

**Jordan: Report on Observance of Standards and Codes—  
Fiscal Transparency Module**

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JORDAN

**Report on the Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module**

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January 6, 2006

**EXECUTIVE SUMMARY**

This report provides an assessment of fiscal transparency practices in Jordan in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information (see IMF *Manual on Fiscal Transparency* for further explanation <http://www.imf.org/external/np/fad/trans/manual/>).

In recent years, Jordan has made important progress toward greater fiscal transparency. In particular, the authorities have introduced a debt target to anchor the medium-term fiscal framework, enhanced the coverage, timeliness, and periodicity of the budget and fiscal reports, and undertaken reforms related to the budget classification and treasury management, which have contributed to improving transparency in several areas of the code.

However, Jordan fails to meet several requirements of the IMF *Code of Fiscal Transparency*. Though there are some important exceptions to this, in order to approach international good practices for fiscal transparency, a broad and sustained effort will be required.

The legislative basis for fiscal management in Jordan is quite comprehensive, but there are weaknesses in enforcement of the legislation. The structure of the government, and the role of different government bodies, are quite clearly defined in law, but the definition of government is not fully consistent with the Government Finance Statistics (GFS) format and excludes many important government activities. The framework for budget preparation, execution and reporting has improved in recent years, but still fails to meet many requirements of the code. Fiscal data on central government (CG) operations are often available within the government and are systematically compiled and disseminated to the public. However, mechanisms for ensuring fiscal data quality, as well as arrangements for external scrutiny of the budget process, need to be improved.

In the short term, the authorities should focus on completion of ongoing reform efforts. An operational macrofiscal unit in the ministry of finance (MOF), a revised budget classification and a functional treasury single account (TSA) will greatly improve the transparency of budget preparation, execution and reporting. A second short-term priority should be simple measures to improve the availability of information and independent assurances of integrity, largely through more systematic management of existing information and processes. In addition, the budget preparation and execution process should be strengthened, including through the establishment of a medium-term budget framework. In the medium term, the authorities face three main challenges: i) to clarify the boundaries of the government and the broader public sector from the rest of the economy to ensure appropriate accountability in the design and implementation of fiscal policy; ii) to improve the transparency of fiscal policy to facilitate legislative and public debate on fiscal policy objectives; and iii) to put in place mechanisms to provide further assurances of the integrity of fiscal information.

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### ABBREVIATIONS

AB	Audit bureau	<a href="http://www.audit-bureau.gov.jo/">http://www.audit-bureau.gov.jo/</a>
CBJ	Central Bank of Jordan	<a href="http://www.cbj.gov.jo/">http://www.cbj.gov.jo/</a>
CG	Central government	
CSB	Civil service bureau	<a href="http://www.csb.gov.jo/">http://www.csb.gov.jo/</a>
GDDS	Government Data Dissemination Standard	
GFS	Government Finance Statistics	
GST	General sales tax	
IDB	Industrial Development Bank	<a href="http://www.indevbank.com.jo/">http://www.indevbank.com.jo/</a>
ISTD	Income and sales tax department	<a href="http://www.incometax.gov.jo/">http://www.incometax.gov.jo/</a>
JIC	Jordan Investment Corporation	
MOF	Ministry of finance	<a href="http://www.mof.gov.jo/">http://www.mof.gov.jo/</a>
MOP	Ministry of planning	
OBA	Off-budget accounts	
PPPs	Public private partnerships	
PSET	Program for social and economic transformation	
ROSC	Reports on the Observance of Standards and Codes	
SDDS	Special Data Dissemination Standard	
SSC	Social Security Corporation	<a href="http://www.ssc.gov.jo/">http://www.ssc.gov.jo/</a>
TSA	Treasury single account	

## I. DETAILED DESCRIPTION OF PRACTICE

### A. Clarity of Roles and Responsibilities

#### Definition of government activities

#### 1. **The definition of general government is not fully consistent with the GFS principles, and is not well covered in the budget process.** 1.1.1

The units of the general government are listed in Box 1. The general government includes the central ministries and agencies, autonomous agencies,<sup>1</sup> and local governments (100). The budgets of autonomous agencies, some of which receive transfers from the government budget, are approved by the cabinet and are available to the public; however, they are not part of the government budget and are not presented in a GFS format. Most of the autonomous agencies are an extension of the CG, for example regulatory agencies. Some of these entities carry out some commercial activities, but are not fully commercial. The budget of the Social Security Corporation (SSC) is not consolidated with the government budget. There is also a number of other agencies that are not included in the budget, including 16 universities, the Royal Scientific Society, and the Jordan Medical Council. Most CG entities have off-budget accounts (OBAs), in which they collect various fees, donations, etc. for use outside the budget framework. Some also have extrabudgetary funds (EBFs), which are

Box 1. General Government Expenditure, 2004	
	Percent of GDP
The general government in Jordan comprises the following:	45.8
<b>Central government units covered by the budget</b>	42.3
1. General Public Services, including the King, the parliament, the judiciary, the prime minister, 25 ministries, and eight governorates 1/	34.3
<b>Central government units with individual budgets</b>	5.8
2. Central government autonomous agencies.	2.2
3. Social security corporation	0.8
4. Universities	n.a
5. Other autonomous agencies	n.a
6. Off-budget accounts (OBAs)	n.a
7. Extrabudgetary funds (EBFs)	n.a
<b>Local government</b>	
8. Municipalities (100)	2.7
1/ Excluding interest payments, and transfers to subnational government	

<sup>1</sup> In government documents, these agencies (39 in 2005) are often referred to as “own-budget” agencies.

established through separate laws or regulations, such as customs, the tax department, and the ministry of industry and trade. Privatization receipts are also collected in an extrabudgetary fund. While financial data can be found for some of the autonomous agencies, OBAs and extrabudgetary funds, consolidated data for the general government have only been available since mid-2005 and are not complete. At the local government level, municipalities vote their own budgets, which are approved by the ministry of municipal affairs, and receive transfers from the CG budget.<sup>2</sup>

**2. Government activities are generally distinguished from those of public financial institutions, which carry out quasi-fiscal activities.** *1.1.4*

Although the CG is not involved in banking activities, it owns shares directly or indirectly in four public financial institutions.<sup>3</sup> These institutions, which provide development loans to specific sectors at below-market interest rates, may receive budgetary subsidies from the CG budget. Even though public financial institutions have administrative and financial autonomy, they incur quasi-fiscal activities associated to their respective missions carried out on behalf of the government. For example, the government guarantees a 6 percent dividend to shareholders of the Industrial Development Bank, as well as the face value of the bank's capital in the case of bankruptcy.<sup>4</sup> There is no centralized reporting of the cost of these quasi-fiscal activities; the latter are identified in the annual reports of the public financial institutions and the central bank, but the costs are not quantified.

**3. Government holdings of fully-owned corporations and equity participations are moderate, but the management of state assets is not defined clearly, and the monitoring system is inadequate.** *1.1.5, 2.1.4*

Government involvement in commercial activities is moderate, although it covers a large array of activities (infrastructure, manufacturing and services). With the privatization program, its role has been on declining trend.<sup>5</sup> The importance of public companies is expected to decline further at the completion of ongoing major privatizations.<sup>6</sup> Some public nonfinancial institutions are supervised by the cabinet/line ministry (such as Jordan Airlines,

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<sup>2</sup> The budget of Greater Amman (51 percent of the total) is approved by the prime minister.

<sup>3</sup> These institutions, which do not collect deposits, include four development entities, namely the Industrial Development Bank (IDB), Agriculture Credit Corporation, the Cities and Villages Development Bank, and the Housing and Urban Development Corporation. At end-2002, their total credits amounted to JD 407 million (7 percent of total bank credits).

<sup>4</sup> The Industrial Development Bank currently generates profits.

<sup>5</sup> Up to April 2005, 64 transactions had been completed including the divestiture of the government's shares in 52 companies under the Jordan Investment Corporation (JIC)'s portfolio. Privatization proceeds have amounted to about US\$1,271 million.

<sup>6</sup> These include Central Electricity Generation Company, Electricity Distribution Company, Irbid District Electricity Company, Royal Jordanian Airlines, Jordan Aircraft Limited Company, Jordan General Silos & Supply Company, Postal Services, and Jordan Phosphate Mines Company.

the power production and distribution companies, and postal services) but most government participations in private companies are managed by the JIC.<sup>7</sup> A large number of companies in the first group are slated for privatization or to be transferred to the JIC. The SSC also participates in private companies. Its vast and increasing portfolio is managed on a commercial basis, through an investment unit independent of the board of directors of the SSC.<sup>8</sup> Even though the CG is represented on the boards of nonfinancial public institutions, its capacity to monitor their activities is limited. There is no unified register of government and public entities holdings.

