between FRP II and MOFTC has already led to significant resource-savings for the project, which has benefited from MOFTC agreement to host numerous project trainings at its facilities. By hosting trainings for FRP II counterparts from the MOF and other GOJ agencies at the MOFTC, the Government of Jordan and FRP II demonstrate shared commitment to training objectives, and to using GOJ facilities to host trainings whenever possible. This sets a positive example to all counterparts, and builds relationships among the MOFTC and other GOJ agencies.

HUMAN RESOURCES DIRECTORATE

Complementary to work with the MOFTC discussed above, FRP II has also supported the work of the MOF Human Resources Directorate. Achieving joint FRP II and MOF technical objectives requires that the Ministry is staffed with appropriate individuals who are trained to conduct or support analytic work. FRP II has also hired a dedicated intern to support the HR Directorate, and is currently supporting a job gap analysis, which will identify training needs across the Ministry.

F. CONTINUING TO WORK TOWARDS RESOURCE-SAVING REFORMS IN 2011

Mounting domestic pressures, combined with slow economic recovery, only heighten the Government‘s concern for doing ―more with less." In this environment, resource-saving reforms remain a high and growing priority. In the coming years, FRP II assistance will, therefore, continue to target the SEPD and PDD as key institutional partners. At the same time, developing new relationships with the MOFTC and HR Directorates will continue to be important.

With the SEPD, FRP II will work to promote the Department as a go-to resource for the MOF‘s senior leadership, especially for providing H.E. the Minister of Finance with impartial and thorough analysis of policy options.

After submitting the MTDS, FRP II will continue to support the PDD, primarily through trainings in debt management, risk analysis and optioning for domestic debt. And, together, the MOFTC and HR Directorates will ensure that MOF is staffed with well-trained and appropriately-placed professionals, who have opportunities for learning and career advancement, and who are committed to the mission of the Ministry.

V. IMPROVED USE OF PUBLIC RESOURCES

When FRP II began in late 2009, economic difficulties, falling revenues and, in turn, a widening budget deficit were challenging the Government‘s ability to meet the pressing needs of Jordanian society.

Despite prior efforts to strengthen public financial management (PFM) and lay the foundations for results-oriented budgeting (ROB) and management, the Government still faced critical problems. Implementation of a government financial management information system (GFMIS) had fallen a year behind schedule, largely due to breakdowns in communication. Financial controls were weak, resulting in frequent and unexplained deviations from the budget. The Government of Jordan‘s heavy debt burden placed strain on public finances. And many agencies, slow to embrace results-oriented budgeting, continued to conduct ―business as usual,” with little analysis of spending and its productivity, or attention to translating policy priorities into sound and coordinated capital investments.

USAID and FRP II saw these issues not as insurmountable problems, but rather as opportunities: an opportunity to increase fiscal transparency; an opportunity to strengthen financial control; and, above all, an opportunity to address not just how much Government spends, but also what it spends that money on.

Expected Results:

- ROB knowledge and application deepened
- Strategic thinking better informs budget preparation
- Budget preparation and execution processes consistent across GOJ
- Performance metrics improved
- Budget format/reporting refined
- Budget and performance data used to enhance accountability
- Financial controls strengthened
- GFMIS operational government-wide
- Decision making informed by real-time access to financial data

It was against this backdrop that FRP II set out to help the MOF and various Government agencies improve budget planning and administration, accelerate and get GFMIS implementation back on track, and improve debt management—all intended to contribute to enhanced financial control, better resource allocation, and greater efficiency in public sector spending.

A. FORGING SOUND CAPITAL INVESTMENTS

IMPROVING PROJECT DESIGN AND PRODUCTIVITY

In the project‘s first year, FRP II worked collaboratively with the Ministry of Finance and other Government counterparts to demonstrate the power of applying strategic thinking and analytic tools to evaluating investment options and tradeoffs.

In the fall, for instance, FRP II advisors supported three major cost-benefit analyses (CBA) of proposed mega and capital projects. The first was a CBA for the Amman Customs House (ACH) reform project, proposed by Jordan Customs to reduce congestion and improve customs operations in the capital city. The proposal included plans to change the layout of the yards, reclassify according to the level of inspection, and link the ACH and Jaber Border House in a central manifest pilot project to eliminate chronic duplication of procedures, such as declaration and inspection of imports both at the border and again on arrival in Amman. Through a joint effort, FRP II and MOF counterparts completed the CBA, concluding that the project was economically feasible—estimated to return net benefits to the economy equivalent to nearly JD 1 million, even under the most conservative assumptions.

The second analysis was of the estimated JD 3 billion National Railway Project. Led by the Ministry of Transportation (MOT), FRP II advisors made important contributions to the CBA, introducing more accurate accounting for costs, and a more realistic social discount rate. These two contributions had a significant impact on the feasibility of the project, improving the analysis and the ability of policy makers to make informed decisions.

The third CBA was of the proposed Light Rail System between Amman and Zarqa, conceived to ease traffic congestion between the two urban centers. After careful analysis, the study team found that the proposed project was indeed feasible from an economic perspective—addressing important social needs, reducing commute times, and benefiting largely low-income, priority segments of the population. However, the financial analysis showed that the project involved considerable risk based on several factors, including international experience with similar systems, high passenger sensitivity to fare-setting, and the availability of competing transport services in the Amman-Zarqa corridor.

FRP II‘s support for this analysis prompted counterparts at the MOT and the Prime Ministry‘s Mega Projects Administration (MPA) to reconsider the merits of the light rail proposal and, in turn, to begin to explore more cost-effective alternatives, including development of bus rapid transit (e.g., express bus lanes) as well as road improvement schemes. While a ―go/no-go” decision is still pending, it appeared as of writing that authorities were poised to abandon the light rail proposal in favor of the bus rapid transit option, demonstrating the positive impact that good analysis can have on the design and productivity of capital investments in Jordan. FRP II has since adapted the ACH and Light Rail studies to integrate them into cost-benefit training that the project is rolling out to Government counterparts in 2011.

PROMOTING PUBLIC-PRIVATE PARTNERSHIPS

FRP II assistance in support of capital and mega projects since 2010 has also exposed Jordanian counterparts to financing options beyond traditional debt financing. With the current public debt stock dangerously close to the legally-imposed ceiling of 60 percent of GDP, the project has helped GOJ agencies explore greater use of public-private partnerships (PPP) and other debt alternatives, including Islamic financing (or *sukuk*), that overcome the debt constraint and enable greater risk sharing with private investors.

In structuring the highly anticipated National Railway Project, for instance, FRP II advisors have helped GOJ counterparts evaluate crucial decisions concerning the organizational structure of the Jordan Railway Corporation (JRC), its supervisory roles vis-à-vis the future operator, and tariff policy, ensuring a guaranteed floor for lease payments to the Government while providing a revenue stream that gives the future operator an acceptable return on investment.

Accompanying a GOJ delegation to China, FRP II‘s Mega Projects Advisor participated in discussions with leading Chinese financial institutions to secure financing partners for the proposed railway project. The mission underscored the need for further analysis of the GOJ‘s ―fiscal space” to underwrite the project, and for additional scenarios to expand financing options through greater project segmentation.

Reaching resolution on the project‘s financing structure will pave the way for the tendering process, which is expected to begin in the near future.

FRP II advisors have simultaneously assisted the Ministry of Transport to define and draft the terms of reference for construction of a dry port and logistics center at Mafraq, a development zone in the north of Jordan that is poised to become a major railway hub with the completion of the National Railway System. FRP II guidance helped MOT counterparts understand the full magnitude of the work entailed in bringing the Mafraq Project to fruition, and helped counterparts define and present their case for the project to the Cabinet in November 2010. Cabinet approval was granted later that month.

Progress has also been made in solidifying the legal and institutional foundations for public-private financing of infrastructure and other capital investments in the Kingdom. Specifically, FRP II and the Mega Projects Administration have worked collaboratively to refine and finalize the draft Public-Private Partnership Law as well as the MPA‘s bylaws. When enacted, the new legislation will codify the MPA‘s role in mega projects, establish a systematic framework and processes for PPP decision making, and provide *de jure* endorsement for the use of PPPs in structuring capital projects and programs. PPPs, in turn, promise to open new opportunities for meeting Jordan‘s National Agenda goals, leveraging external resources to fund the country‘s development priorities, and easing pressure on the Government budget.

B. IMPLEMENTING GFMIS GOVERNMENT-WIDE

Financial control and accountability in the Government of Jordan has long been compromised by weak systems, undermining transparency and resulting in frequent and unexplained deviations from the budget. The legacy financial management system, in place for many years, lacked the business rules necessary to rein in such deviations, allowing GOJ entities to go over budget month after month.

The new government financial management information system, whose implementation began in 2008, was conceived in large part to overcome these challenges. A state-of-the-art system, the GFMIS was designed to computerize information and workflows spanning the entire life-cycle of budget preparation, budget execution, and financial reporting. This, in turn, will allow Government to properly account for, control, and manage public sector transactions in accordance with laws and regulations.

OVERCOMING EARLY CHALLENGES

The GFMIS Project was set in motion in 2008, when the Government completed its tender and signed a 30-month contract with its chosen system integrator. Unfortunately, little attention was paid to establishing open communications in the early stages of implementation, resulting in distrust and ―dividing walls” between the system integrator and GOJ‘s respective project teams.

When FRP II‘s GFMIS team took over management of the GFMIS Project Management Office in late 2009, system implementation was already well behind schedule. The team brought a new philosophy to the GFMIS effort, emphasizing ―one team” and a spirit of collaboration, regular communication, and problem solving among GOJ and system integrator staffs. FRP II‘s GFMIS team helped appoint a new Project Manager and restructured the Project teams, ensuring that across Functional, Technical, and Change Management sub-units, each implementer staff was mirrored by a Government counterpart with whom close collaboration was essential.

The ―one team” approach has worked remarkably well, breaking down walls and fostering common vision and purpose. Through user acceptance testing, in fact, the team found that many of the logged issues that had delayed progress prior to FRP II intervention were, in fact, minor concerns reflecting more the communications breakdown than real systemic problems. By September 2010, all of these issues were cleared up, paving the way for operational acceptance testing at selected GOJ entities.

GFMIS GOES "LIVE"

A critical milestone was reached in November 2010, when the GFMIS went ―live" at six pilot sites—including the MOF, General Budget Department, General Buildings Department, Ministry of Planning, Zarqa Regional Financial Center, and Ministry of Education. In advance of the rollout, end-users at each agency received classroom training in operating the system, complemented by site visits by trainers, one-on-one consultations, and system testing at trainees‘ desks to increase their comfort with the GFMIS.

The GFMIS was implemented first as a secondary system, running in parallel to the legacy system. After several months of testing, the six pilot agencies have now transitioned to the GFMIS as their primary financial management system, operating the legacy system as a secondary system.

The GFMIS implementation is already being heralded as a major success, especially considering the severe challenges that threatened to derail the effort only a year ago. Plans are now in place to roll the system out to some two dozen additional GOJ agencies in the coming months. As system rollout continues, the GFMIS will give further Government entities access to financial information in ―real time" and provide critical tools to support better decisions, control spending, and raise accountability. During the rollout phase, financial summary data will be uploaded on a monthly basis from the spending agencies that have yet to implement the GFMIS to ensure the GOJ has a complete financial picture.

NEXT STEPS

Building on the progress achieved to date will require, above all, continued attention to change management. Indeed, certain GOJ entities have even shown resistance in advance of system rollout, indicating a need for greater education, communication and ―face time" with managers and future users.

