

**EUROPEAN UNION**

**Jordan: Public Financial Management Reform – Performance Report**

By  
Georges Corm, Team Leader  
Sharon Hanson-Cooper  
Rupinder Singh

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**Investment Development Consultancy  
7 rue Rougemont, Paris 75014**

## List of abbreviations

AGA	Autonomous Government Agencies
BD	Budget Department
BoJ	Bank of Jordan
CG	Central Government
COFOG	Classifications of Functions of Government
FDI	Foreign Direct Investment
FMR	Financial Management Reform Strategy 2004-2007 (MoF)
GDP	Gross Domestic Product
GFS	International Monetary Fund Government Finance Statistics
GMFIS	General Management Information System
GSD	Jordanian Government Central Purchasing Department
GST	General Sales Tax
GTD	Jordanian Government Tender Department
GTZ	German Technical Cooperation
ID	Identification
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
ISTD	Income and Sales Tax Department
JIC	Jordan Investment Corporation
MDA	Ministries, Department and Agencies
MoF	Ministry of Finance
MoPIC	Ministry of Planning and International Cooperation
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Financial Framework
PEFA	Public Expenditure and Financial Accountability
ROB	Result Oriented Budget
SAI	Supreme Audit Institution
SETP	Social & Economic Transformation Program
STA	Single Treasury Account
UNDP	United Nations Development Program
URDB	Rural and Urban Development Bank
USAID	United States Agency for International Development
WTO	World Trade Organization

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## SUMMARY ASSESSMENT

Jordan has made big progress in public finance management during the last years in terms of planning, controlling, monitoring and securing greater transparency of its fiscal policies, budget implementation and debt management. These efforts in transparency of the MoF and other concerned Public Administration entities is well reflected by the fact that the **international fiscal transparency rating** attributed by *Oxford Analytica* to Jordan has improved regularly since 2003, increasing from 2.00 to 3.00 in 2006.

It is also worthwhile in this respect to mention that Jordan official websites, including those related to MoF Directorates, are well developed and are making available the most important documents, data and statistics that can be of interest to the public.

In addition, the abundant documentation supplied to the Mission and covering all the aspects of the budget cycle (see list in Annex 1) shows that the overall Central Government Finances are well under control and monitored and reviewed on clear periodical base by relevant authorities inside the Ministry and with the Audit Bureau as external controller of all spending units.

### 1. Credibility of the budget

The scoring results of the indicators are contrasted as shown below. This is due to the fact that increases in oil price subsidies and in aid to Iraqi refugees through additional budget laws have been unevenly disbursed during the last two years. In addition, the lack of an accounting system based on commitment resulted in the absence of a system to monitor arrears.

However, both the waiving of oil price subsidies and the introduction in 2007 of a new system of accounting and monitoring taking into consideration commitments will allow Jordan in the future to improve very substantially the two low scores (D) that affect negatively the results of this set of indicators.

PI-1	Aggregate expenditure out-turn compared to original approved budget	A
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	D

### 2. Comprehensiveness and transparency

The progress achieved by the MoF during the last years are well reflected in the scoring of this set of indicators.

PI-5	Classification of the budget	A
PI-6	Comprehensiveness of information included in budget documentation	A
PI-7	Extent of unreported government operations	B
PI-8	Transparency of inter-governmental fiscal relations	B+
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	B+
PI-10	Public access to key fiscal information	B

### 3. Policy-based budgeting

The budget process is quite regular and orderly with a clear calendar. Future progresses will lead to the budget being approved by the Parliament before the end of the fiscal year, as the budget process will begin earlier than the present calendar dates.

During the last three years, constant progresses have been made in elaborating a three years Medium Term Financial Framework adapted annually to changes in economic conditions. Strategy by sectors and result oriented budget are being developed according to the overall National Agenda Program.

PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	B+

### 4. Predictability and control in budget execution

The two main taxes (income tax and sales tax) representing 75% of tax revenues are being managed by a single directorate and many progresses have been achieved in managing these two taxes. However, the overall tax system is characterized by a big number of various fees and taxes. In addition, under various schemes for investment promotion the tax base has been reduced by a set of tax exemptions that could be granted to new investments or investment in free zones.

As for the budget execution, substantial efforts have also been devoted to achieve better coordination between the various concerned directorates (Budget Department, Accounting, Cash and debt Management) so that the predictability of fund availability is well known by spending units.

There is still room for improvement in payroll controls, non salary expenditures and procurement, but substantial progresses have been achieved. The internal control functions needs to be upgraded and modernized in its way of conducting controls.

PI-13	Transparency of taxpayer obligations and liabilities	B
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C+
PI-15	Effectiveness in collection of tax payments	B
PI-16	Predictability in the availability of funds for commitment of expenditures	A
PI-17	Recording and management of cash balances, debt and guarantees	B+
PI-18	Effectiveness of payroll controls	B
PI-19	Competition, value for money and controls in procurement	B
PI-20	Effectiveness of internal controls for non-salary expenditure	B
PI-21	Effectiveness of internal audit	C

### 5. Accounting, recording and reporting

Given the fact that some spending units are not computerized and that there is not yet a centralized data base system for the budget execution, the MoF has made excellent progresses in the field of account reconciliation.

The two low scorings are due to the complete absence of information on resources received and spent by service delivery unit (D) and to the absence of expenditure commitments captured in the in-year budget reports, as the accounting system is still based on cash

payment (C). In addition the absence of information supplied on financial assets of the Government impacts negatively the PI-25 indicator (C). Future reforms will allow these low scorings to improve substantially.

PI-22	Timeliness and regularity of accounts reconciliation	B+
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	C
PI-25	Quality and timeliness of annual financial statements	C

## 6. External scrutiny and audit

As will be mentioned in the report, the work of the Audit Bureau will have to change its nature from an *ex ante* basis that duplicates the work of the internal controllers of the MoF to an *ex post* audit placing reliance on internal control systems and their efficiency.

On the other hand, if the legislative scrutiny of the annual budget law by both houses of Parliament is quite good inside the two Finance committees of the Houses, the legislative scrutiny of the Audit Bureau reports seems to be quite weak.

PI-26	Scope, nature and follow-up of external audit	C
PI-27	Legislative scrutiny of the annual budget law	A
PI-28	Legislative scrutiny of external audit reports	C

## 7. Donors practices

Donor practices do not allow for a formal predictability of foreign grant resources. However, the Jordanian entities concerned with mobilizing external resources have developed a good experience in predicting the flow of future resources that will be made available by the big Western donors.

An important part of foreign funded projects are undertaken directly by donors and thus do not submit to national procedures and might not be reported to the MoF or to MoPIC.

D-1	Predictability of Direct Budget Support	C
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	D

## **1. Introduction**

Upon the request of the European Commission a team of three experts traveled to Amman from March 3 to March 22 to carry the assignment that was entrusted to them and consisting of an assessment of the quality of Public financial Management through the methodology designed by the World Bank and developed in a detailed *Performance Measurement Framework*. This framework includes 31 indicators covering the credibility of the budget, its comprehensiveness and transparency, the adequate management of the budget cycle and the donor practices

The team was composed of the team leader, Mr. Georges Corm, Public Finance specialist and structural reform expert, Miss Sharon Cooper-Hanson, Chartered Accountant and expert in audit and control procedures in the public sector and Mr. Rupinder Singh, senior macroeconomist.

The mission was arranged so that the European Commission as one of the main donors to Jordan could envisage an enlargement of its financial support to the Jordanian Government and contribute to a better understanding of the dynamics of the Jordanian Reform Program in the field of Public Finance Management that could benefit both the Jordanian Authorities and the Donor's community.