#### Government relations with nonfinancial public corporations and the private sector

#### **4. Public nonfinancial corporations carry out limited quasi-fiscal activities.** 1.1.4

Public entities serve to promote government development policies. Progressively, nonfinancial public entities have become more commercially oriented. However, the government can influence the management of these companies through its participation in their boards of directors. Decisions on the distribution of dividends to shareholders are proposed by their respective boards. Dividends accruing to the government and profits/surpluses are reported in the government budget's nontax revenue.<sup>9</sup> Quasi-fiscal activities have been particularly prominent in the energy sector, related to the maintenance of fuel prices below world prices. Since 2004, fuel subsidies are reflected in government operations (3 percent of GDP), and are planned to be eliminated progressively, through fuel price adjustments and the full liberalization of fuel trade by 2007. The Water Authority of Jordan (WAJ) also carries out quasi-fiscal activities, through its losses.<sup>10</sup> Government subsidies to the oil refinery (until 2003) and the WAJ's losses are not disclosed.<sup>11</sup>

#### **5. There is no clear legal framework for public/private partnerships.** 2.1.3

The framework for debt management does not deal with issues related to contingent liabilities associated with public/private partnerships (PPPs), such as build, operate, and

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<sup>7</sup> The JIC was created by Law No. 18 of 1991. At end-October 2004, JIC held shares in 48 companies, down from 54 companies during 2000–03. The value of its share portfolio at market value was about JD 180 million (2 percent of GDP).

<sup>8</sup> The government appoints nine of the 15 SSC board members upon recommendations by the minister of labor, who is the chairman of the SSC.

<sup>9</sup> At end-2004, revenues from public companies and autonomous agencies amounted to JD 100 million (1½ percent of GDP), of which JD 30 million from the central bank and JD 25.8 million from the JIC.

<sup>10</sup> The WAJ's losses, which are not covered by government transfers (some ½ percent of GDP), are financed through the issuance of bonds, which are guaranteed and serviced by the central government.

<sup>11</sup> The subsidy to the refinery is recorded on a net basis, because there are cross subsidies from gasoline (whose prices are above world prices) to other fuels. Best practice would be to record nontax revenue from gasoline and the total amount of fuel subsidies in the budget on a gross basis.

transfer. For example, certain types of privatization provided by the law include the build, operate, and transfers, which entail in some cases contingent liabilities through sovereign guarantees granted to investors.<sup>12</sup> Such contingent liabilities are not reported in official documents. Also, over recent years, the cabinet has authorized the transfer of a number of government properties, mainly land, to nongovernmental entities. This has been done in the context of PPPs, without parliamentary approval, and without any disclosure of the value of the assets being transferred.

**6. The legal framework for privatization is clear; the privatization process is generally fair and transparent, but privatization proceeds are managed outside the budget.**

*1.1.5*

The Privatization Law<sup>13</sup> provides the legal and institutional framework for the privatization program in Jordan. The law states the objectives of privatization, including the liberalization of the economy, and clearly defines the privatization process to be conducted by the Privatization Council and the Executive Privatization Commission. This framework aims to ensure that the privatization process is carried out with maximum transparency, openness, and fair competition.<sup>14</sup> In particular, offers are opened in the presence of all the bidders and the accounts of the Executive Privatization Commission are audited by the Audit Bureau (AB). The law states that privatization proceeds be deposited in an extrabudgetary account (privatization proceeds fund), used in part to reduce public debt.

**7. Laws and processes governing government regulation of the nonfinancial private sector are clear and open.**

*1.1.5*

The legal forms of doing business in Jordan are governed essentially by the Companies Law.<sup>15</sup> Companies are also subject to tax laws (see below). Formalities for company registrations are conducted by the ministry of industry and trade (the guidelines are posted on the ministry's website). Over recent years, the government has strengthened its legal framework for promoting investment, notably through the investment promotion law,<sup>16</sup> the Aqaba Special Economic Zone Law,<sup>17</sup> and the investment law.<sup>18</sup> Despite the several changes introduced in the laws, the legislative framework remains clear and easily accessible to investors, with minimum discretion. The government has set up a number of regulatory

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<sup>12</sup> For example, see the case of Assamra Water Treatment Plant.

<sup>13</sup> Law No. 25 of 2000.

<sup>14</sup> However, there is no framework for addressing complaints that might be raised by unsuccessful bidders.

<sup>15</sup> Law No. 1 of 1989.

<sup>16</sup> Law No. 16 of 1995 (and amendments of 2000).

<sup>17</sup> Law No. 32 of 2000.

<sup>18</sup> Law No. 30 of 2003.

agencies, such as the Electricity Regulatory Commission, the Maritime authority, the Higher Commission for Media, the Insurance Commission, and the Jordan Nuclear Energy Commission. However, as detailed below, the investment promotion scheme has introduced distortions and complexities to the tax system.

#### Government relations with the central bank and public financial sector

#### **8. The Central Bank of Jordan (CBJ) is not fully independent and has a minor fiscal role.**

*1.1.4*

Although the central bank law<sup>19</sup> provides the CBJ with financial and administrative autonomy, in addition to maintaining monetary stability, its objectives could give rise to possible government interference, namely through the promotion of economic growth “in accordance with the general economic policy of the government.” In practice, however, the CBJ exercises monetary policy independently. The CBJ law regulates the advance that the CBJ can extend to the treasury, to be repaid out of dividends as well as the financial support that the government could extend to the CBJ. The CBJ can extend an interest-free advance to the government, which cannot exceed 20 percent of domestic revenue estimated in the budget law.<sup>20</sup> In principle, the law prevents the CBJ from engaging in business activities. However, over past years, the CBJ has participated in the capital of local (some public) financial institutions,<sup>21</sup> granted non-interest advances to banks and financial institutions,<sup>22</sup> and provided rediscount facilities to the Agriculture Credit Corporation, the Industrial Development Bank (IDB), and the Export and Finance Bank.<sup>23</sup> The central bank can extend special credit facilities to banks in cases of emergency or under extraordinary circumstances, if these threaten monetary or banking stability. In practice, past advances were granted in response to measures adopted by the government, because the banks involved did not constitute a threat to monetary or banking stability. Such subsidized facilities entail quasi-fiscal activities carried out on behalf of the CG.<sup>24</sup>

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<sup>19</sup> Law No. 23 of the CBJ of 1971, as amended in 1989, 1991, and 1992.

<sup>20</sup> The 2001 Public Debt Law discontinued the provision of central bank facilities. However, the ceiling of central bank advances (JD 803 million) established under a memorandum of understanding between the MOF and the CBJ was breached in early 2005.

<sup>21</sup> At end-2003, CBJ’s participations to Agriculture Credit Corporation, Cities and Village Development Bank, Jordan Loan Guarantee Corporation, and Jordan Mortgage Refinance Company amounted to JD 6.9 million.

<sup>22</sup> At end-2003, outstanding CBJ advances to banks under liquidation (Petra Bank and National Islamic Bank) and other ailing commercial banks (Philadelphia Bank and Jordan Gulf Bank) amounted to 5.4 percent of GDP.

<sup>23</sup> The CBJ is represented in the IDB’s board of directors, even if it is not a shareholder.

<sup>24</sup> The establishment of the deposit insurance corporation (Law No. 33 of 2000) should help eliminate the resort to CBJ special facilities.

### Fiscal management relations among the branches of government

9. **The fiscal roles of the executive, legislative, and judicial branches are clearly defined by the constitution; in practice, however, the executive fulfills some roles of the legislative.** 1.1.2

The constitution<sup>25</sup> divides the powers and functions of the government into executive, legislative, and judicial categories.<sup>26</sup> The executive powers are vested in the King, who exercises his executive authority with the help of the Council of Ministers or cabinet (a prime minister, a deputy prime minister, and ministers). The legislative powers are assigned to a bicameral national assembly, consisting of a senate appointed by the King, and an elected Chamber of Deputies. Judicial powers are vested in independent courts. Articles 111–119 of the Constitution clearly indicate that: (i) taxes and duties are imposed by law; (ii) in approving the draft general budget law, the National Assembly cannot increase expenditure, or amend expenditures or revenues fixed by contract; and (iii) tax exemptions are sanctioned by law. In case the general budget law cannot be enacted before the new financial year, Article 113 envisages monthly appropriations of 1/12<sup>th</sup> of the budget of the previous fiscal year. Article 94 of the Constitution gives the Council of Ministers the power to issue provisional laws in case of emergency, when the National Assembly is not sitting or is dissolved. However, to have the force of law, these provisional laws have to be approved by parliament at the next session. In practice, however, the executive has in some cases adopted by-laws, including for supplementary budgets, which were not subsequently approved by parliament.