In the coming months, FRP II‘s GFMIS team will help to introduce important system enhancements, including developing a business intelligence system to facilitate customized layouts and ―dashboards" designed to help decision makers monitor performance and manage for results. Furthermore, the project will continue to support efforts to introduce electronic funds transfer (EFT), fully integrated with the GFMIS and the single treasury account. While EFT will not fully replace the use of checks, it will substantially reduce paper transactions throughout Government.

C. ENHANCING BUDGET TRANSPARENCY

SIGNS OF PROGRESS

Ongoing implementation of the GFMIS government-wide offers promise not just for greater control and efficiency, but also transparency in the use of public resources.

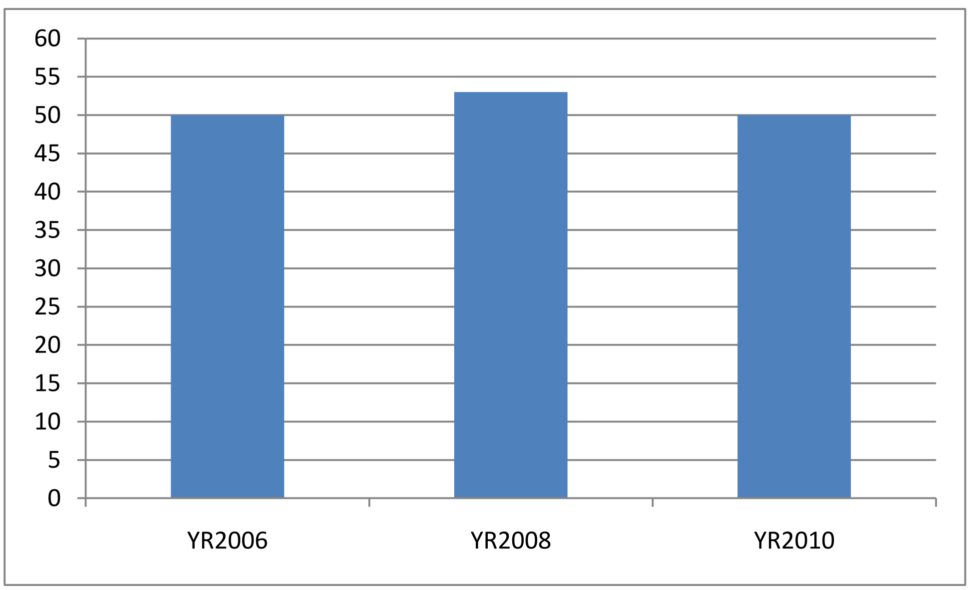
In addition to the GFMIS, FRP II has helped the GOJ take steps to enhance fiscal transparency through a number of important initiatives. For the 2011 Budget, for instance, project advisors helped the General Budget Department develop two publications for the first time: the *Budget in Brief* and a *Citizens' Guide to the Budget*. The *Budget in Brief* features more technical detail, targeting the Parliament, international financial institutions and others, while the *Citizens' Guide* targets the public and the media using more simplified presentation and narrative. These documents provide user-friendly guides to Government spending and promote greater public awareness about where their money goes, and how those resources are used to fund programs that help them in different aspects of life, from improved health and education, to roads, bridges and other critical infrastructure.

In its first year, FRP II assistance also fostered greater transparency in the budget requests of several GOJ line ministries. Throughout 2010, the project worked in partnership with these entities to map their strategic objectives, develop and refine performance indicators, and set performance targets. As a result, budget submissions showed greater clarity, coherence and consistency with each institution‘s mission and priorities. One Ministry of Agriculture official with whom this report‘s authors met noted that the process of refining their indicators and applying strategic analysis to spending tradeoffs fostered a healthy competition among the ministry‘s six sectors, demanding that technical staff carefully review and develop clear justifications for their proposed programs.

REMAINING CHALLENGES

Despite these advances, far more remains to be done to meet international standards of fiscal transparency in Jordan. Jordan‘s performance on the Open Budget Index (OBI), an internationally recognized survey of budget transparency across more than 80 countries, illustrates this point. As Figure 21 shows, between 2008 and 2010, Jordan‘s score on the bi-annual survey dropped from 53 to 50 (out of a maximum 100).[12]

Figure 21. Budget "openness" in Jordan



Source: International Budget Partnership.

Although Jordan‘s OBI score remains the highest in the MENA region and is also above the worldwide average, the Survey pointed to a number of weaknesses in the Jordanian budget process, including with respect to the midyear review, the year-end report (final outturn), and the Audit Bureau‘s report.

[12] See http://www.internationalbudget.org/files/OBI2010-Jordan.pdf.

Somewhat puzzling to note is that Jordan's 2010 decline on the OBI came on the heels of a (small) improvement in Jordan's Open Budget score between 2006 and 2008. Regardless, the trend seems to indicate that there has been no demonstrable progress in enhancing budget transparency in Jordan in the last five years, and possibly longer.

The OBI methodology takes a rather narrow view of budget transparency and, at times, may give undue emphasis to certain factors while neglecting others. Yet, there is still ample evidence on the ground that transparency in the use of public funds indeed remains weak.

For instance, budget classifications can vary from GOJ agency to the next, with the result that two agencies may code spending on the same program differently. Such practices can lead to confusion about who is doing what and obscure the activities of government, undermining the public's ability to monitor and hold government actors to account.

Nor are there truly effective commitment controls in the execution of the budget. Consequently, Government units are able to spend money even without budget authorization, resulting in frequent deviations from the plan.

The recent proliferation of virements highlights the magnitude of the problem. Simply defined, a virement is the approved transfer of money from one budget head to another within a financial year. In budget systems where budget planning, administration and monitoring systems are sound, virements are a measure of flexibility that enables budget managers to reflect in-year variances in revenue or expenditure.

However, where such systems are weak, such transfers typically go unexplained, often reflecting poor budget planning and a lack of financial control, and contributing to the public impression that Government is operating under a cloud of secrecy.

This latter scenario seems to be the case in Jordan. Throughout the year, many GOJ agencies will over-spend budget line items, then at the end of the year submit a request to the General Budget Department to approve virements *ex post*, ensuring that no line item exceeds its appropriation in the final accounts.

The GFMIS, once fully implemented throughout Government, will help prevent this practice, enforcing strict rules and internal checks on requesting and approving in-year transfers. GFMIS will also impose radical new controls that prevent the commitment of funds without proper approvals. Yet GFMIS will not, on its own, improve the accuracy or reliability of the analysis on which the annual budget is built. As long as budget execution is based on poor planning and over-optimistic revenue forecasts, the Government will continue to spend more than it collects, and budget supplements will become the norm rather than the exception.[13]

[13] Yearly budget supplements have become a common occurrence in Jordan. See, e.g., www.jordantimes.com/index.php?news=30682 and www.jordantimes.com/index.php?news=24517&searchFor=budget%20supplement (2010); www.citizensinformation.ie/en/money_and_tax/supplementary_budget_2009.html (2009); www.jordantimes.com/index.php?news=2133 (2007).

Nor will systems alone ensure that Government holds to its own budget calendar.[14] The 2011 Budget Law was not even passed until late March; in the interim, Government agencies were restricted to operating month to month on the basis of 1/12 of the previous year‘s budget. Late-year budget submissions leave the GBD, the Council of Ministers and Parliament little time give critical analysis to the ministry- and program-level plans and estimates. Such a situation undermines both the quality and the transparency of the budget.

D. DEEPENING RESULTS-ORIENTED BUDGETING

EXTENDING ROB THROUGHOUT GOVERNMENT

FRP II efforts during Year 1 to advance implementation of results-oriented budgeting (ROB) processes resulted in an improvement in ROB understanding and knowledge at all GOJ agencies, while at the same time expanding GBD‘s reach and communication with those entities. With FRP II support and guidance, six pilot ministries refined their strategic and program goals, adopted new performance indicators, and instituted better methods for setting target values—improving integration between the strategic objectives of projects and programs and subsequent budget allocations, and providing a framework for monitoring and evaluating performance against plans.

The adoption of ROB processes at these pilot institutions not only exposed these agencies to modern approaches to budget planning and management, but also fostered healthy competition for program funds within agencies, triggered better engagement across GOJ agencies supporting common programs and objectives, and, ultimately, resulted in more cost-effective and better budget proposals.

CHALLENGES FACED

In the first year, FRP II provided an assortment of technical assistance, equipment, training, and other learning opportunities to the General Budget Department and its staff, contributing to GBD‘s second strategic objective to ―Keep abreast with best modern international practices in budget management." Motivated in part by the prospect of the King Abdullah II Award for Excellence (KAA) and the financial incentive it presents, GBD took several steps on its own to fulfill this objective. Among others, the Department developed new job descriptions for Department staff; and with FRP II support, improved GBD website content and accessibility, and enhanced and updated its 2010 – 2013 Strategic Plan. Furthermore, an in-depth human resources capacity assessment, completed by FRP II advisors in Year 1, provided important recommendations, from attracting staff with more diverse skill sets to strengthening GBD capacity to perform critical budget analysis.[15]

Despite these early achievements, the Government‘s preoccupation with spending cuts—a response to persistent revenue shortfalls—has compromised its stated commitment spending for results. In 2010,

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[14] The Government adopted a revised budget calendar in 2010, in principle providing more time for strategic planning, budget analysis and expenditure review. Yet due to delays in rolling out the 2011-13 Executive Development Program (EDP) outlining the Government‘s development priorities, final budget ceilings for the 2011 Budget were held up until the beginning of 2010, allowing little time for line ministries to revise their budget requests, and for GBD to finalize the draft budget before sending it to Parliament.

[15] The Department has yet to act on any of these recommendations.

virtually all line ministries had their budgets slashed, apparently without consultation. Although every ministry had strategic plans and key performance targets, not one agency was asked to estimate the cost, in terms of reduced services or benefits, that would result from these budget cuts.

At the same time, cooperation between FRP II and GBD leadership was far from optimal in the project‘s first year, resulting in a joint decision by USAID and FRP II to substantially reduce assistance to the Department. While the project continues to seek opportunities to reengage the Budget Department, this development has understandably slowed progress toward implementation of truly results-oriented budgeting across Government.

E. NEW DIRECTIONS IN 2011

Despite the challenges described above, there remain tremendous opportunities for FRP II to support continuous improvement in the efficiency and effectiveness of public spending in the coming years.

In Year 2, FRP II will continue to deepen ROB knowledge and practice by extending pilots to several new GOJ agencies, by fostering greater consistency in budgeting across Government, and by promoting increased inter-agency coordination and communication throughout the budget process. Helping budgetary entities improve the content and organization of their budget proposals will facilitate analysis and decision-making and improve the allocation of resources in the future.

Complementing continued support for GFMIS implementation, the project will assist MOF efforts to improve internal financial control throughout Government. New internal financial control by-laws are being developed with FRP II assistance; once implemented, the new measures will help ensure financial compliance and reduce opportunities for the diversion and misuse of public funds.

In 2011, FRP II also looks to engage Jordan‘s Audit Bureau to help the institution become a more modern and independent audit institution and, among others, shift its focus from traditional pre-control activities to true external audit, and to performance audits that examine the effectiveness and efficiency (or ―value for money”) of public sector spending. A study tour for Auditor Bureau staff to visit the U.S. General Accountability Office and others in April/May 2011 will give counterparts first-hand exposure to performance audit and international standards for external audit in action.

Lastly, the project will complete a comprehensive Public Expenditure Perspectives report, evaluating current and capital spending across the main sectors of the economy, and providing concrete recommendations for the reallocation of budget resources to more efficient, effective, and responsive activities in the 2012 Budget. Better and more efficient public sector spending will help the Government of Jordan meet national priorities and better address the needs and priorities of the Jordanian people.