It is to be noted here that a PEFA mission do not constitute an in-depth appraisal and evaluation of the whole Public Finance situation in Jordan. Such an appraisal would require much more time and is done in fact through the IMF Program monitoring and Article IV consultation. For this reason, the objective of the mission is much more limited in its scope which consists to score the 31 indicators regrouped in the four modules enunciated here under on the light of interviews conducted by the Team with concerned Jordanian officials and the documentation supplied by the concerned Jordanian authorities. The existence or the absence or the late generation of data is a key factor in arriving at a good or bad scoring in the main indicators. The existence of the data or the documentation needed but without existing specific arrangements to communicate them promptly to the public and to study them and monitor their evolution on a periodical and regular basis is an additional factor influencing the scoring.

## **2. Country background information**

The Kingdom of Jordan was created in 1923. Its size is 89 000 square km and its population reached an estimated 5 473 000 in 2005. Although situated in a difficult and tensed regional environment, the Kingdom has been able to achieve substantial political and social stability during the last decades. It has been able to absorb many military, political and social external shocks due both to the Arab-Israeli conflict and the First and Second Gulf War. These two conflicts have resulted in hundred of thousands of Palestinians and Iraqis taking refuge in the Kingdom.

The Hashemite Kingdom of Jordan is a constitutional monarchy with a representative government. The reigning monarch is the head of state, the chief executive and the commander-in-chief of the armed forces. The king exercises his executive authority through the prime minister and the Council of Ministers, or cabinet. The cabinet, meanwhile, is responsible before the elected House of Deputies which, along with the House of Notables

(Senate), constitutes the legislative branch of the government. The judicial branch is an independent branch of the government.

After a period of 22 years, the first free elections were held in Jordan in 1989. In 1993, the first multiparty elections in 37 years took place after a new Political Parties Law was issued in 1992. Today 30 political parties are officially licensed.

In 2004, Jordan ranked 86 in the Human Development Index. The adult literacy rate was 89.9%, the combined primary, secondary and tertiary gross enrolment ratio was 79% and its GDP per capita on a PPP basis was 4 688 US dollar.

Since 2001, Jordan has embarked on several ambitious reform programmes: the “Social and Economic Transformation Program” (SETP), “Jordan’s Vision for the future: the Reform Agenda” (2004), the “National Agenda” (2005) and “We are all for Jordan” (2006) that includes the National Agenda. This Agenda is a very comprehensive document including clear targets and objectives with performance indicators for each sector of the economy. It also describes the investments needed in each sector of the economy to modernize it and adapt it to the needs of economic globalization.

The Jordanian reform programme is covering most aspects of the Public Finance Management. The three core objectives of the programme are to ensure fiscal sustainability, efficient resource allocation and operational efficiency. The economic action programme includes several activities in terms of financial management, such as:

1. Reduce the general budget deficit to 3% of the gross domestic product within five years, through rationalization of current expenditure and improving the general expenditure efficiency, and adoption of the priorities plan in reducing expenditure.
2. Enhance dependence on self-resources in financing the general budget items.
3. Complete the reforms initiated in the field of retirement.
4. Expedite the implementation of the public sector reform components and restructure the civil system in a manner that contributes to improve the various ministries and institutions performance.
5. Develop and update the tax system to achieve justice and equality through enhancing the tax collection efficiency and widening the tax base through reconsidering the relevant legislations to achieve stability in such legislation to attract investment.
6. Do not expand taxes and fees exemption and exceptions.
7. Reconsider the mechanisms of general budget preparation, implementation and control
8. Expand and expedite the privatization process.
9. Give support to illegible citizens, not to commodities or services.
10. Intensify the efforts to exploit the foreign debt exchange agreements and purchase a portion thereof by using part of the privatization process.