### Fiscal management relations among different levels of government

10. **The responsibilities of different levels of government are well defined in the legislation, but in practice, the separation is not always clear.** 1.1.2

The Municipality Law regulates relations between the CG and municipalities.<sup>27</sup> The law details the duties and revenues of municipalities.<sup>28</sup> Since their resources are inadequate to cover the cost of municipal duties envisaged in the law, municipalities receive transfers from the CG (6 percent of the proceeds from the sale of fuel), so as to allow them to carry out essential tasks. CG transfers are distributed according to a formula that takes into account the population, the potential local revenues, and the financing needs. These transfers are used essentially for the wages of municipal employees and for loan repayments. The accounts of

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<sup>25</sup> As promulgated in 1952 and amended later, including in 1974, 1976, and 1984.

<sup>26</sup> Articles 25-27.

<sup>27</sup> Law No. 29 of 1955.

<sup>28</sup> Municipalities receive a number of taxes, levies and fees, including property taxes, license fees for small businesses, and traffic violation fines. Owing to weak technical capacities, only 7 municipalities collect the property tax; property taxes for the others are collected by the MOF on their behalf, in accordance with a special arrangement, which entails a collection fee of 10 percent for the MOF.

municipalities are inspected by the AB. According to the ministry of planning (MOP), out of the 39 tasks assigned to municipalities, only eight are effectively carried out. Accordingly, the CG has taken over key services, such as school and health services.<sup>29</sup> The CG has also played a role in the management of municipalities. It appoints some members of the municipal councils and the Directors (the Mayor in the case of Greater Amman), who effectively run the municipalities, and formulates regulations for municipalities' employees. Generally, local authorities borrow only from public financial institutions, the government providing guarantees.<sup>30</sup> However, Greater Amman can borrow from commercial banks, without government guarantees. The debt of municipalities is very low.

### The legal and administrative framework for budget management

#### **11. The legal framework for management of public funds is clear; but the responsibilities are fragmented across government institutions.**

*1.2.1*

The financial by-law,<sup>31</sup> pursuant to Article 114 of the Constitution, regulates the execution of the government budget by any department or institution, and any institution with administrative and financial autonomy, together with the financial and accounting basis and rules. It gives the minister of finance a strong central role in fiscal management. All revenue collections by any public entity should be transferred to the treasury. However, the minister of finance can authorize collecting entities to keep some of the collected revenue. The by-law also stipulates that all cash and in-kind grants or donations should be recorded in the budget. In practice, this is not done for some in-kind grants, particularly to the military. The by-law determines the modalities for issuing budget appropriations and controlling their uses, and confers the role of budget managers to secretary generals of ministries and to regional governors. The financial by-law defines the government's general budget to cover the consolidated CG, including the central administration and autonomous agencies. Subsequent laws have allowed some line ministries to collect fees under their control to finance spending. However, ministries are required to incorporate and manage these resources within the budget. Debt management issues are covered under the 2001 Public Debt Law, which sets targets on the reduction of the debt-to-GDP ratio.<sup>32</sup>

#### **12. The mechanisms for coordination and management of budgetary and extrabudgetary activities are not well defined.**

*1.1.3*

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<sup>29</sup> Law No. 12 of 1994 removed a number of tasks from the original list.

<sup>30</sup> The authorities are envisaging a far-reaching regional decentralization under the national agenda, which would strengthen the powers of local governments, including the capacity to collect all taxes, and to provide all services. The reform is expected to be initiated in 2006.

<sup>31</sup> By-Law No. 3 of 1994 (and amendments).

<sup>32</sup> There is a small discrepancy in the definition of autonomous agencies between the fiscal data and the debt data. Data on net domestic debt include some deposits of the SSC in autonomous agencies, while the fiscal data exclude the SSC from the consolidated central government.

Through instructions, the minister of finance regularly sets limits on the balances of OBAs belonging to revenue collecting agencies, which are allowed by law to retain part of the collected revenue.<sup>33</sup> Revenue and expenditure transactions in these accounts are not incorporated in the budget, and there is no information on the amounts involved. The MOF has even less control over the special bank accounts related to external loans and grants managed by the MOP and other line ministries, which reach over 5 percent of GDP.

#### The legal and administrative framework for tax policy and administration

**13. The legislative basis for taxation is comprehensive, but complex.** 1.2.2

The tax framework includes three major taxes, namely the income tax, the general sales tax (GST), and customs duties. Taxpayers are informed through the publication of tax laws and regulations, updated on an annual basis. The tax framework has been relatively stable, with the exception of the income tax, which has been frequently modified by the investment promotion regulations (see below). To a limited extent, the GST has also been subject to changes (thresholds, sectors covered, and rates) over recent years. Despite the efforts made to strengthen tax administration, tax compliance for the income tax (notably for family-owned businesses) remains weak, due to the incomplete observance of accounting rules and ineffective efforts to combat fraud, which is not conducive to effective self-assessment. In addition, by allowing for negotiations between the tax assessor and the taxpayer, the tax framework leaves scope for discretionary interpretation by tax officials.<sup>34</sup> Moreover, tax enforcement appears to be cumbersome, particularly with regard to deductions for inputs and refunds under the GST.

**14. Tax exemptions are extensive and tax expenditures are not systematically quantified and disclosed.** 1.2.2

The government's policy to promote investments has complicated the tax framework. Corporate income tax rates are differentiated by sector, and the new investment promotion law has introduced generous tax incentives based on sectors and regions. Exemptions for the general sales tax (GST) were granted to hotel accommodations, transport and electricity, and, until recently, petroleum products. Tax holidays under investment promotion arrangements are generally provided uniformly, as long as the specific conditions are met. Tax exemptions for individual taxpayers are approved by the cabinet. Tax exemptions have led to distortions and to significant revenue losses. The MOF carried out some research estimating tax expenditures two years ago; however these estimates are not systematically conducted and disclosed.

**15. Tax administration is clearly defined and well coordinated with overall fiscal management.** 1.2.2

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<sup>33</sup> The tax and customs department are allowed by law to retain part of collected revenue (usually penalties and confiscated goods) for incentives and social funds for employees.

<sup>34</sup> Article 29 of the Income Tax Law allows direct discussions between the assessing officer and the taxpayer.

Tax revenue collection is carried out by the Income and Sales Tax Department (ISTD) for domestic revenue and the Customs Department for taxes on foreign trade.<sup>35</sup> Tax officials have the necessary powers to collect taxes, including the recovery of tax arrears either through courts or through out-of-court settlements.<sup>36</sup> Tax administration is organized in a way that allows to carry out effectively the functions of assessment, collection, audit, enforcement and appeal. The recent merger of the Income Tax Department (ITD) and the Sales Tax Department (STD) into a single department (ISTD), together with the extensive use of single tax identification numbers (TIN) between the ISTD and the customs department, through a computerized cross-checking system, has reduced fraud opportunities. This merger, while effective in some aspects, is still an ongoing process at the operational level. Mechanisms exist to minimize discretionary authority and to ensure accountability of tax assessors. These include an internal audit system, the supervision by the AB in cases where tax payments exceed JD 10,000, the mandatory approval of refunds by a financial controller, the formation of assessment committees, and the existence of an objection and appeals process (see below). Tax officials are subject to the code of conduct for all civil servants under the civil service law; cases of misconduct incur administrative or criminal sanctions.