VI. INCREASED EFFICIENCY IN TRADING ACROSS BORDERS

A. BACKGROUND

As the lead Government agency at the country‘s borders, Jordan Customs has long played an important role in regulating trade, collecting revenues, and ensuring border security. While reductions in import duties and broader trade liberalization measures have reduced Jordan Customs‘ role in revenue mobilization in recent years, the agency remains integral to the country‘s security, to combating illicit trade activities, and to promoting investment and growth in the Kingdom.

FRP II Expected Results:

- Single Window and associated processes implemented effectively
- Full compliance with international obligations
- Improved supply chain security
- Improved Customs client service.

Complicating efforts by Jordan Customs to fulfill its trade facilitation mandate, the country‘s borders are also controlled by a complex array of Government agencies, each with its own set of border-control interests and compliance requirements. These ―partner government agencies" (PGAs)—more than 30 in total—intensify the burden on traders and increase the time and cost required to move goods across Jordan‘s borders.

FRP II‘s support to customs modernization and trade facilitation addresses the disparate concerns of all of these agencies, while simultaneously focusing attention on Jordan‘s international commitments and on the needs and concerns of the trading community.

B. IMPLEMENTING THE "SINGLE WINDOW"

When importing or exporting goods through Jordan‘s borders, traders have to cope with a labyrinth of requirements imposed by 34 different government agencies, each with its own distinct procedures, independent documents, and costly wait times. Although originally developed to support the objectives of each agency—from national security and revenue, to food safety and consumer protection—many of these requirements are now no longer relevant to the current environment. Furthermore, advances in information and communications technologies (ICT) have made it possible to consolidate and streamline agency procedures and expedite processing, without compromising border control. Indeed, today the Automated System for Customs Data (ASYCUDA) provides an automated platform for integrating the information and documentation needs of Customs and all of these PGAs.

The ―Single Window" is essentially a trade facilitation solution that enables international traders to fulfill all import, export and transit-related requirements at a single location, or ―window." Information and documents received through that window are processed and then routed to all concerned agencies, which simultaneously carry out the required agency-specific checks. The Single Window helps to facilitate the safe and secure movement of goods across borders, while saving traders time and the costs of obtaining the relevant clearance and permits required to move goods across national borders.

CHALLENGES AT THE OUTSET

In Jordan, Single Window implementation began in 2007-08, partly in response to conditions precedent to financial assistance from both the European Union and USAID. From 2007 through 2009, the ―Single Window” existed in name in a number of border locations, but the foundations for Single Window operation were lacking. Cooperative relationships among partner government agencies were inconsistent, and data requirements were unwieldy, reflecting only modest improvement over past practice.

Though the Single Window has expanded considerably over the last three years, officials at Jordan Customs acknowledge that implementation is still far from complete. The EU-USAID conditions precedent caused the GOJ to rush Single Window introduction, resulting in little more than a co-location of GOJ agencies, without integration or rationalization of processes. Streamlined procedures, and gradually a transition to automated Single Window systems, will vastly simplify cargo clearance at Jordan‘s borders. And, as PGAs become more familiar and comfortable with Single Window risk management processes, safe and secure cargo will pass more swiftly through border centers. Despite continuing challenges, Customs officials agree that the Single Window will improve border control even while easing burdens on traders, representing a positive step toward facilitating trade throughout Jordan.

EARLY SUCCESSES AND BRINGING PARTNER GOVERNMENT AGENCIES ON BOARD

In 2010, the Office of the Prime Minister issued an edict underscoring the importance of successful Single Window implementation, and reasserted the role of Jordan Customs as the lead agency in overseeing the Single Window. With strong FRP II advocacy, the Jordan Single Window Senior Steering Committee was formed, under the patronage of the Minister of Finance. Securing commitment from the most senior levels of leadership in all PGAs was an important step and is essential to the continued development of the Single Window. With guidance from FRP II, the Steering Group then formed a Single Window Working Group, comprised of representatives from all partner government agencies, and chaired by H.E. the Director General of Customs.

Figure 22. Single Window locations in Jordan

Backed by senior-level support, Single Window implementation has made great strides over FRP II‘s first year. With FRP II assistance, Jordan Customs opened two new Single Window locations in 2010, one at the Jaber Border Crossing and a second at the Jordan Valley Crossing Point. As Figure 22 shows, there are now a total of eight Single Window locations around the country, covering 80 percent of all imports into the country and bringing together four partner government agencies, known as ―Tier 1”—the Ministry of Agriculture, Jordan Food and Drug Administration (FDA), Jordan Standards and Metrology Organization (JSMO), and Jordan Customs—in a marked simplification of the clearance process.

The addition of three more PGAs in 2011 will expand Single Window coverage to 95 percent of all imports into Jordan. These ―Tier 2" agencies are the Nuclear Regulatory Commission, Ministry of Environment and Telecommunications Regulatory Commission.

The working relationship among these various PGAs underpins all Single Window efforts. Agencies must be willing to share data and work collaboratively within the framework of the Single Window. To this end, a Memorandum of Understanding (MOU) is expected to be signed between Jordan Customs and all PGAs in 2011. The MOU will be essential to harmonizing pre-arrival clearance and post-clearance audit processes, and will fully integrate partner agencies into the ASYCUDA World selectivity and targeting programs.

DATA HARMONIZATION

Effectiveness of the Single Window system is predicated on harmonization of data requirements across participating government agencies. In the absence of a Single Window, each border agency has separate forms and unique data requirements with which all traders must comply during clearance. Throughout FRP II‘s first year, Single Window and data harmonization advisors worked closely with the Single Window Working Group to consolidate and refine cross-agency data requirements for the clearance process. The Single Window data harmonization process is based upon the World Customs Organization‘s (WCO) Data Model.

The first version of the data set was established in the fall of 2010 and covered the Tier 1 PGAs. Later in the fall, Tier 2 agencies were incorporated into the process. Working with FRP II advisors, the data harmonization process has helped PGAs build trust in a collaborative work environment. Together, these agencies took a disparate list of 784 data requirements and reduced them to a streamlined, yet comprehensive list of just 180 data requirements.

Jordan‘s revised Single Window data set was presented for acceptance at the WCO in January 2011. While deviating significantly from WCO‘s standard global data set, Jordan‘s submission has received high praise from the WCO. In fact, the WCO has indicated its intention to adopt Jordan‘s revised data set as the new standard global data set, firmly establishing Jordan at the forefront of customs data harmonization worldwide. (See Text Box for more detail.)

RAISING ACCEPTANCE OF RISK MANAGEMENT

Risk management is central to any effective customs operation, and factors prominently in the success of Jordan‘s Single Window. Use of better risk management practices and

World Customs Organization to adopt Jordan Customs` Single Window Data Set

The Single Window concept brings together government agencies to harmonize border clearance procedures, reduce duplication of effort, and facilitate the safe and speedy movement of goods. The Jordan Customs Single Window Working Group has developed a comprehensive Single Window Data Set, incorporating data requirements of all partner government agencies. Now expanded to encompass 7 government agencies and the majority of imports and exports, the data set has gained global recognition for its thoroughness.

In January 2011, two Jordan Customs representatives presented the Single Window Data Set to the World Customs Organization in Brussels, Belgium, proposing 97 amendments to the WCO‘s standard data set. The proposed amendments represent a significant shift from the standard data set, particularly in the areas of transit and export, and address important gaps in the WCO‘s own data set. The WCO is now reviewing Jordan Customs‘ Data Set and is expected to revise their standard global data set based upon Jordan Customs‘ proposed amendments.

criteria means that border officials only search cargo identified as high risk, while at the same time expediting clearance for compliant goods.

A high percentage of “red lane” declarations is often an indicator of poor risk management, suggesting that border agencies are unable to distinguish high-risk from low-risk cargo, resulting in time-consuming searches of many more shipments than necessary. To its credit, Jordan Customs has made noteworthy progress in decreasing its percentage of red lane declarations in 2010. In the past, roughly 45 percent of all Customs transactions were red-laned, while today the figure stands at only 18-26 percent, depending on the border center. This trend reflects notable progress toward refining risk criteria, better utilization of ASYCUDA-driven selectivity tools, and growing acceptance of risk management and its role in facilitating both trade and enhanced border control. Still, the red lane figures can and should drop further as Customs officers become more adept at using the ASYCUDA selectivity system and applying risk analysis techniques.

The key to reducing red lane declarations without compromising security lies both in the use of better refined risk management criteria, and in changing performance incentives. Currently, performance pay at Jordan Customs is directly related to increased collections assessed on non-compliant traders. This system can have the perverse effect of incentivizing border agents to thoroughly search all shipments—even low-risk cargo—in hopes of generating more revenue. In contrast, modern, risk-based customs operations typically align performance incentives with factors such as efficiency, effectiveness, accuracy and teamwork.

While Jordan Customs has made some progress in refining its risk management criteria, and therefore reducing the percentage of red lane declarations, partner government agencies lag far behind. When incorporating red lane declarations by all border agencies—not only Jordan Customs—red lane declarations as a percentage of total declarations jumps to 43 percent. This indicates that other government agencies are disproportionately responsible for sustained, high incidence of red lane transactions, underscoring the need to deepen understanding of risk management at the PGAs.

Throughout the first year of FRP II, two risk management experts have worked closely with Single Window Working Group members to address this issue. Challenges to effective risk management in these agencies are twofold. First, senior leadership must be persuaded of the benefits, and then must make it a priority for their organizations to create and staff dedicated risk management units. Second, staff of partner government agencies involved in risk management must fully embrace and institutionalize the concept, and must feel confident in the risk criteria they have developed and in their own ability to fine-tune those criteria as risks evolve. Jordan Customs has had many more years of experience in this area than have most PGAs. Until these agencies can truly embrace risk management, overly cautious red-laning of cargo is likely to continue.

The number of red lane transactions is not the only, nor is it the most important, indicator of solid risk management practices. Ongoing risk management assistance to these agencies should also focus on achieving an increase in “positive hits”: red lane transactions in which infractions are found, relative to total red lane declarations. Better risk management should bring the total number of red lane transactions down, while the proportion of positive hits goes up, indicating that agencies stop only cargo which poses a legitimate risk of non-compliance. Admittedly, lack of compliance among traders, particularly customs brokers, remains a problem—approximately one quarter of all red lane declarations are found to be non-compliant in Jordan. This fact will likely discourage agencies from reducing red lane declarations too quickly.[16]

It is worth noting that a USAID condition precedent set a 45-percent red lane target in 2009 for all border agencies. This condition precedent was instrumental in bringing red lane declarations to exactly 45 percent that year, and illustrates the power of that such conditionality can have in incentivizing change. Conditions precedent in future should focus on more refined targets, such as the ratio of positive hits to total red lane declarations, to incentivize use of smarter risk criteria that both expedite movement of goods while minimizing compliance breaches at the borders.

C. MEETING INTERNATIONAL COMMITMENTS

Compliance with international customs conventions is important for Jordan's reputation as a safe and reliable trading partner. Three such conventions are currently of greatest concern for Jordan Customs:

(i) Standards to Secure and Facilitate Global Trade (SAFE) of the World Customs Organization (WCO);

(ii) the Revised Kyoto Convention the Simplification and Harmonization of Customs Procedures; and

(iii) the General Agreement on Tariffs and Trade (GATT) of the World Trade Organization.

As of this writing, Jordan is compliant with one of the three conventions. Table 1 below describes the nature of each convention and the status of progress toward achieving compliance with FRP II support.