**16. Taxpayers' legal rights are well defined.**

*1.2.2*

Taxpayer's rights are guaranteed by the constitution, the respective tax laws, and the investment promotion law. For example, the income tax law protects the taxpayer from double taxation, it allows the correction of factual errors found in the tax decision, sets delays beyond which tax assessment is considered as approved, and provides for appeal possibilities and modalities with the Income Tax Court of Appeals. Similarly, the customs law sets modalities for settling complaints of taxpayers through the Customs court of first instance, the Customs Court of Appeals, and the Court of Cassation. There are proposals to move to the Income Tax Court of Appeals complaints on the GST, which are currently settled through the Customs Court of First Instances.<sup>37</sup>

**17. Public servants are subject to a well defined code of behavior, but the implementation framework is weak.**

*1.2.3*

The Civil Service Law<sup>38</sup> defines the ethical responsibilities of civil servants. It sets modalities for disciplinary actions and sanctions. An independent department (Civil Service Bureau) reporting to the prime minister is charged with ensuring that these regulations are

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<sup>35</sup> An income tax withholding tax of 2 percent on imports was introduced in July 2003. Since early 2004, taxpayers certified as tax-compliant by ISTD are exempted from this tax.

<sup>36</sup> However, the tax administration has no ability to write off uncollectible tax arrears.

<sup>37</sup> The settlement of the GST complaints through the customs court stems from the fact that the GST was originally managed by the customs department.

<sup>38</sup> Civil Service Regulations (1) of 1998.

implemented transparently, efficiently and fairly. No government employee shall take advantage of his office or powers to achieve personal benefits or gain, or accept gifts, bonuses or grants from any person who has a financial link, relationship or interest in his department. However, there is no adequate framework to ensure that civil servants abide by the law. The anti-corruption bill under discussion in the National Assembly would mandate financial disclosure for high officials. Some administrative arrangements in the civil service seem to condone petty corruption practices that need to be addressed. For example, on-site special sales tax officers in tobacco and alcohol factories receive a transportation allowance from the companies they control. The payment of such an allowance could affect the integrity of tax controls; it should be paid out of the government budget.

## **B. Open Budget Preparation, Execution, and Reporting**

### The budget preparation process: clarity and consistency of process and presentation

**18. The annual budget process is not very open and the presentation lacks broad consistency with international standards.** 3.2.1

The main steps and timing for budget preparation (Box 2) are not well regulated in the budget circular and change from year to year. In addition, the timing set by the constitution for the presentation and approval of the budget have not been met in the last two years.<sup>39</sup> Progress was made in the preparation process and presentation of the 2005 budget by setting, for the first time, aggregate spending limits for line ministries and by integrating the Program

Box 2. Legal Basis for the Preparation Process of the 2005 Budget		
Timing	Activities	Legal Basis
May	Medium-term fiscal framework preparation	
July	The prime minister submits current and capital spending ceilings to line ministries for 2005 budget	Cabinet directives
August	An instruction is issued by the prime minister to guide the budget preparation	Budget circular
October	Line ministries and departments present budget proposal to the MOF and start discussions with the GBD	Budget circular
November	The MOF submits the draft budget to the cabinet	Budget circular
November	Draft budget is submitted to parliament (delayed until December)	Constitution
December	Parliament approves the budget (delayed until February)	Constitution

<sup>39</sup> In the last two years, the draft budget law was submitted to parliament in mid-December and approved in February. According to the constitution, the draft budget should be submitted to parliament one month before the beginning of the fiscal year and it should be approved before the fiscal year starts.

for Social and Economic Transformation (PSET) into the budget. The budget documents submitted to parliament do not contain a complete economic budget classification and it is thus difficult to evaluate the macroeconomic impact of the budget.<sup>40</sup> In addition, the budget classification fails to provide a clear picture of the budget's main policy objectives by using a functional classification that is mainly based on organizational classification<sup>41</sup> and by permitting lump-sum budgets for military and security organizations.

#### The macroeconomic framework and policy basis for the budget

**19. The main indicator of the fiscal position in the budget is the overall balance of an incomplete definition of the CG.** 3.1.3

The main focus of fiscal policy formulation in the budget is the overall balance of the CG excluding OBAs,<sup>42</sup> extrabudgetary funds, and transactions of autonomous agencies. Information on local government activities in the budget documents is limited to CG transfers, but this level of government is not very significant.<sup>43</sup> The budgets of autonomous agencies were presented to parliament along with the CG budget for the first time in 2005, though only for information purposes. Given that these agencies do not follow a GFS format, it is difficult to consolidate their finances with that of the budgetary CG and conduct analysis of the activities of the consolidated CG.

**20. Budget forecasts and underlying macroeconomic assumptions are not clearly presented.** 3.1.3

The budget speech presents quantitative indicators of economic growth, inflation, export and import growth, and the current account deficit of the balance of payment. However, the macroeconomic indicators are not clearly explained in the budget documents nor based on a macroeconomic framework that provides a consistency check among macroeconomic variables. Macroeconomic indicators are based on a structural macroeconomic model used by the MOP, which is responsible for providing the macroeconomic framework for the budget.

#### Medium-term planning and analysis of fiscal risks

**21. A statement on medium-term fiscal policy objectives is included in the budget document. However, this statement is not linked to the projected performance through a medium-term fiscal framework.** 3.1.1

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<sup>40</sup> The breakdown of current expenditure includes three categories: nondefense, defense, and other expenditures. A line item "public expenditure" is also part of the category of other expenditures.

<sup>41</sup> Education spending, for example, is misleading because it includes administrative spending of the ministry of education, but does not include the education spending financed by external loans, which is classified under the budget of the MOP.

<sup>42</sup> Such as off-budget defense spending financed by U.S. grants.

<sup>43</sup> Local spending represents approximately 7 percent of total central government spending (see Box 1).

As a medium-term fiscal policy objective, the budget speech includes a statement referring to the debt rule established by the Public Debt Management Law of 2001.<sup>44</sup> However, the budget speech does not include annual targets for the path of the debt-to-GDP ratio required to achieve the medium-term debt objective. It does not present either a medium-term rolling macrofiscal framework nor a medium-term budget scenario broken down by institution or governmental policy. The MOF, however, is currently developing a medium-term fiscal framework, though at this stage it is only for internal use within the ministry. Though compliance reports with the debt rule are not legally required, quarterly debt reports are prepared by the Public Debt Directorate of the MOF and posted on the MOF website since early last year. Fiscal sustainability analysis is carried out by the MOF, but mainly for internal use.

**22. Estimates of the budgetary cost of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.** 3.1.4

The budget speech identifies in a broad manner the main government policies explaining major changes in budget revenue and spending.<sup>45</sup> It also contains general statements on new government priorities. The budget documents, however, do not provide a quantification of the costs of new government spending programs nor clearly distinguish them from the cost of ongoing government activities.

**23. The sensitivity of budget estimates to changes in economic variables is not assessed and fiscal risks are not discussed within the budget.** 3.1.5

The budget documents do not include a sensitivity test of fiscal aggregates in the face of changes in economic parameters or other uncertainties, nor an analysis of the principal contingent liabilities. The 2001 Public Debt Law restricted the extension of government guarantees to loans by mandating cabinet approval for them. However, some government agencies are receiving loans without providing any formal guarantee. New forms of contingent liabilities are arising in the form of sovereign guarantees extended in the context of PPP schemes. These are not disclosed in the budget.

Clarity of control of budget execution

**24. The basic accounting and internal control procedures in place are not sufficient to maintain an adequate control of government spending.** 3.3.1

While reasonable internal control procedures are in place, current accounting arrangements fall short of international best practice. There is no comprehensive general ledger based on a sound chart of accounts nor an integrated information system for the financial management

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<sup>44</sup> According to this law and a decision of the cabinet, the total public debt should be below 80 percent of GDP by the end of 2006.

<sup>45</sup> The impact of particular policy changes on the GST is difficult to assess due to the fact that the GST is aggregated with the special sales tax (namely excises), and it does not allow differentiation by type of products.

of government operations. The MOF depends completely on the monthly cash accounting reports generated by line ministries and does not have in place a centralized recording of commitments nor a commitment control system. Thus, it is not possible to reliably track the accumulation of arrears, if they occur. Though important progress has been made in expanding the TSA coverage, the practice of managing certain resources outside the TSA continues to undermine the effectiveness of central spending controls (Box 3).

**25. There are no internal audits, and financial management practices are not well coordinated.**

*3.3.1, 2.1.4, 3.3.3*

There is no internal audit function as defined by international standards,<sup>46</sup> namely the auditing of the quality and effectiveness of a ministry's financial management system (as The coordination between the main departments of the MOF involved in the government financial management is still weak. As a result, there is not an effective coordination between cash and debt management.<sup>47</sup> There is no annual or medium-term debt management strategy disclosed by the government.

**Box 3. Improving the Transparency in the Management of Government Cash Resources**

In 2002, government agencies had established over 400 separate bank accounts to keep their off-budget revenues, such as private donations, grants, and surplus cash from budget allocations. Some agencies had also invested such resources in interest-bearing deposits, using the interest income to supplement their budgets. In addition, there were special bank accounts to keep external project-related loans and grants, some of which were in foreign currency.

Jordan initiated a major rationalization process of banking operations in 2003, after taking an inventory of all bank accounts held by government agencies. This resulted in closure of many unauthorized bank accounts and merger of all trust accounts into one consolidated bank account for each agency, creating analytical accounts in the agency's accounting ledger for effective control. By December 2003, the MOF had converted the main treasury account into a TSA and the agencies' accounts were operating on a zero-balance basis (no overnight balances). A major reform objective was achieved when the TSA was extended to the banking operations of defense, interior and similar agencies by April 2004, effectively bringing them under the regular system of budget ceilings.

There are still some accounts in commercial banks, mostly outside Amman. Extension of zero-balance approach to these accounts is scheduled to commence from mid-2005 and be completed before year-end. Special bank accounts are still held outside the TSA for donor-funding of capital projects, although a measure of transparency has been achieved by incorporating the related project expenditures in the budget and the MOF accounts.

The creation of a TSA and bank accounts rationalization has contributed to increase fiscal transparency in Jordan by: (1) strengthening MOF oversight of off-budget resources without infringing on the authority of the spending agencies; and (2) enhancing the ability to provide up-to-date information about government revenues, expenditures, and financial flows.

<sup>46</sup> The institute of internal auditors: International standards for the professional practice of internal audit, (revised) 2004.

<sup>47</sup> Important progress in this area is expected due to the creation of a steering committee under the director of cash management to supervise the development and implementation of an annual financial plan.

26. **Procurement rules are open and transparent.** 3.3.2

The regulatory framework for procurement is clearly defined by cabinet regulations<sup>48</sup> and provides a sound basis for open and competitive procurement practices. The management of the procurement system is highly centralized for civil works, consultant services and supplies.<sup>49</sup> Tendering mechanisms are legally required for most procurement activities<sup>50</sup> to provide recommendations for awarding the contracts. Representatives from the AB participate in these committees as observers. Final decisions are made by the minister involved in the activity. Special tender committees can also be formed for a particular project and are not restricted to any threshold.<sup>51</sup> Decisions are open to audit and clear mechanisms are in place to manage, hear, and settle bidders' complaints.

27. **Civil service employment procedures are relatively clear, but permit some discretion for managers.**<sup>52</sup> 3.3.2

The regulations for the civil service<sup>53</sup> apply to staff in most of the government agencies.<sup>54</sup> In principle, recruitment and wage policies are highly centralized and operate under standards for competitive exams and publicity of vacancies. However, Cabinet decisions sometimes interfere in the transparency of the process by overcoming merit-based criteria to benefit certain sectors with higher-than-average salary increases. The exemptions to normal procedures along with the authority given to heads of departments to award supplementary pay benefits outside the basic salary have also affected transparency in the management of the civil service and distorted the salary structure across public agencies.

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<sup>48</sup> Governed by the Supplies Act 32 of 1993.

<sup>49</sup> The management of procurement activities above JD 20,000 is the responsibility of the Government Tender Directorate of the Ministry of Public Works and the General Supplies Department of the MOF.

<sup>50</sup> Excluded from tendering are procurement activities below JD 20,000 and military equipment linked to security purposes.

<sup>51</sup> The government has launched the e-procurement initiative as part of the financial management reform to streamline the procurement processes, make them more transparent, reduce transaction costs, and enhance the competitiveness among suppliers for its procurement.

<sup>52</sup> The term "civil service" in Jordan refers to non-uniformed employees of the central administration as well as employees from autonomous agencies.

<sup>53</sup> Civil Service Statute No 55 of 2002.

<sup>54</sup> Staff from the AB and the Prime Minister Office, among others, are not covered by this statute.

Clarity of internal control and independence of tax administration

**28. Tax administration does not have legal protection from political interference; standardized internal auditing mechanisms are under development after the recent integration.** 3.3.3, 3.3.4

Before their recent merger, the income and sales tax departments had their own policies, procedures and standards for audit, enforcement, and taxpayer services, as well as different enforcement powers. Uniform procedures for tax audits and collections are being put in place after the integration of these two departments as a single umbrella organization.

Reporting on budget execution

**29. Fiscal reporting covered only the CG until recently.** 3.3.1, 2.1.1

The General Accounts Directorate of the MOF receives from internal control units timely budget execution reports from ministries on a monthly basis.<sup>55</sup> These reports, however, do not include information on expenditure commitments or arrears. As mentioned above, the absence of a unified and integrated financial management information system at the MOF constrains the MOF from effectively and timely verifying the quality and reliability of the monthly information sent by ministries and of the consolidated reports prepared by the MOF. Though progress has been achieved in terms of budget coverage during the last year, ministries do not report information on activities outside the budget, as described in paragraph 1. The MOF has started publishing information on the transactions of consolidated general government since the second quarter of 2005, although with substantial time lag and incomplete coverage.

**30. The legislature does not receive any in-year reports on budget execution and has not considered yet the final accounts of recent years.** 3.4.1, 3.4.2

According to the authorities, the national assembly did not consider and approve the final accounts for 2002 and 2003 due to additional spending authorized without the approval of the parliament. The latest reports show the efforts by the AB to put the final accounts in perspective, by introducing yearly comparisons and detailed explanations of financial results.

Results-oriented budgeting and reporting

**31. The definition of objectives for major government programs is at an early stage of development.** 3.2.2, 3.4.2, 3.4.3

Objectives of major budget programs are presented to parliament, but current budget programs do not provide a clear and measurable link between program inputs, activities, outputs, and outcomes. An initial government effort in this area began with the creation of a government performance unit linked to the prime minister's office. This unit has the responsibility of leading the development of indicators for monitoring the performance of

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<sup>55</sup> The General Budget Department also receives monthly budget execution reports from autonomous agencies.

government agencies. Some pilot projects are already underway. However due to the absence of key building blocks (e.g., an appropriate budget classification system, accounting arrangements, and an internal auditing system) for a result-oriented budgeting system, the pilots have had little impact on actual performance.

### C. Public Availability of Information

#### The coverage and quality of budget documents

#### **32. Budget documents present an incomplete coverage of CG fiscal activities, and do not provide comprehensive fiscal information for the rest of the general government.**

2.1.1

The main budget documents are the budget speech, the annual budget law, and the budgets of the autonomous agencies.<sup>56</sup> The annual budget law covers the line ministries and agencies. The budget documents, however, do not include, even for information, extrabudgetary funds and OBAs. The annual budget law includes budget revenue by major categories and current and capital expenditures provisions by ministries and line agencies. However, financing data are only presented in an aggregate table and no budgetary provisions are made for the line ministries' financial assets and liabilities flows. Therefore, the debt management is not well connected with the budgetary process.<sup>57</sup>

#### **33. Defense expenditures are mostly, but incompletely included in the budget.**

2.1.1

The budget law includes most defense expenditures but in a more restrictive coverage than other expenditures. Military expenditure financed by grants from the U.S. government are outside the budget and are not reported in any fiscal statistics. A distinction between current and capital defense expenditures is presented in a table. Although the armed forces' budgetary appropriation represented 14.8 percent of total budgeted expenditures, it was included as a single item in the 2004 budget. The Communications Authority, the Directorate for Military Education, and the Center for Design and Development, which represented only 5 percent of the ministry of defense's global appropriation, were included in the budget as separate line items. Some other security expenditures such as the ministry of interior's public security and civil defense received a more detailed budgetary treatment. There are indications that the military carries out some commercial activities, notably in the area of construction. However, the size of such activities is not reported. In addition, there is an ongoing off-budgetary PPP initiative which entails construction activity, including a new, private university, on an old military base located in Amman.

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<sup>56</sup> The budgets of the 39 autonomous agencies are now presented for information and published in *Autonomous Budget Organizations*, a document compiled by the General Budget Directorate for the 2005 fiscal year. The document also includes a consolidated budget for these 39 entities.

<sup>57</sup> Summary monthly tables on the central, and more recently general, government fiscal outturn are published at <http://www.mof.gov.jo>.

**34. The budget document discloses the main fiscal aggregates for two years prior to the budget year.** 2.1.2

These disaggregated data are provided in tables including tax and nontax revenues components, and current and capital expenditures by administrative units.