Table 1. Compliance with key international customs conventions

Convention	Description	Compliance Status
Standards to Secure and Facilitate Global Trade (SAFE)	SAFE is a WCO framework for certifying countries as safe sources of trade, focusing on supply chain security and regulatory compliance. Creation of the "Golden List," Jordan's authorized economic operator program, in 2005 was the GOJ's response to a SAFE standard. Although the Golden List now exists, far more is needed to secure the supply chain and promote voluntary compliance. FRP II is helping Jordan Customs and PGAs to improve performance in these areas.	Compliant
Revised Kyoto Convention	In 2010, FRP II advisors provided 29 recommended changes on the draft Customs Law, which was submitted and is in the legislative review process before being sent to Parliament. If the law is passed in its current form, Jordan	Non-compliant

[16] Common violations discovered among red lane transactions include incorrect valuation, tariff classification, and quantity as well as invalid claim to special agreements.

Convention	Description	Compliance Status
	will be compliant with the Revised Kyoto Convention. Areas of non-compliance were identified in FRP II's recommendations and have been addressed in the revised draft Customs Law.	
General Agreement on Tariffs and Trade (GATT)	Jordan is a WTO member and its Customs Law is technically compliant with the General Agreement on Tariffs and Trade (GATT), which requires valuation of all imports to be based on transaction value. In reality, though, Jordan Customs misapplies the valuation methodology by relying on its own valuation database to determine import value; this is not compliant with Article VII of the GATT. Current practice encourages fraud is partially fueled by perceptions that Jordan Customs will systematically revise declared values upwards, which in turn compels importers and brokers to systematically under-declare. FRP II is working with Jordan Customs to improve valuation processes, reducing opportunities for traders to undervalue, and the need for Customs officials to regularly revalue imports.	Non-compliant

D. FACILITATING TRADE

During the project's first year, FRP II undertook three major diagnostic studies in partnership with Jordan Customs. Together, these studies assess and identify the major bottlenecks to trade, quantify the cost of complying with customs requirements for the trading community, and assess the relationship of Jordan Customs to the trading community. The conclusions and recommendations from the studies now form an important basis for joint activities of FRP II and Jordan Customs. The nature and results of each study are discussed below.

TIME RELEASE STUDY

As technology improves around the world, traders expect fast, efficient and predictable procedures when moving goods across borders. If a country cannot ensure such treatment in a consistent fashion, traders will take their business elsewhere. Appreciating the importance of speed, coupled with safety and security, FRP II and Jordan Customs commissioned a Time Release Study (TRS) to assess the total time required from arrival of goods at a border location to their release into the Jordanian market. Using the WCO methodology, this study assesses each phase of the clearance process to identify bottlenecks and suggest improvements that would have the maximum impact on release time. It specifically examines the six busiest Customs centers in Jordan, focusing on imports for immediate consumption, permanent exports, and international transit, together accounting for 89 percent of all border transactions in Jordan.

The TRS finds that, overall, release times are internationally competitive and that, in fact, some border centers may have best practices to share with the wider international customs community. Others, however, post slower times. Aqaba, for instance, averages 10 days for red lane cargo to be imported for local consumption; the Airport Customs Center, meanwhile, averages just five days for a transaction of the same classification. The TRS also estimates that it costs an average of JD 484 to unload, handle, transport and release a 20-foot container at Aqaba Container Terminal.

The study provides two key recommendations, both consistent with FRP II's broad approach to engaging Jordan Customs and PGAs in the project's first year: first, to improve coordination among Jordan Customs and other agencies at the border; and second, to introduce enhanced risk analysis techniques across all agencies. FRP II's support to Single Window implementation, and with it greater emphasis on risk management, have already helped GOJ counterparts move in this direction.

Among other recommendations, the study proposes an expansion of facilities and certain equipment, including scanners and X-ray; measures to remedy inefficient unloading processes; specific changes to broker processes; and, higher fines to encourage transport companies to move cleared goods more quickly.

Streamlined and clear processes which also assure compliance and accurate revenue collection require that Jordan Customs and PGAs use better risk management and harmonize and simplify procedures at border centers. Following release of the report's findings, FRP II supported an effort to draft a MOU between Jordan Customs and PGAs to ensure transparent and regular information sharing. The MOU, once signed, will also address delegation of authorities among agencies to avoid duplication of procedures.

The results of the Time Release Study were presented at a workshop to Customs and PGA counterparts, providing an opportunity to solicit feedback and inputs on the findings and follow-up actions. In this way, the TRS exercise was an important step in building a more collaborative relationship between Customs, the trading community, and other border stakeholders.

Furthermore, the study represented an important capacity building initiative with counterparts in Jordan Customs. IdRC, the research firm that undertook the study, worked closely with six Jordan Customs officials throughout the study. These officials worked with FRP II advisors through each phase of the study and have thoroughly learned the methodology and data management and analysis techniques. Next year, Jordan Customs will repeat the Time Release Study, using only Customs staff in the preparation of the report.

GOLDEN LIST SURVEY

The Golden List is a voluntary, authorized economic operator (AEO) program led by Jordan Customs that confers preferred operator status on those companies that establish themselves as low-risk and compliant with customs requirements and international security criteria. In concept, the Golden List enables Jordan Customs to develop relationships of trust with preferred traders who consistently demonstrate compliance with all import and export regulations. Golden List members, in turn, are able to move goods more quickly across borders, reducing costs, increasing productivity, and improving Jordan's competitive edge in global markets.

Given the promised benefits, Golden List membership should logically be widely sought after in the trading community. In practice, however, it is not, with only 31 current members.

In 2010, Jordan Customs and FRP II conducted a Golden List Survey of both members and non-member companies. Company responses acknowledged some positive features of the program. For instance, participating companies indicated generally that Golden List membership:

- Reduces cargo inspection rates;
- Reduces time for getting cargo processed and released;
- Demonstrates good corporate citizenship.

However, respondents also reported weaknesses in the program, including: a lack of coordination among Jordan Customs and other border control agencies; and, a perception that treatment of Golden List members is not significantly better than that of non-members. Non-participating companies, meanwhile, cited lack of information about the program and its benefits, and the perception that program criteria are too stringent, as key reasons for not joining the List.

In March 2011, Jordan Customs and FRP II convened a workshop in Amman, bringing together stakeholders from Government and the private sector, to present and discuss the results of the Golden List Survey. Following presentation of the findings, the organizers opened the floor to questions and feedback from participants. Lively discussion and debate resulted in a detailed list of recommendations from current and prospective Golden List members, focusing on options for improving the program and making it more attractive to the trading community.

Major recommendations included:

- Integrating JSMO and FDA‘s respective Golden List procedures with those of Jordan Customs to eliminate duplication.
- Providing more preferential treatment to Golden List members to incentivize participation;
- Better informing Golden List members about pre-clearance procedures to save them time; and
- Expanding the Golden List to include all segments of the supply chain.

Jordan Customs has since set to work to develop an action plan for improving the benefits package offered to Golden List members, and to promote the program to prospective members. According to officials, Jordan Customs is eager to see as many companies as possible join the Golden List, indicating that this will both bestow benefits on trusted traders, and free up Customs resources to focus more intensively on those who violate the law.

As of writing, 11 additional companies had already been pre-screened and invited by Jordan Customs for Golden List membership. If these companies join, Jordan Customs will have met its 2011 performance target for expanding Golden List participation.

Bringing more firms onto the Golden List will help to foster a culture of compliance, and will significantly improve trade facilitation in Jordan. Of the companies surveyed who are not currently members of the Golden List, roughly 40 percent report annual turnover of more than JD 10 million. Together, these companies alone account for hundreds of millions of dinar in annual trade—a sizable portion of the trading community, with vast implications for trade compliance and economic competitiveness in Jordan.

TRADE FACILITATION SURVEY

Among the key trade facilitation studies completed in 2010, Jordan Customs and FRP II also carried out a Trade Facilitation Survey to determine the sources and nature of the most significant barriers to trade faced by traders in the Kingdom.

The study surveyed 102 large Jordanian businesses that engage in trade of Jordan's major commodities. The sample included manufacturers, customs brokers, warehouse operators, transporters, and Qualified Industrial Zone businesses.

The survey examined businesses' experiences with processing time required by major border agencies. In Table 2 below, the lower end of each range represents average time in days for a routine clearance, while the high end represents average clearance time for cargo requiring laboratory testing or special approvals. Of the eight agencies perceived to be causing the biggest slow-downs (highlighted in blue), five are currently engaged by FRP II and Jordan Customs in Tiers 1 and 2 of the Single Window implementation, effectively targeting some of the most significant barriers to trade.

Table 2. Estimated processing time by border agency

Agency	Processing Time (Days)
Jordan Customs Department	1 - 2
Jordan Standards and Metrology Organization	1 - 14
Food and Drug Administration	1 - 14
Royal Scientific Society	1 -14
Ministry of Agriculture	1 - 7
Ministry of Health	1 - 7
Investment Promotion Corporation	1 - 7
Telecommunications Commission	1 - 7
Nuclear Energy Commission	1 - 7
Aqaba Containers Terminal	2 - 4
Banks	1 - 3
Aqaba Ports Corporation	1 - 2
Ministry of Industry and Trade	1
Ministry of Transport	1
Chambers of Industry	1
Chambers of Commerce	1
Royal Geographic Center	1
Environmental Health	1

Source: Trade Facilitation/Cost of Compliance Survey

The results of the survey identified more than a dozen issues deserving further attention. These include, among others:

- Lack of access to border clearance information, whether online or at inquiry points;
- Lack of consultation on changing regulations;
- Weak levels of confidence in the quality and consistency of laboratory testing;

- Scarce information on pre-arrival processing, which is not well publicized; and
- Lack of standardized clearance processes across PGAs.

In May 2011, H.E. the Minister of Finance will attend a workshop to discuss the report's findings with members of the public and private sectors. FRP II is committed to continue its support to Jordanian Government counterparts to address issues that hinder the smooth flow of goods across borders.

MODERNIZING IT SYSTEMS

Ensuring secure movement of goods across borders and effective facilitation of trade requires that Jordan Customs and border facilities have and are able to operate modern IT systems for communication and data gathering, reporting and analysis. Modern ICT is also essential to ensure compatibility with systems such as ASYCUDA and the GFMIS.

FRP II has supported IT modernization and integration in a number of ways during the project's first year. For instance, FRP II advisors worked with Jordan Customs to develop an IT Strategic Plan, which focuses on developing systems that are aligned with Jordan Customs' overall organizational strategy. The Strategic Plan identifies five core goals, to be achieved through implementation of multiple activities in the coming years:

(1) Creating a paper-free environment;

(2) Providing decision makers with accurate and timely information;

(3) Reducing clearance times by enhancing information exchange with neighboring countries;

(4) Simplifying customs procedures and enhancing services provided to customers and staff; and

(5) Supporting control of smuggling at Jordan's borders.

Continued implementation of ASYCUDA World will also help Customs better monitor high-risk importers and generate information that assists border agents in applying deductive valuation methodologies.