Budget treatment of off-budget fiscal activity

**35. No statement of contingent liabilities is included in the budget documents.** 2.1.3

The budget contains no information regarding contingent liabilities. There is no budgetary information for the contingent liabilities associated with the minimum dividend-capital ratio guaranteed to the IDB equity holders. Furthermore, other sources of contingent liabilities, such as loan guarantees granted by the government, are not presented in the budget documents. As mentioned, sovereign guarantees granted to investors in the build, operate, and transfer projects imply contingent liabilities, and are not reported in the budget.

**36. Statements on tax expenditures are not included in the budget documents.** 2.1.3

No estimates of tax expenditures are included in the budget documents or annual accounts. Different corporate income tax rates apply to specific economic activities and exemptions for the GST are applied to the supply of hotel accommodation, transport and electricity. Some tax concessions are discussed in the budget speech, but no estimation of their cost is presented.

**37. Quasi-fiscal activities are moderate and their estimated cost is not included in the budget documents.** 2.1.3

There are certain quasi-fiscal activities carried out both by financial and nonfinancial public institutions as discussed in paragraphs 2 and 4. Some public financial institutions provide loans at below-market interest rates. There is no centralized reporting of the cost of these quasi-fiscal activities.

Publication of data on debt and financial assets

**38. Information on gross public debt is published.** 2.1.4

Gross public debt data are published on a monthly basis.<sup>58</sup> The data are presented for CG domestic debt, the autonomous entities debt, and the external public debt.

The CG domestic debt and the autonomous entities debt data are presented on a gross and net basis. CG debt is broken down by different instruments (treasury bills and bonds, development bonds, and loans). Government deposits in the banking system are presented and explain the difference between the gross and net debt definitions. The external public debt distinguishes between multilateral, bilateral, bank and private bond holders. The MOF's

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<sup>58</sup> Gross debt data are published in the monthly *Government Finance Bulletin* (GFB) as well as in the *Public Debt Department's Quarterly Bulletin*, both available at <http://www.mof.gov.jo>.

*monthly bulletin* reports some contingent liabilities as government guaranteed debt. Comprehensive debt restructuring and debt swap information is reported quarterly by the public debt department in its *bulletin*.

**39. Information on government financial assets is limited.** 2.1.4

Data on CG and autonomous agencies' holdings of bank deposits are published monthly. However, there is no systematic information on government holdings of companies and other financial assets.

Commitment to timely publication of fiscal data

**40. Formal commitments for more regular publication of fiscal data have not been made and advance release data calendars are not announced.** 2.2.1, 2.2.2

The MOF's GFB provides monthly data on the fiscal outturn and government debt. It is usually published with a one month delay, but the government does not commit to a fixed publication schedule. Starting in April 2005, the monthly GFB also covers the consolidated general government.<sup>59</sup> There is no legal framework enshrining the MOF responsibilities in reporting fiscal data. Since 2003, Jordan's financial reports to the IMF conform with the requirements of GFS 2001. Jordan subscribes to the Government Data Dissemination Standard (GDDS)<sup>60</sup> since 2000 and meets the Special Data Dissemination Standard (SDDS) requirements on coverage, periodicity and timeliness for the dissemination of data on CG operations. Jordan is also currently taking steps to become compliant with SDDS in regard to the dissemination of general government operations.<sup>61</sup>

**D. Assurances of Integrity**

Integrity of data processes

**41. Initial budget estimates are not reliable, and the variance between budgeted and actual outturns of main fiscal aggregates is not systematically disclosed to the public.** 4.1.1

During 2002–04, there were significant differences between the initial budget estimates and the actual outturns. The budget document gives information about initial and updated

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<sup>59</sup> The bulletin follows GFS 2001 revenue and spending classification and presents financial operations of the central government units covered by the budget, central government units with individual budgets, and local governments. It also includes a table of main economic indicators, a guide to the methodology and statistical concepts, charts, and memorandum items.

<sup>60</sup> The GDDS was approved by the IMF Executive Board in December 1997. The principal goal of the GDDS is to assist countries in the development of their overall statistical systems. The emphasis is on the quality of the data and the dissemination practices for economic, financial, and sociodemographic statistics.

<sup>61</sup> The SDDS was established by the IMF to guide members that have, or that might seek, access to international capital markets in the provision of their economic and financial data to the public.

estimates for the year preceding the budget year, but there is no comparison of initial budget estimates and final outturns for any year. The AB report for 2003 provides a comparison of initial budgets and outturns, but this document is not available to the general public. The MOF monthly bulletin compares the budget to preliminary outturns, but not to the final outturns.

**42. Statements on accounting policy are not included in the budget or final accounts documents.** 4.1.2

Jordan does not have a centralized government accounting system. The preparation of final accounts is stipulated in the financial by-law, and accounting procedures are proscribed in a separate accounting instruction. Accounting is based on the cash principle and double-entry recording of transactions. The accounting framework is not consistent with international public sector accounting standards (IPSAS). For instance, in some cases transfers of cash to agency bank accounts are recorded as expenditures. The MOF does not publish any comprehensive government balance sheets.

**43. The processes of accounts reconciliation are only partly effective.** 4.1.3

Each ministry reconciles its reports with bank account data. The MOF reconciles the summary accounting reports from the ministries with their budget appropriations. However, given (i) the many government organizations that operate outside the budget, often through bank accounts not controlled by or known by the MOF; (ii) the multiplicity of incompatible information systems within the government; and (iii) the MOF's inability to access transaction-level data in the ministries, this reconciliation is not fully effective. The MOF reconciles its own accounts with payments made through the TSA and other MOF bank accounts, but there is no overall reconciliation of aggregate fiscal data for the government with the government's position based on monetary data.

Independent oversight

**44. External audit is not yet fully independent of the executive branch, and its mandate covers all CG activities.** 4.2.1

According to the AB law,<sup>62</sup> the Bureau submits its annual report to parliament. The director general of the AB is appointed by the cabinet for an open-ended period. The director general is guaranteed immunity from legal prosecution and can only be removed with the consent of the national assembly, except during periods when parliament is not sitting. The AB's budget is included as a separate item in the budget law. The AB's mandate covers all regular budget organizations, as well as autonomous government agencies, but does not cover OBAs and extrabudgetary funds. Traditionally, the bureau has focused on regularity and compliance controls, in particular related to procurement, and on auditing the final accounts. It plays an important role in *ex-ante* control of financial management through its field offices in the ministries and by placing AB staff as observers of procurement activities. AB officials in the

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<sup>62</sup> Law No. 28 of 1952.

tax administration pre-audit all tax payments above JD 10,000 and all tax refunds. In recent years, the AB has put more emphasis on systemic and performance audits.

**45. Strengthening of audit capacity is required.** 4.2.1

The AB had 545 staff members as of April 2005, most of them in field units. There are plans to close many field units and transfer staff to the new headquarters building over the coming years.<sup>63</sup> It is necessary to upgrade the capacity of staff in modern auditing approaches and techniques, including systemic, information technology, and performance audits. Some of the current skills, for instance engineering skills used in procurement processes, are likely to become less important in the future.

**46. The legislature discusses external audit reports, and monitors the follow up of audit findings.** 4.2.1

The annual report of the AB is sent to parliament, where it is discussed by the Financial committee. After the report has been sent to parliament, it generally becomes available to the press and other interested parties, but it is not disseminated to the public in any systematic way. Follow-up of audit findings is mainly done by task forces between the involved ministries and the AB. The AB annual report provides information to parliament about actions taken to follow up on previous audit findings.

**47. External scrutiny of macroeconomic models and assumptions is not encouraged.** 4.2.2

The MOP prepares macroeconomic projections based on an econometric model. No publicly available documents describe the details of this model or the projections, and no mechanisms are in place to ensure independent scrutiny of the model and its assumptions. The MOF use the macroeconomic projections as a basis for budget estimates. No other government or nongovernment institutions prepare macroeconomic projections. There is limited discussion of the projections and their implications within the government and little public discussion of this topic. There is no systematic, publicly available, tracking, and comparison of macroeconomic projections against actual outcomes.

**48. The National Statistics Office is not given legislative assurance of independence.** 4.2.3

The statistics agency is subordinate to the MOP. The Statistics Law<sup>64</sup> was recently revised by the cabinet,<sup>65</sup> but the revision has not yet been approved by parliament. The revised law does not give any specific assurances of technical independence. The director general is appointed by the cabinet for an open-ended period, and the law has no specific safeguards against political involvement in his activities. According to the agency, the established practice is

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<sup>63</sup> The AB plans to reduce within the next two years the number of staff members to 350.