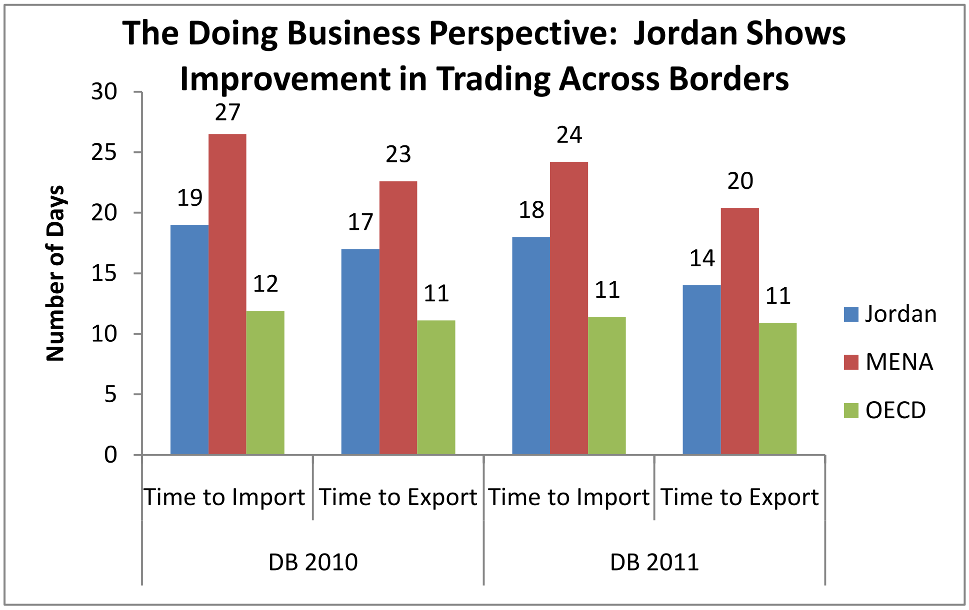
The Strategic Plan envisions a common technological platform for all of its computerized systems, from revenue and expenditure systems, to payroll, social security, and human resources management. Many of these systems were developed more than twenty years ago with now-obsolete technology. Integration with ASYCUDA and GFMIS requires development of automated, Java-based financial systems. FRP II has delivered considerable technical assistance in its first year to address these gaps, with a dedicated Jordanian expert providing Java training and on-the-job mentoring.

In 2011, FRP II will continue to support these IT activities and others called for in the IT Strategic Plan, ensuring that IT modernization activities complement other technical assistance provided to Jordan Customs and partner government agencies.

DOING BUSINESS "TRADING ACROSS BORDERS" – TRENDS

The 2011 World Bank Doing Business Survey reports that Jordan ranks 77th in the world with respect to ease of ―Trading Across Borders," dropping three places from its 2010 ranking. Yet as Figure 23 illustrates, Jordan registered some positive trends from 2010 to 2011: Specifically, import duration declined from 19 to 18 days, while export duration fell from 17 to 14 days. While Jordan's performance on these measures is still well below the OECD average, it nevertheless outperforms its MENA comparators by a significant margin.

Figure 23. Reducing time to import/export



Positive changes are largely attributable to continuing development of the Single Window, upgrade of the ASYCUDA system, and introduction of an improved transit tracking system. With a firm commitment from Jordan Customs' leadership, and continued support from FRP II, sustained improvements in the country's *Doing Business* rankings should be expected in 2012, and beyond.

VII. RESULTS-ORIENTED GOVERNMENT

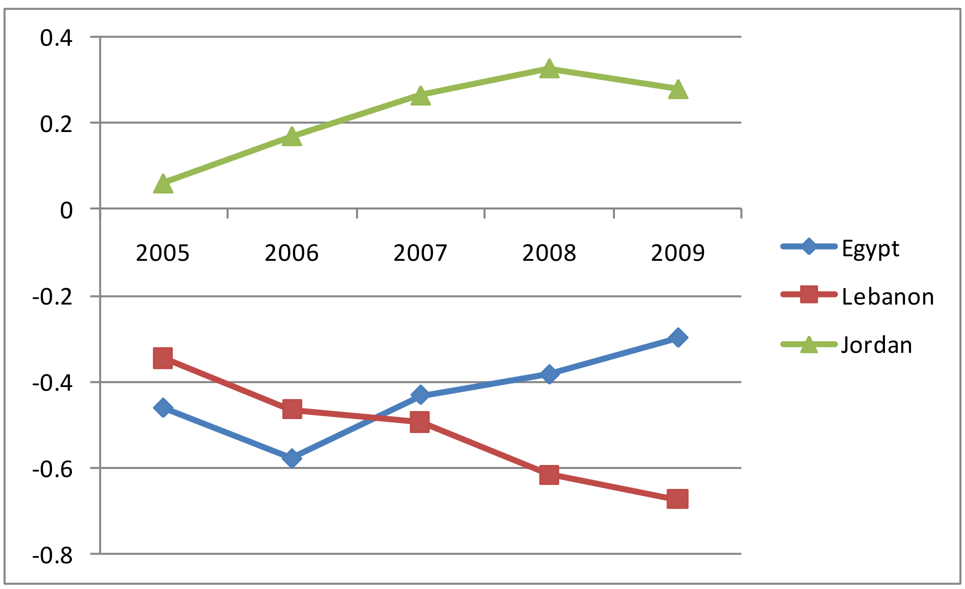
With 13 percent of the workforce in the public sector and serious and continuing fiscal challenges, the Government's ability to meet its commitments to the Jordanian people is severely constrained. Facing immense and growing demands, the need to make government more efficient is acute.

A variety of international indicator sets point to weak and declining performance across a wide spectrum of government functions in Jordan. In particular, the Government Effectiveness Index (GEI), an established cross-country survey of government performance, shows the GOJ's score for government effectiveness well above some of its key regional neighbors, but nevertheless declining from 2008 to 2009, the last time the index was published.[17]. (Figure 24)

Expected Results:

- Government's role better defined
- Government performance improved
- Strategic planning, outreach, performance measurement increasingly used to link planning with actions throughout GOJ

Figure 24. Government effectiveness in Jordan, 2005-2009



Innovative, responsive and effective government, whether through better provision of health care services, better designed capital investment projects, or a more taxpayer-friendly tax system, permeates FRP II's approach in all its technical and outreach work.

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[17] The GEI, produced by the World Bank Institute, uses 17 component sources to measure the quality of public services, the quality of the civil service, and the quality of policy formulation and implementation, with index values ranging from -2.5 (very poor performance) to +2.5 (excellent performance). See http://www.govindicators.org.

In the project‘s first year, FRP II seized on important opportunities that transformed ―Results-Oriented Government” (ROG) from an abstract concept into both a distinct FRP II project component, and an explicit objective of the Government of Jordan itself.

A. RESHAPING GOVERNMENT

Benefiting from dynamic leadership inside the Ministry of Public Sector Development (MOPSD), FRP II helped the GOJ register a number of notable achievements in 2010. A pioneering ―Reinventing Government” workshop convened in March spurred debate and discussion among senior GOJ leadership—including 13 ministers and 7 Directors General—providing momentum for a radical new approach to public sector reform.

A number of early accomplishments are described below.

RESTRUCTURING OF API'S

Years of organic and poorly planned growth has produced an unwieldy government structure, one that is unusually large and complex for a country of only 6 million people. When FRP II began, the project found a number of troubling features in the existing system. For instance, some GOJ institutions had confusing and sometime overlapping mandates. There was a lack of transparency regarding authority over various issues. Furthermore, public expenditure was rising on services that did not necessarily fall under the mandate of the public sector. Citizens, meanwhile, struggled to find the appropriate Government agencies to address their everyday needs.

In August 2010, and working closely with the MOPSD, FRP II undertook a comprehensive review of GOJ sectors and the institutions within them, focusing primarily on the assortment of autonomous public institutions (APIs). These institutions made up 45 percent of public sector bodies in Jordan, and their combined spending had soared, nearly tripling in recent years to over JD 1.5 billion by 2008.

Following the API review, MOPSD and FRP II jointly developed a proposal to restructure these institutions, with a focus on eliminating duplication and overlap. The proposal attempted to cluster complementary institutions, separate policy setting from administrative and regulatory functions, and underscore the role of government as a catalyst for service provision, rather than a producer of goods and services.

In an historic decision, the Council of Ministers approved a resolution to fundamentally restructure the APIs, accepting the MOPSD proposal in its entirety. All told, 22 institutions are slated to be restructured, eliminated, or merged, including three energy regulators that will be merged into a single body, and three procurement institutions that will become one procurement department serving the entire Government. Several other organizations have had their functions clarified or names changed.

Table 3 below details the institutional changes brought about by the resolution, including ―before” and ―after” status of the total 28 affected public sector institutions.

Table 3. Rationalizing public sector institutions in Jordan

From	*Into*
Eliminated	
Cultural Movement Supporting Fund	–
National Parks Authority	–
Jordan Agency for Enterprise Development	–
Integrated	
Agricultural Risk Management Fund	A department in the Ministry of Agriculture
Executive Privatization Commission	A function of Mega Projects Administration
National Employment Center	A department in the Ministry of Labor
Merged	
Jordan Nuclear Authority Regulatory Commission	Energy and Resource Regulatory Authority
Electricity Regulatory Commission	
Natural Resources Authority (Regulatory functions)	
Royal Jordanian Geographic Center	Geological Exploring Corporation
Natural Resources Authority (Geological functions)	
Department of Government Buildings	Government Procurement Department
Unified Procurement Department	
General Supplies Department	
Free Zones Commission	Development Zones Commission
Jordan Industrial Corporation	
Developing Area Authority	
Jordan Securities Commission	Securities and Insurance Commission
Insurance Commission	
Securities Industry Regulatory Council	
Vocational Training Corporation	Vocational Employment and Training Corporation
National Training and Employment Projects	
Typology Reclassified	
Jordan Maritime Authority	Jordan Maritime Commission
National Information Technology Center	Information Technology Corporation
Coordination Commission for Social Solidarity	Advisory Board for Social Solidarity
Functions Clarified	
Jordan Investment Board	Focus primarily on exports and investment
Jordan Enterprise Development Corporation	Focus primarily on SMEs
Privatized	
Aqaba Railway Corporation	Aqaba Railway Company

While the cost savings to Government are still unknown, this decision boldly demonstrates the commitment of GOJ senior leadership to a leaner government, driven by results, efficiency, and responsiveness.

DEVELOPING A FRAMEWORK FOR PUBLIC SECTOR REFORM

Working in partnership, MOPSD and FRP II drafted a new strategy for public sector development, emphasizing the importance of strategic planning and underscoring the overarching goal of results-oriented government in Jordan.

The PSD Strategy, approved by the Council of Ministers late in 2010, proposes several interventions to catalyze change over the 2011 – 2017 reform timeline. These include introduction of systematic performance monitoring, a performance pay scheme, and the deployment of a comprehensive system integrating planning and financial, human resources, and performance management across government.

Another important step in advancing the public sector reform agenda was taken with the passage of a revamped Service Delivery Improvement (SDI) Bylaw, revised with support from FRP II. The bylaw, also approved by the Council of Ministers in late 2010, defines more clearly the roles of Government agencies in promoting SDI, fostering a sense of ownership and accountability on the part of the various entities. Critically, it also grants MOPSD the authority to compel GOJ agencies to undertake specific reforms to strengthen service delivery. As of writing, the revised bylaw was being reviewed by the Legislative Opinion Bureau.

Through this process, MOPSD itself has started to become more results-focused, viewing itself as the champion and facilitator of public sector reform, not the implementer, where the Ministry‘s role is to provide public entities with the tools to define institutional objectives, set standards, establish indicators and targets, and monitor performance.

While still in the early phases of implementation, the PSD Strategy offers promise to transform the way Government operates in Jordan, fostering strategic thinking, stressing results, rewarding excellence, and fundamentally changing how Government interacts with the public.

DEVELOPING TOOLS FOR SERVICE DELIVERY IMPROVEMENT

Over the project‘s first year, FRP II helped the MOPSD develop a number of user-friendly tools to assist GOJ agencies in monitoring and improving service delivery. The project has already delivered two tools—one on conducting customer satisfaction surveys, the other on implementing a ―mystery shopper" programs—providing how-to guidance to Government departments on carrying out such activities. Rollout of these tools, developed based on international best practices, has been accompanied by training for agencies‘ front-line employees.