<sup>64</sup> Law no 24 of 1950.

<sup>65</sup> By-law No. 8 of 2003.

that it has substantial technical independence, and there are no attempts by the government to influence its reports.

## II. IMF STAFF COMMENTARY

49. **The preceding assessment indicates that in recent years, Jordan has made important progress toward greater fiscal transparency.** In particular, the authorities have introduced a debt target to anchor the medium-term fiscal framework, enhanced the coverage, timeliness, and periodicity of the budget and fiscal reports, and undertaken reforms related to the budget classification and treasury management, which have contributed to improving transparency in several areas of the code.

50. **However, Jordan fails to meet several requirements of the IMF Code of Fiscal Transparency.** Though there are some important exceptions to this, a broad and sustained effort will be required in order to approach international good practices for fiscal transparency. In the short term, the authorities should focus on completion of ongoing reform efforts, as well as on some additional measures that can give high pay-offs at a relatively low cost. In the medium term, the authorities need to pursue a range of more challenging reforms. Paragraphs 50–52 summarize the status of the fiscal transparency indicators in the different sections of the code. Paragraphs 53–57 outline the mission’s recommendations for measures that will contribute to improved transparency.

51. **The legislative basis for fiscal management in Jordan is quite comprehensive, and the legislation in itself meets or is close to meeting several basic requirements of the fiscal transparency code.** However, in many areas, there are weaknesses in enforcement of the legislation, and actual practices often lag behind legislative statutes. The structure of government, and the role of different government bodies, are quite clearly defined in law, but the definition of government is not fully consistent with GFS and excludes many important government activities. Quasi-fiscal activities of the CBJ and public institutions are limited. There is no clear legal framework for PPPs. There is an extensive legislative basis for budget management and taxation, and ethical standards for civil servants. The relations between central and local government are also comprehensively described in law.

52. **The framework for budget preparation, execution and reporting has improved in recent years, but does not yet meet the requirements of the fiscal transparency code in most areas.** The budget documents are quite comprehensive, but does not include a macroeconomic framework, clear application of fiscal rules, or identification of new policies or important fiscal risks. Procurement and employment regulations are quite clear. There are shortcomings in the budget classification, as well as in budget execution and reporting.

53. **Fiscal data are often available within the government, but are not systematically compiled and disseminated to the public at the general government level.** Published debt data are quite comprehensive. The new MOF bulletin should improve disclosure considerably. Mechanisms for ensuring fiscal data quality need to be improved, whereas arrangements for external scrutiny of the budget process are mixed. Budget estimates are not

reliable, and accounting standards and reconciliation methods are inadequate. The AB is closely involved in government procurement activities. The Statistics agency has substantial technical independence, though more *de facto* than *de jure*.

54. **In order to improve fiscal transparency, the immediate priority should be to complete ongoing reform efforts, which would facilitate significant improvements in the openness of budget preparation, execution and reporting.** During recent years, the government has initiated a number of reform processes that are likely to have major implications for fiscal transparency when they are successfully implemented:

- An operational macrofiscal unit in the MOF will improve the consistency and comprehensiveness of the medium-term budget framework, and facilitate significant improvement in the quality and transparency of the budget documents.
- A revised budget classification will provide a better basis for allocation of government funds, make it easier to track budgetary developments, and strengthen the accountability of ministries and agencies. A modern budget classification will also facilitate effective accounting, control, reconciliation, and auditing of the budget.
- A functional TSA will improve the transparency in management of government financial resources, and strengthen the mechanisms for budget control, reconciliation, cash, and debt management.

55. **A second short-term priority should be to implement a series of fairly simple measures that would have significant impacts on transparency, in particular on the public availability of information and independent assurances of integrity.** There is a substantial potential for improving fiscal transparency by using information that already is available in parts of the government, but which is not compiled, consolidated, and presented to the public in a systematic manner. These steps could be implemented over the next 1–2 years:

- Clarify the budget preparation process. Establish clear procedures and timetables, which are consistent from year to year. Ensure that changes in the budget process are announced well ahead.
- Provide more explicit comparison and analysis of budget estimates compared to budget outcomes in the annual budget document. Establish a firm publication calendar for the MOF's *monthly bulletin*.
- Provide explicit statements of accounting policies in the annual final accounts, and strengthen macrolevel reconciliation between fiscal and monetary data.
- Establish a procedure for systematic publishing and disseminating the AB annual reports.

- Fully document the MOP macroeconomic model, and make this publicly available. Regularly publish estimates and analysis based on the model, and encourage academic and financial institutions to participate in public debate of these estimate.

In the medium term, the Jordanian authorities face three main challenges to improve fiscal transparency along the lines established in the *IMF Code on Fiscal Transparency*:

**56. The first medium-term priority should be to clarify the boundaries of the government and the broader public sector from the rest of the economy to ensure an appropriate accountability in the design and implementation of fiscal policy.** Important steps in this direction would be:

- a review of the activities of autonomous agencies, extrabudgetary funds and OBAs with a view to incorporating agencies undertaking mainly governmental activities in the definition of government, and classifying mainly commercial entities as nonfinancial public enterprises;
- an inventory of quasi-fiscal activities carried out through public financial and nonfinancial institutions with the objective of quantifying and disclosing the fiscal cost of these activities in budget documents; and
- a more comprehensive disclosure of holdings by government and public institutions in private companies. This task could be facilitated by the establishment of a complete register of government and public entities holdings.

**57. The second medium-term priority should be to improve the transparency in the management of fiscal policy to facilitate legislative and public debate on overall fiscal policy objectives.** Actions that could help achieve this objective would be:

- to widen the focus of fiscal policy and budget coverage from a partial definition of CG to a GFS 2001 definition of consolidated CG. This action implies that the budgets for autonomous agencies and extrabudgetary funds carrying out governmental activities would be submitted to parliament with the general annual budget for approval, or preferably be integrated into the budget;
- to eliminate the practice of cabinet approval of mid-year or ex-post budget increases without subsequent parliamentary endorsement; and
- to disclose all cabinet's fiscal policy decisions made outside the budget law, including the award of government guarantees and the approval of tax concessions and sales/donations of government properties. A publicly-available register with the cabinet's individual decisions could facilitate this task. A measure to introduce even more transparency in the

cabinet's fiscal policy decisions would be to establish clear boundaries for them as part of the annual budget process.<sup>66</sup>

**58. The third medium-term priority should be to put in place mechanisms to provide further assurances about the integrity of fiscal information.** This could include:

- concentrating the management of the budget execution process in the MOF, giving to the MOF the responsibility for the management of capital and foreign-financed projects;
- adopting comprehensive government accounting standards based on IPSAS; and
- further consolidating the TSA to include external grants and loans.

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<sup>66</sup> Under this alternative, the budget law would establish qualitative and quantitative limits for the cabinet to issue guarantees and approve tax concessions and sales/donations of government properties.

## III. SUMMARY TABLES

Table 1. A Summary Assessment of Practices

Code Reference	Summary Assessment	Comment
<b>Overall summary</b>	Jordan fails to meet several requirements of the <i>IMF Code of Fiscal Transparency</i> . There are some important exceptions to this, and ongoing reforms will contribute to improved transparency in several areas. However, in order to approach international good practices for fiscal transparency, a broad and sustained effort will be required.	
<b>Clarity of roles and responsibilities</b>		
1.1.1	The definition of general government is not fully consistent with the GFS principles; and it is not well covered in the budget process.	Medium-term first priority MOF <i>bulletin</i> increases coverage
1.1.2	The fiscal roles of the executive, legislative, and judicial branches are clearly defined by the constitution; in practice, however, the executive fulfills some roles of the legislative. The responsibilities of different levels of government are well defined in the legislation, but in practice the separation is not always clear.	Medium-term second priority  Local government reform may affect assessment.
1.1.3	The mechanisms for coordination and management of budgetary and extrabudgetary activities are not well defined.	Medium-term first priority.
1.1.4	Government activities are generally distinguished from those of public financial institutions, which carry out some limited quasi-fiscal activities. Public nonfinancial corporations carry out limited quasi-fiscal activities. The CBJ is not fully independent <i>de jure</i> , and has a minor fiscal role.	Medium-term first priority.
1.1.5	Government holdings of fully-owned corporations and equity participations are moderate; but the management of state assets is not defined clearly, and the monitoring system is inadequate. The legal framework for privatization is clear; the privatization process is generally fair and transparent; but privatization proceeds are managed outside the budget. Laws and processes related to government regulation of the nonfinancial private sector are clear and open.	In practice, however, the CBJ exercises monetary policy independently. Medium-term first priority.  Ongoing major privatizations.
1.2.1	The legal framework for management of public funds is clear, but the responsibilities are fragmented across government institutions.	Medium-term third priority.
1.2.2	The legislative basis for taxation is comprehensive, but complex. Tax exemptions are extensive and tax expenditures are not estimated. Tax administration is clearly defined and well coordinated with overall fiscal management. Taxpayers' legal rights are well defined.	Recent merger of the income tax and sales tax departments has improved tax administration. Anticorruption bill under discussion in the national assembly.
1.2.3	Public servants are subject to a well defined code of behavior, but the implementation framework is weak	

Code Reference	Summary Assessment	Comment
<b>Public availability of information</b>		
2.1.1	Budget documents present a complete coverage of CG fiscal activities, but do not provide comprehensive fiscal information for the rest of the general government. Defense expenditures are partly included in the budget.	Medium-term second priority. PSET recently incorporated into the 2005 Budget. A comprehensive <i>GFB</i> covering the general government was launched by the MOF in April 2005.
2.1.2	The budget document discloses the main fiscal aggregates for two years prior to the budget year.	Short-term second priority.
2.1.3	There is no clear legal framework for PPPs. No Statement on contingent liabilities is included in the budget documents. Statements on tax expenditures are not included in the budget documents. Quasi-fiscal activities are moderate and their estimated cost is not included in the budget documents.	Medium-term second priority. Medium-term second priority. Medium-term first priority.
2.1.4	Information on gross public debt is published. Information on government financial assets including government holdings of fully-owned corporations and equity participations needs better disclosure.	Medium-term first priority.
2.2.1	Formal commitments for more regular publication of fiscal data have not been made.	Short-term second priority. Jordan is currently taking steps to become compliant with SDDS.
2.2.2	Advance release data calendars are not announced.	Short-term second priority.
<b>Open budget preparation, execution, and reporting</b>		
3.1.1	A statement on medium-term fiscal policy objectives is included in the budget document. However, this statement is not linked to the projected performance through a medium-term fiscal framework	Ongoing reform to establish a macrofiscal unit in the MOF will assist in this area. Short-term first priority.
3.1.2	The budget speech does not include annual targets for the path of the debt-to-GDP ratio required to achieve the debt medium-term objective.	Short-term second priority.
3.1.3	Budget forecasts and underlying macroeconomic assumptions are not clearly presented	Ongoing reform to establish a macrofiscal unit in the MOF will assist in this area. Short-term first priority.
3.1.4	Estimates of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.	Ongoing reform to establish a macrofiscal unit in the MOF will assist in this area. Short-term first priority.
3.1.5	The sensitivity of budget estimates to changes in economic variables is not assessed and fiscal risks are not discussed with the budget.	Ongoing reform to establish a macrofiscal unit in the MOF will assist in this area. Short-term first priority.
3.2.1	The annual budget process is not very open and the presentation lacks broad consistency with international standards.	Ongoing reform on budget classification will improve the presentation. Short-term first priority.
3.2.2	Objectives of major budget programs are presented to parliament, but current budget programs do not provide a clear and measurable link between program inputs, activities, outputs, and outcomes.	Pilots on measurement of government performance have had little impact due to the

Code Reference	Summary Assessment	Comment
3.2.3	The main indicator of the fiscal position in the budget is the overall balance of an incomplete definition of the CG.	absence of key building blocks in public management. Medium-term second priority.
3.3.1	The basic accounting and internal control procedures in place are not sufficient to maintain an adequate control of government spending. There are no internal audits and financial management practices are not well coordinated.	Important progress has been made recently with the establishment of the TSA.
3.3.2	Procurement rules are open and transparent. Civil service employment procedures are relatively clear but permit some discretion for managers.	Recently launched government e-procurement initiative will enhance transparency in procurement activities.
3.3.3	There are no internal audits and financial management practices are not well coordinated.	
3.3.4	Tax administration does not have legal protection from political interference and standardized internal auditing mechanisms are under development after the recent integration.	
3.4.1	The legislature does not receive any in-year reports on budget outcome.	
3.4.2	The legislature has not considered yet the final accounts of recent years.	
3.4.3	Definition of objectives for major government programs is at an early stage of development.	
<b>Assurances of integrity</b>		
4.1.1	Initial budget estimates are not reliable and the variance between budgeted and actual outcomes of main fiscal aggregates is not systematically disclosed to the public.	Ongoing reform to establish a macrofiscal unit in the MOF will assist in this area. Short-term first priority
4.1.2	Statements on accounting policy are not included in the budget or final accounts documents.	Short-term second priority.
4.1.3	The processes of accounts reconciliation are only partly effective.	Short-term second priority.
4.2.1	External audit is not yet fully independent of the executive branch, and its mandate covers all CG activities. Strengthening of audit capacity is required. The legislature discusses external audit reports, and monitors the followup of audit findings.	
4.2.2	External scrutiny of macroeconomic models and assumptions is not encouraged.	Ongoing reform to establish a macrofiscal unit in the MOF could assist in this area. Short-term second priority.
4.2.3	The National Statistics Office is not given legislative assurance of independence.	The statistics agency is quite independent, however, in practical terms.

**Table 2. Public Availability of Information—A Summary**

	<b>Budget and Fiscal Report Element</b>	<b>Included in Budget/Report Documents</b>	<b>Available to the Public</b>	<b>Para. Ref.</b>	<b>Code Ref.</b>
1.	CG budget estimates.	Yes. Summary table included in the <i>GFB</i> .	<a href="http://www.mof.gov.jo">http://www.mof.gov.jo</a>	38	2.1.1
2.	CG defense expenditures.	Yes. More aggregated coverage than other expenditures.	Yes.	39	2.1.1
3.	CG EBFs (including special development funds, social security funds, resource revenue funds)	Partially included in the <i>GFB</i> . The budget of some own-budget agencies are included in an <i>Autonomous Budget Organizations</i> document compiled by the General Budget Directorate. The document includes a consolidated budget for some 30-40 entities.	Partially included in the <i>GFB</i> . Document on <i>Autonomous Budget Organizations</i> available from the General Budget Directorate.	38	2.1.1
4.	CG budget outturns.	Yes. Data for the previous two years are included in the budget document.	Yes. Budget document.	40	2.1.2
5.	CG budget forecasts.	No.	No.	41	2.1.2
6.	CG contingent liabilities.	No.	No.	42	2.1.3
7.	CG tax expenditures.	No. Tax concessions are somewhat discussed in the budget speech, but no estimation of their cost is presented.	No.	42	2.1.3
8.	CG QFAs.	Moderate.		43	2.1.3
9.	Macroeconomic assumptions.	Yes.		21	3.1.3
10.	Analysis of fiscal risks/sensitivity analysis.	No.			3.1.5
11.	CG debt.	Yes. Gross public debt data are published on a monthly basis in the MOF's <i>GFB</i> . Debt restructuring data are reported in the <i>Public Debt Department Quarterly Bulletin</i> .	<a href="http://www.mof.gov.jo">http://www.mof.gov.jo</a>	44	2.1.4
12.	CG financial assets.	No. Only data on CG and own-budget agencies bank deposits are published monthly.	<a href="http://www.mof.gov.jo">http://www.mof.gov.jo</a>	45	2.1.4
13.	Sustainability analysis.	No.		22	3.1.1
14.	General government budget estimates.	No.			2.1.5
15.	CG monthly/quarterly reports on fiscal outturn.	Yes. The MOF's <i>GFB</i> monthly document. No fixed time after month-end. No reconciliation with debt data. No mid-term review.	<a href="http://www.mof.gov.jo">http://www.mof.gov.jo</a>		3.4.1

	<b>Budget and Fiscal Report Element</b>	<b>Included in Budget/Report Documents</b>	<b>Available to the Public</b>	<b>Para. Ref.</b>	<b>Code Ref.</b>
16.	General government monthly/quarterly reports on fiscal outturn.	Included in the GFB since April 2005, but with substantial delay.	<a href="http://www.mof.gov.jo">http://www.mof.gov.jo</a>	20	3.4.1
17.	CG final accounts.	No. Last final accounts were published in 2001.			3.4.2
18.	Consolidated general government final accounts.	No.			3.4.2