Toolkits are a practical and cost-effective instrument for instructing both current and future staff on carrying out typical day-to-day services. Training current staff and supervisors on using such tools provides future staff with in-house mentors as they learn to take up such tasks down the road.

B. LEVERAGING KAA TO ENHANCE GOVERNMENT RESULTS

Promoting innovation and excellence in government depends critically on incentives. In Jordan, the King Abdullah II Award for Excellence in Government Performance and Transparency (KAA) has been a catalyst for change in Government, providing both financial incentives and institutional recognition as motivation for improved government performance and transparency.

Indeed, the KAA award has motivated customer-focused process improvements that reduce both the time and cost of providing Government services. The Passport Agency‘s success in reducing to 20 minutes the time it takes to obtain a Jordanian passport is an oft-cited example. Others include installation of electronic queuing systems; web-enabled services; one-stop shops; and, the automated Single Window at Jaber Border House, implemented with FRP II support.

Although the KAA has driven many enhancements across GOJ agencies, only a few have resulted in significant changes in the way GOJ entities operate and serve the public. Moreover, few Government managers are focusing yet on innovation *per se*. This was evident in the inaugural competition for the MOPSD-administered Innovation and Excellence Fund (IEF), which in 2010 awarded seed funds to MOT, DLS and other agencies to develop customer complaints databases and other basic tools. While demonstrating a growing recognition for the importance of customer service, few if any of the applications proposed truly catalytic change.

In partnership with MOPSD and the King Abdullah II Center for Excellence (KACE), FRP II has initiated efforts to change the perspective of the KAA competition from an award to an ―excellence model”—focusing less on the annual KAA report itself, and more on execution, continuous improvement, and inter-agency collaboration. Through FRP II trainings and workshops, moreover, Government staff are gaining exposure and experience with strategic planning, implementation, and performance monitoring, skills that are essential to raising performance and transparency. And while much more remains to be done, in little more than a year‘s time, FRP II has managed to ―plant the seed” for more far-reaching, results-driven public sector reform.

VIII.RECOMMENDATIONS

The Government of Jordan faces severe fiscal challenges, mainly as a result of recent political and economic developments in the region.[18] Although results have been tempered by domestic and regional pressures, fiscal reform and public sector modernization are nevertheless transforming government in Jordan.

This report bears evidence to the transformation in process. While tax revenues have yet to truly rebound, for instance, the ISTD has begun to embrace a customer focus that will ultimately encourage greater voluntary compliance. While budget constraints remain acute, the MOF and many other GOJ agencies have committed time and resources to strategic planning and deeper analysis—offering promise for cost-savings and better resource allocation in the future. And, while international trade is markedly down from pre-crisis levels, border authorities have continued to implement reforms that both strengthen supply chain security and reduce the time and cost of clearing goods through Jordan‘s borders.

Indeed, the prospects for more radical results are positive. Jordanian leadership have shown their commitment to developing the capacity and implementing the organizational change necessary to accommodate more comprehensive fiscal and public sector reforms. The Government now has the opportunity to consolidate and build on the progress achieved thus far, and devote new attention to rationalizing tax policy, strengthening revenue collections, deepening strategic analysis, facilitating trade, and improving the use of public resources—fostering a strong public sector that operates efficiently and enables Jordanians to prosper and thrive.

To help sustain this momentum, the following sections offer, first, strategic recommendations to guide project implementation going forward and, second, several items for policy dialogue that might enhance and accelerate the Government‘s efforts toward achieving Jordan‘s National Agenda goals.

A. STRATEGIC RECOMMENDATIONS

The ―Strategic Recommendations" below are meant to inform and enhance how the FRP II team implements its assistance to Jordanian counterparts in the coming years.

BE FLEXIBLE

USAID/Jordan designed FRP II with a great deal of flexibility. There is considerable margin for creativity, for being proactive and responding to opportunities and changing demands. Ongoing domestic pressures, coupled with the high turnover in senior Government leadership, only intensify the need for creative ideas and actions.

Looking ahead, FRP II can and should seize on opportunities, especially those created by continuing economic and fiscal distress, to advance the Government‘s reform agenda. Advocacy for *sukuk*, for

[18] In January, the Government approved measures to ease citizen‘s economic hardship at a total cost of about 2 percent of GDP, including: wage and pension increases; providing basic food commodities at subsidized prices; reducing tax on gasoline; and canceling the special tax on diesel and kerosene.

instance, potentially opens doors to vast new sources of financing for critical public investments, while simultaneously reducing stress on the public sector budget.

KEEP EMPHASIZING "THE BASICS"

FRP II has learned from experience that sophisticated reforms, such as results-oriented budgeting, can be elusive if the basic systems and capacity are not yet in place. Indeed, the outcomes of the budget process depend heavily on whether there are clear rules for formulating, executing, and reporting on the annual budget.

In this regard, FRP II should continue to focus on ―the basics," such as harmonizing budget classifications and rationalizing the budget calendar, while simultaneously dedicating attention to expressed GBD priorities, such as performance evaluation. Furthermore, the project should continue to lend support to the development of an Organic Budget Law (OBL), in close consultation with MOF, GBD, and GOJ line ministries. Organic budget laws codify the system of rules that govern budgetary decisions made by the executive and the legislature. They specify *what* budgetary processes are prescribed in law, *who* is responsible, and *when* key budgetary steps should be taken.

PROMOTE ROUTINE ANALYSIS

In the first year, FRP II worked tirelessly to cultivate a demand and an appetite for policy analysis in Government, especially within the MOF. Several joint studies, including the VAT exemption analysis and several critical cost-benefit analyses, demonstrated the power of analytic thinking in shaping policy discussions.

FRP II should build on this momentum, seeking greater collaboration from SEPD and other units in carrying out studies and issue papers; in this respect, all FRP II-sponsored studies will be co-authored by a Jordanian counterpart. Similarly, the project should continue to support SEPD efforts to refine and update the macroeconomic model, and assist efforts to produce sound revenue forecasts and other policy-related projections.

Regular and informed analysis should be promoted at other GOJ counterpart agencies as well. Having co-produced several trade facilitation diagnostics in the project‗s first year, Jordan Customs is now in a position to lead the follow-on studies in future years. Likewise, ISTD now has the experience and insight to play an active role in carrying out taxpayer compliance cost surveys on its own. The FRP II team is ready to support such activities, if an as needed.

INITIATIVE A STRATEGIC REVIEW OF "ROG"

The project‗s success in Year One in advancing the ―results-oriented government" agenda was built on the support of an ambitious and dynamic Minister of Public Sector Development. Now that MOPSD leadership has changed, the ROG program seems diffuse and lacks both a ―champion" and the focus needed to show clear results. FRP II should carefully review its ROG assistance to determine where there is broad-based interest in *real* change, and where opportunities are deemed to be within reach. This may mean, for instance, scaling back support for KAA reporting (see recommendation below); and at the same time scaling up support for streamlining procurement functions in Government, in line with the 2010 resolution on restructuring the APIs. Assistance should also concentrate on those reforms that will improve public service delivery, result in budget savings, and measurably improve the GOJ‗s performance against internationally recognized indicators of government effectiveness.

REEVALUATE SUPPORT TO KAA

Undoubtedly, the King Abdullah II Award for Excellence has been a catalyst for change in Government, providing critical incentives for GOJ agencies to introduce administrative enhancements that reduce procedures and wait times. Yet, for all its hype, the KAA has yet to stimulate truly far-reaching changes in how Government interacts with the public. Many agencies dedicate greater and greater resources to preparing winning KAA reports, but few resources to crafting innovative, performance-enhancing ideas.

Unless the KAA criteria are radically rethought, FRP II should consider scaling back its KAA assistance. In the meantime, the project should focus on opportunities to educate GOJ agencies on international experiences with innovation in government. A major —Innovations Fair” planned for September 2011 will provide a forum for exposing Government counterparts to cost-saving and performance-enhancing solutions implemented by public sector institutions around the world.

REPLICATE SUCCESSFUL CAPACITY BUILDING INITIATIVES

FRP II‘s success in applying training of trainer methodologies at ISTD—engaging ISTD employees and managers in joint development, customization and delivery of all types of technical and administrative training—provides a model for other project components to emulate. ISTD now has 17 in-house instructors, both men and women capable of training on various topics, providing sustainable training and continuous learning opportunities for their peers.

Looking forward, FRP II should leverage this experience to create similar training capacity at other key GOJ counterparts. For instance, the project might consider seconding the FRP II Senior Tax Training Advisor to the General Budget Department, should the opportunity to reengage GBD emerge.

Additionally, the project should explore options for expanding MOFTC‘s reach as a center of excellence in public finance. With continued support, the Training Center could potentially become a "hub" for training the vast array of GOJ agencies in skills and techniques from budget planning and formulation, to cost-benefit and cost-effectiveness analysis. To the extent possible, the project should work to increase the proportion of female participation in these learning opportunities.

TRANSFORM KNOWLEDGE INTO ACTION

FRP II‘s —bottom-up” approach to capacity building—assessing needs, delivering training, and empowering front-line employees—has laid important foundations for enhanced performance in Government institutions.

Looking ahead, the project should focus more intensively on translating new knowledge into positive action. Training and capacity building should be designed to support the daily work Government staff do at their desks. For instance, project advisors could work side-by-side with line ministry staff in preparing budget requests, estimating activity costs and developing program justifications. Similarly, advisors could help counterparts review budget spending, identify waste and develop action plans for eliminating it. —Quick wins” that yield greater revenue or save resources for Government will build momentum and enthusiasm for continued reform and modernization.

B. ITEMS FOR POLICY DIALOGUE

Following are several items for consideration by senior Government of Jordan decision makers. This list is by no means exhaustive, but provides some targeted policy options that FRP II, if requested, would be ready to help implement.

IMPLEMENT THE COMPLIANCE PROGRAM AT ISTD WITHOUT DELAY

The stop- and non-filer pilots executed at ISTD last year demonstrated the potential that focused compliance activities can have on raising compliance and, ultimately, tax revenues. Yet thousands of businesses continue to operate ―under the radar" and go largely undetected by the ISTD. Many others may already be in the ISTD's system but have stopped filing without repercussions

The ISTD should implement a strong compliance program to broaden Jordan's tax base, bring non-filers into the tax net, and ease control on those who already do comply. The program should focus selectively on those taxpayers with potentially significant tax liabilities, i.e., corporations and professional taxpayers.

Senior ISTD officials have indicated that they recognize the importance of a permanent compliance program, and see a well publicized crackdown on tax evaders as a potentially popular measure to take. Yet some officials also expressed concern about the political backlash the Government might face from scaling up efforts in this difficult economic environment. While such concerns are understandable, there will never be a convenient time to pursue tax cheats. With deficit pressures mounting, there is no time like the present to ramp up compliance efforts; the ISTD has a responsibility to collect the taxes due to the Government, regardless of the political cost.

MAKE TAX COMPLIANCE EASIER

FRP II should help MOF and ISTD counterparts initiate a careful review of newly released regulations supporting the income and sales tax laws. The aim should be to reduce bureaucracy by streamlining the requirements in these regulations. This might entail, for instance, a reduction in the frequency of tax payments; less frequent submission of tax declarations (e.g., for the VAT); and/or simpler bookkeeping requirements, especially for smaller businesses. The review should also carefully examine and recommend measures to reduce taxpayers' exposure to costly and unproductive audits. The taxpayer compliance cost survey, which will be finalized this spring, should provide some guidance as to where the opportunities for greatest impact exist.

REVISIT TAX POLICY REFORM

New income and sales tax legislation in 2010 introduced some positive changes to the legal framework for taxation. Yet political compromises have resulted in a tax reforms that do little to enhance revenue mobilization—one of the National Agenda's core goals. To broaden the tax base and promote greater voluntary compliance, the following policy recommendations should be considered:

- *Raise the top marginal personal income tax rate from 14 to 20 percent.* This assumes there is little support for lowering the basic personal deduction, which is currently a generous JD 12,000 per year for individuals (JD 24,000 for families). A 20-percent top marginal rate would still be well below the international average (29.6 percent), but would better ensure that the Jordanian Government secures a reasonable share of revenue from the country's highest income earners.

- *Tax capital gains.* Capital gains are an important, and often the only, source of income for wealthier individuals. Taxing these gains could potentially have profound implications for Government revenue in Jordan. As is customary in modern tax systems, short-term capital gains would be taxed as regular income, while long-term gains would be taxes at a differentiated (single) tax rate.
- *Reconsider certain tax incentives.* One in particular is the income tax exemption for certain export earnings. The cost in foregone revenues from such incentives is roughly as large as the revenues the Government actually collects from taxes. The GOJ can ill afford such _giveaways' any longer.
- *Rationalize property tax and make it a municipal levy.* Improving the revenue potential of real property taxation could significantly reduce pressures on sub-national government budgets. Yet ongoing efforts to introduce a new property tax law, granting greater tax authority to local governments, have been slowed by concerns that this will necessarily increase the tax burden on poorer Jordanians. A new property tax law—one that consolidates tax bases, reduces tax rates, and increases transparency in property valuation—could achieve significant administrative efficiency gains while at the same time protecting the interests of Jordan's most disadvantaged groups.
- *Significantly reduce or eliminate the property transfer fee*. The current rate is 10 percent of transfer value, though the Cabinet has reduced it temporarily to 4.5 percent—still high by international standards. The high tax rate is a serious disincentive to reporting accurate property values, but also distorts market behavior, affecting decisions about selling and buying property. The property transfer fee could potentially be replaced by other taxes, such as a tax on capital gains from property sale.

BRING FISCAL PROJECTIONS INTO THE PUBLIC DOMAIN

The MOF's annual revenue forecasts are published without any discussion of the assumptions underpinning the projections. It is unclear, for instance, how projections take into account economic trends, policy changes, or revenue elasticities. It comes as little surprise, then, that actual revenues often deviate significantly from the forecast.

Credible revenue forecasts are part of the foundation for a credible budget. At a minimum, the Government's annual budget should clearly lay out the assumptions behind revenue projections. This will help enforce greater discipline in budget planning, and better link spending to a realistic resource envelope.

INVESTIGATE ALTERNATIVE PROJECT FINANCING MECHANISMS

Having already reached the legally imposed debt ceiling, the Government of Jordan now faces the difficult task of financing major new capital investments without access to traditional financing sources.

The Government should accelerate progress toward creation of a legal and institutional framework for public-private partnerships. The PPP Law, when passed, will create vast new opportunities to leverage private financing for major capital projects.

At the same time, the Government should explore alternative models, including Islamic financing, which can overcome the debt constraint and enable greater risk sharing with private investors. In April 2011, the

Cabinet approved a request from Al Rajhi Cement Company to tap Islamic *sukuk* to finance its Jordan operations, becoming the first legal entity in the Kingdom to do so. This deal sets the stage for expansion of the *sukuk* market in Jordan; if embraced, the Government could well become one of the primary issuers of Islamic *sukuk*.

DEVELOP A SECONDARY BOND MARKET

The Government of Jordan‘s ability to finance critical capital investments is challenged not only by the legal limit on debt, but also by the lack of a secondary bond market. An active and efficient secondary market would make government bonds more attractive to investors, at no cost to the Government. Investors would be more ready to buy government securities if they knew that they could reduce (or increase) their own holdings quickly, inexpensively and at their own discretion. Secondary markets would also help the government secure better terms when issuing new debt, reducing the budgetary cost of carrying debt.

ACCELERATE CUSTOMS SINGLE WINDOW IMPLEMENTATION

If well implemented, Jordan‘s ―Single Window" will vastly expedite information flows and reap benefits for all parties involved in cross-border trade. Unfortunately, while Jordan Customs has embraced the single window concept, many PGAs still have not. Many still resist risk management principles, inspecting incoming cargo at will and imposing unnecessary burdens on Jordanian traders. Bringing PGAs on board will require careful consultation and education; while difficult, delaying this effort could prove very costly for the Government and for the economy.

STRENGTHEN THE SECRETARY GENERAL ROLE

Given the high turnover in Jordan‘s government—the average GOJ minister is replaced every 8-12 months—there is little incentive to champion reforms that take more than a year to bear fruit. Furthermore, ministers typically assume considerable administrative responsibilities in their position, such that frequent leadership changes are also disruptive to the normal operation of Government ministries.

The Secretary General (SG), as a ministry‘s senior civil servant, provides continuity and institutional knowledge that cannot be achieved by political appointees. As in similar parliamentary systems, the SG in Jordan should be charged with running her/his ministry or agency on a day-to-day basis, overseeing everything from budgetary affairs to human resources policy to IT strategy. Such an arrangement ensures consistency and greater commitment to organizational priorities, while leaving pressing policy concerns to the ministerial appointee.

REEVALUATE PUBLIC SECTOR INCENTIVE SCHEMES

Low Government salaries and weak incentive schemes provide little motivation for public sector employees to excel or innovate. Where performance pay schemes do exist, they often create perverse incentives for Government staff; for instance, bonus pay for Customs officials is directly tied to the number of inspections they carry out, irrespective of whether those inspections were warranted.

Effective financial incentives provide an opportunity to improve the productivity of public sector workers. By linking compensation to performance, the Government can use incentives as a means of improving service delivery. Performance-related pay can also motivate employees to pursue professional development opportunities that previously offered little in the way of additional benefits for the individual. Consequently, productivity is likely to improve both in the short run, because employees are working harder, and also in the longer run, as staff professional development generates further gains in productivity.

CONSIDER MORE FAR-REACHING CIVIL SERVICE REFORM

The Government should seriously consider a comprehensive, top-to-bottom review of the civil service system. This would encompass everything from public sector compensation, to selection and promotion of public sector recruits, to ethics and sanctions for employee misconduct. Such an exercise would explore options for organizational restructuring, improving human resource management and training, enhancing pay and benefits, and strengthening measures for public participation, transparency, and combating corruption.

EXPLORE OPTIONS FOR DECENTRALIZATION REFORM

Increasingly complex domestic demands are taxing the ability of the GOJ to respond to local needs. Greater fiscal decentralization could empower local governments to respond more efficiently and effectively to community-level concerns. This would require, in turn, greater local autonomy to levy and collect revenues from their communities, including the property tax. An in-depth fiscal decentralization policy paper has already been produced, with support from FRP II advisors. The project is poised to lend support to a broader decentralization dialogue if and when Jordanian stakeholders request it.

ANNEX A: DATA TABLES

Table 4. Basic economic indicators, 2005-2010

	2005	2006	2007	2008	2009	2010
			Millions of Jordanian Dinars			
Nominal GDP	8,925.4	11,092.6	12,595.6	16,108.0	17,815.6	19,490.6
Real GDP	7,379.6	7,964.2	8,640.7	9,298.1	9,514.4	9,851.1
Nominal GDP growth	10.3	24.3	13.5	27.9	10.6	9.4
Real GDP growth	8.1	7.9	8.5	7.6	2.3	3.5
GDP per capita-PPP	4,289.1	4,671.6	5,105.1	5,491.7	5,547.7	-
Population (in mill)	5.4	5.5	5.7	5.8	5.9	6.0
CPI, inflation	3.5	6.3	4.7	14.0	-0.7	5.0
Unemployment rate	15.0	14.1	15.6	12.7	12.8	12.8
			in percent of GDP			
Structure of the Economy:						
Agriculture and related activities	4.0	3.7	3.8	4.1	4.5	4.7
Construction	9.5	9.1	9.4	9.4	10.5	9.3
Manufacturing	32.9	32.0	32.1	31.2	30.0	29.3
Services	37.3	38.4	38.2	38.1	38.4	39.7
National Accounts:						
Private consumption	87.8	83.6	84.0	79.0	76.9	75.5
Government consumption	19.5	21.9	23.0	21.4	19.9	17.9
Gross investment, private	27.1	20.1	22.5	22.0	21.5	24.8
Gross investment, government	7.1	7.2	6.7	6.0	8.1	4.3
Monetary Sector:						
M2	138.5	127.2	123.9	113.6	112.3	114.4
growth of M2 (%)	6.0	-8.2	-2.6	-8.3	-1.1	1.9
Prime lending rate	7.0	7.5	8.2	8.5	8.3	8.2
Total credit	86.8	88.0	89.7	81.0	74.8	74.8
External Sector:						
Exports	52.7	51.8	52.2	54.7	43.5	46.9
Imports	94.2	84.6	88.4	84.7	65.6	64.3
Trade Balance	-41.5	-32.7	-36.1	-30.0	-22.0	-17.4
Current Account Balance	-18.0	-11.0	-16.2	-9.0	-4.5	-1.0
Remittances	19.5	18.1	19.0	16.5	14.9	13.6
Foreign Direct Investment (FDI)	15.8	22.7	14.8	12.5	9.6	-
Public Finance:						
Total Revenues	34.3	31.3	31.5	31.6	25.4	23.9
Total Revenues excluding grants	28.7	28.5	28.8	27.2	23.5	21.8
Tax Revenues	19.8	19.2	19.6	17.1	16.2	15.3
Total Expenditures	39.0	34.8	36.0	33.7	33.9	29.3
Current Expenditures	31.9	27.6	29.4	27.8	25.7	24.7
Capital Expenditures	7.1	7.2	6.7	6.0	8.1	4.6
Overall Deficit/Surplus	-4.6	-3.5	-4.5	-2.1	-8.5	-5.4
Net debt outstanding	82.6	66.3	65.1	52.3	54.2	58.8
Gross debt outstanding	84.3	73.4	71.0	58.3	61.5	64.6
of which: Domestic debt	27.6	26.7	29.3	35.7	39.8	40.9
of which: Foreign debt	56.7	46.8	41.7	22.6	21.7	23.7

Table 5. Revenue trends in Jordan, 2005-2010

	2005	2006	2007	2008	2009	2010
			in Millions of Jordanian Dinars			
Revenues & grants	3,064.0	3,469.0	3,971.5	5,093.7	4,521.3	4,663.1
Revenues (excluding grants)	2,563.0	3,164.4	3,628.1	4,375.5	4,187.9	4,242.3
Tax revenues	1,765.8	2,133.6	2,472.1	2,751.2	2,880.0	2,985.1
ISTD-administered revenues	1,318.5	1,650.2	1,974.7	2,293.9	2,463.1	2,622.4
PIT	86.4	91.3	98.6	121.3	179.5	154.5
CIT	197.3	320.1	396.4	482.1	585.2	470.2
GST (VAT+SST)	1,034.8	1,238.8	1,479.7	1,690.5	1,698.3	1,997.8
of which: VAT	888.4	1,056.2	1,275.0	1,507.8	1,460.3	1,574.3
of which: Special Sales Tax	146.5	172.3	199.0	177.6	229.3	425.7
International trade taxes	304.9	315.6	312.1	284.5	270.4	275.3
Tax on property transfers	79.4	97.7	101.7	103.6	81.7	77.9
Other taxes	62.9	70.0	83.6	69.3	64.8	9.5
Non-tax revenues	779.0	1,013.8	1,137.7	1,603.0	1,287.4	1,236.6
Nominal GDP	8,925.4	11,092.6	12,595.6	16,108.0	17,815.6	19,490.6
CPI inflation (%)	3.5	6.3	4.7	14.0	-0.7	5.0
		in percent of GDP				
Revenues & grants	34.3	31.3	31.5	31.6	25.4	23.9
Revenues (excluding grants)	28.7	28.5	28.8	27.2	23.5	21.8
Tax revenues	19.8	19.2	19.6	17.1	16.2	15.3
ISTD-administered revenues	14.8	14.9	15.7	14.2	13.8	13.5
PIT	1.0	0.8	0.8	0.8	1.0	0.8
CIT	2.2	2.9	3.1	3.0	3.3	2.4
GST (VAT+SST)	11.6	11.2	11.7	10.5	9.5	10.2
of which: VAT	10.0	9.5	10.1	9.4	8.2	8.1
of which: Special Sales Tax	1.6	1.6	1.6	1.1	1.3	2.2
International trade taxes	3.4	2.8	2.5	1.8	1.5	1.4
Tax on property transfers	0.9	0.9	0.8	0.6	0.5	0.4
Other taxes	0.7	0.6	0.7	0.4	0.4	0.0
Non-tax revenues	8.7	9.1	9.0	10.0	7.2	6.3
		in percent of total tax revenues				
Tax revenues	100.0	100.0	100.0	100.0	100.0	100.0
ISTD-administered revenues	74.7	77.3	79.9	83.4	85.5	87.8
PIT	4.9	4.3	4.0	4.4	6.2	5.2
CIT	11.2	15.0	16.0	17.5	20.3	15.8
GST (VAT+SST)	58.6	57.6	59.6	61.3	58.7	67.0
of which: VAT	50.3	49.5	51.6	54.8	50.7	52.7
of which: Special Sales Tax	8.3	8.1	8.1	6.5	8.0	14.3
International trade taxes	17.3	14.8	12.6	10.3	9.4	9.2
Tax on property transfers	4.5	4.6	4.1	3.8	2.8	2.6
Other taxes	3.6	3.3	3.4	2.5	2.3	0.3

Source: Ministry of Finance; Income and Sales Tax Department.

Table 6. Expenditure trends in Jordan, 2005-2010

	2005	2006	2007	2008	2009	2010
			in Millions of Jordanian Dinars			
Total expenditure	3,478.0	3,860.4	4,540.0	5,431.9	6,030.6	5,703.2
Current expenditure	2,847.1	3,066.3	3,697.4	4,473.4	4,586.0	4,806.4
Wages and salaries	510.9	543.6	614.2	763.9	831.9	928.8
Purchase of goods and services	110.1	115.1	135.3	264.9	323.4	303.1
Interest payments	207.1	266.0	320.8	377.8	392.1	407.5
Subsidies	649.0	376.8	530.1	530.7	257.8	199.7
Subsidies for public institutions	48.9	83.0	23.7	105.1	72.8	88.7
Subsidies for private institutions	600.1	293.8	506.4	425.6	185.0	111.0
Grants	57.6	49.7	66.6	80.1	81.1	95.2
Social benefits	547.7	732.8	727.5	860.0	958.9	997.3
Social assistance	131.0	242.2	210.9	205.3	250.9	219.1
Military expenditure	698.8	795.1	1,128.5	1,484.8	1,645.5	1,800.9
Capital expenditure	630.9	794.1	842.6	958.5	1,444.6	896.8
Nominal GDP	8,925.4	11,092.6	12,595.6	16,108.0	17,815.6	19,490.6
CPI inflation (%)	3.5	6.3	4.7	14.0	-0.7	5.0
			in percent of GDP			
Total expenditure	39.0	34.8	36.0	33.7	33.9	29.3
Current expenditure	31.9	27.6	29.4	27.8	25.7	24.7
Wages and salaries	5.7	4.9	4.9	4.7	4.7	4.8
Purchase of goods and services	1.2	1.0	1.1	1.6	1.8	1.6
Interest payments	2.3	2.4	2.5	2.3	2.2	2.1
Subsidies	7.3	3.4	4.2	3.3	1.4	1.0
Subsidies for public institutions	0.5	0.7	0.2	0.7	0.4	0.5
Subsidies for private institutions	6.7	2.6	4.0	2.6	1.0	0.6
Grants	0.6	0.4	0.5	0.5	0.5	0.5
Social benefits	6.1	6.6	5.8	5.3	5.4	5.1
Social assistance	1.5	2.2	1.7	1.3	1.4	1.1
Military expenditure	7.8	7.2	9.0	9.2	9.2	9.2
Capital expenditure	7.1	7.2	6.7	6.0	8.1	4.6
			in percent of Total Current Expenditures			
Current expenditure	100.0	100.0	100.0	100.0	100.0	100.0
Wages and salaries	17.9	17.7	16.6	17.1	18.1	19.3
Purchase of goods and services	3.9	3.8	3.7	5.9	7.1	6.3
Interest payments	7.3	8.7	8.7	8.4	8.5	8.5
Subsidies	22.8	12.3	14.3	11.9	5.6	4.2
Subsidies for public institutions	1.7	2.7	0.6	2.3	1.6	1.8
Subsidies for private institutions	21.1	9.6	13.7	9.5	4.0	2.3
Grants	2.0	1.6	1.8	1.8	1.8	2.0
Social benefits	19.2	23.9	19.7	19.2	20.9	20.7
Social assistance	4.6	7.9	5.7	4.6	5.5	4.6
Military expenditure	24.5	25.9	30.5	33.2	35.9	37.5

Source: Ministry of Finance.

ANNEX C: LIST OF PERSONS CONSULTED

A. USAID

1. Dr. Ruba Jaradat, COTR, USAID/Jordan

B. GOVERNMENT OF JORDAN

2. H.E. Mr. Mousa Al-Mawazreh, Director General, Income and Sales Tax Department
3. Mr. Mousa Al-Tarawneh, Public Relations & Media Directorate, Income and Sales Tax Department
4. Dr. Metri Mdanat, Director, Studies and Economic Policies Directorate, Ministry of Finance
5. Mr. Sami Abdallah Toughoz, Director of Public Debt Department, Ministry of Finance
6. Mr. Mohammed Hyari, Ministry of Finance
7. Mr. Abdelhaleem Dojan, Assistant Secretary General, Ministry of Agriculture
8. Mr. Khalil Jamjoum, Monitoring and Evaluation Unit at National Center for Agricultural Research and Extension, Ministry of Agriculture
9. Dr. Wael Rojdan, Director of Rangelands, Ministry of Agriculture
10. Mr. Amer Tahani, Veterinary Services, Ministry of Agriculture
11. Mr. Suleiman Ziadat, Former Finance Manager, Ministry of Agriculture
12. Mr. Mahmoud Wafa, Advisor - Director General's Office, Jordan Customs Department
13. Mr. Zakariya Ali Al-Hammouri, Director of Planning & Organization, Jordan Customs Department
14. Mr. Thamer Al Shorman, Head of Risk Management Unit, Jordan Customs
15. Mr. Mohammad Al Hiyari, Risk Management Officer, Risk Management Unit, Jordan Customs
16. H.E. Mr. Sami Halaseh, Secretary General, Ministry of Public Works and Housing
17. Ms. Rawan Al Mubarak, Ministry of Public Works and Housing
18. H.E. Mr. Ali Darabkeh, Secretary General, Ministry of Public Sector Development

C. FRP II PROJECT

19. Dr. Mark Gallagher, Chief of Party
20. Ms. Christina Erickson, Deputy Chief of Party

21. Mr. Robert Wenzel, Tax Revenue Mobilization Component Lead
22. Mr. Atef Al-Momani, Tax Administration Advisor, Tax Revenue Mobilization Component
23. Mr. Mohammed Quraishi, IT Advisor, Tax Revenue Mobilization Component
24. Ms. Hayat Al-Bow, Senior Training Advisor, Tax Revenue Mobilization Component
25. Mr. Ahmed Al-Dib, Chief Interpreter, Tax Revenue Mobilization Component
26. Mr. Nasser Saleh, Consulting CIO to the Director General of the Income and Sales Tax Department, Tax Revenue Mobilization Component
27. Mr. Osama Al-Azzam, Public Financial Management Component Lead
28. Dr. Regis Chapman, Results-Oriented Budgeting Advisor, Public Financial Management Component
29. Ms. Ola Al-Zawati, KAA Advisor, Public Financial Management Component
30. Ms. Rima Yacoub, ROB Communications Coordinator, Public Financial Management Component
31. Dr. Khalid Al-Hmoud, MOF Capacity and Organization Component Lead
32. Dr. Usamah Al-Farhan, Public Finance Economist, MOF Capacity and Organization Component
33. Dr. Abdelhakim Shibli, Capital Projects Impact Advisor, MOF Capacity and Organization Component
34. Dr. Janusz Szyrmer, Macro-Fiscal Advisor, MOF Capacity and Organization Component
35. Mr. Glenn Mackenzie-Frazer, Customs and Trade Facilitation Component Lead
36. Mr. Mohammed Al-Said, Customs Advisor, Customs and Trade Facilitation Component Advisor
37. Ms. Widad Qutaishat, Results-Oriented Government Component Lead
38. Dr. Greg Robins, GFMIS Component Lead
39. Mr. Hussein Al-Momani, GFMIS Project Manager
40. Mr. Tareq Shaker, GFMIS Project Management Office
41. Ms. Tulin Bakeer, Outreach Advisor

D. OTHER

42. Ms. Yasera Ghosheh, Executive Director, King Abdullah II Center for Excellence
43. Ms. Nancy Afram, Communications and Public Relations Manager, King Abdullah II Center for Excellence

ANNEX D: DOCUMENTS REVIEWED

A. LAWS

1. Temporary Income Tax Law of the Hashemite Kingdom of Jordan (2010).
2. Temporary Sales Tax Law of the Hashemite Kingdom of Jordan (2010).
3. Budget Laws of the Hashemite Kingdom of Jordan, 2009-2011.
4. Public Debt Management Law No. 26 (2001).

B. FRP II REPORTS AND STUDIES

1. USAID/Jordan Fiscal Reform II Project, Annual Work Plan, 2009-2010.
2. USAID/Jordan Fiscal Reform II Project, Annual Work Plan, 2010-2011
3. USAID/Jordan Fiscal Reform II Project, Monthly Progress Reports, February 2010 – February 2011
4. Assessment of the Studies and Economic Policies Department (2010)
5. Awareness Campaign for the New Tax Law: Qualitative Research Study (2010)
6. Benchmarking the Tax System in Jordan (2010)
7. General Budget Department Human Resources Capacity Assessment (2010)
8. Golden List Study (2010)
9. Quarterly Progress Reports 1 - 5 of the USAID-funded Jordan Fiscal Reform II Project, covering November 2010 – January 2011
10. Service Delivery Improvement Management Framework
11. Time Release Study (2010)
12. Survey of Trade Barriers and Facilitation Mechanisms in Jordan (2010)
13. Draft Medium Term Debt Strategy (2011)
14. VAT Exemption Study (2010)
15. FRP II Monthly Fiscal Monitoring Reports, covering January – September 2010
16. Assessment of the Public Debt Directorate (2010)
17. Ministry of Finance Functional, Institutional and Operational Review (2010)
18. Review of Jordan Customs Law and Proposed Amendments (2010)
19. Jordan Customs Draft Information Technology Strategic Plan (2011)