## ***2.1 Country Economic Situation***

Jordan is an open economy with a population of 5.4 million. The economy has experienced sustained economic growth in recent years due to a mix of strong economic policies domestically and spillover from regional growth, particularly by the rich Gulf economies. Annual real GDP growth doubled during 2000-05 from the previous five years and the data for 2006 was almost 7%. The rise in trend growth has exceeded population growth, leading to higher GDP per capita. Monetary policy has been based on a nominal peg to the USD and this has resulted in lowering inflation to 3.5% in 2005, although effective monetary conditions in Jordan have loosened since 2004 with significant asset price rises due to strong inflows of



capital from high net worth refugees from Iraq and investments from capital rich Gulf residents – leading to a jump in inflation in 2006 to 6.2%.

The external imbalance on the Balance of Payments has risen in recent years to almost 18% of GDP. This imbalance has been a consequence of the net surplus on the capital account of the Balance of payments, in particular the high FDI inflows. These inflows have been sterilised by the Central Bank of Jordan, leading to a surge in FX reserves of over 5 months worth of import cover. The CBJ has used open market operations to limit the potential inflationary impact of sterilisation.

With monetary policy targeting a fixed nominal exchange rate, demand management rests on fiscal policy and supply side changes. Jordan graduated from an IMF Stabilisation Plan and has continued on the path of structural reform that has included privatisation, financial sector reforms – including banking reforms highlighted in the 2003 Financial Sector Assessment Program (FSAP) and improving public finances through reduced debt burden. The public debt law targets 80 percent of GDP but the GoJ is currently in the process of amending this to 60 percent, down from 210 percent in 1990. This includes net present value reduction in external debt after a debt-equity swap.

Continued structural reforms have allowed Jordan to meet the twin aims of improved living standards and reducing the role of the state in the economy. The GoJ is committed to approximation of legislation and practices with international standards for goods and services, highlighted by its commitment to meet the Association Agreement with the EU. Moreover, the GoJ has continued to improve supply side reforms through a mix of improved regulatory functions and reduction of the size of the state through privatisation. In 2006, five companies were sold, yielding receipts of US\$0.6 billion (4.3 percent of GDP). The government has also embarked on a program to improve education, health, and public administration with support from the World Bank and other agencies. Jordan became eligible recently for the Millennium Challenge Corporation's Compact Assistance.

Jordan rates highly in comparison to regional economies in terms of governance, development indicators and gender equality. These reforms have led to higher labour and total factor productivity, something essential for a small open economy to sustain economic growth. Sustained economic growth has led to lower incidence of poverty although it has been uneven. Unemployment has fallen in nominal terms, although the rate of unemployment has declined by less than the GDP growth and youth unemployment has remained high.

The higher growth has allowed fiscal position to gain from both the cyclical upturn and improved tax collection, although there is still concern about revenue as a share of the total tax base due to a number of exemptions. Jordan has remained reliant on external donor finance, with an increasing share annually in both nominal and relative terms, in the form of Direct Budget Support. In addition, the GoJ receives grants from Saudi Arabia and the Gulf for oil imports.

## ***2.2. Financial Reform Strategy of the Ministry of Finance***

The Jordanian Ministry of Finance has embarked on an important reform program for public finance. It is assisted in implementing this program by important external technical assistance, in particular USAID for reform of the tax system and the accounting system and GTZ for the improvement of the budget process and the modernization of spending procedures and

accounting. The IMF and the World Bank are also supporting the financial reform efforts of the MoF.

The Financial Management Reform Strategy 2004-2007 of the MoF is based on the following four main objectives, some of which have been well advanced during the last three years:

*1. Improving the macro-fiscal conditions of the Treasury*

This objective includes additional improvement in the public debt management, in domestic revenues management, in rationalizing the tax system to minimize tax evasion, in creating a real estate comprehensive information system to achieve a fair valuation of real estate in the Kingdom, in continuing to review annually public expenditure to allocate funds according to national priorities.

It also includes the use of econometric model to estimate future revenues, the strengthening of the capacity to improve the Medium Term Fiscal Framework, detailed spending ceilings by spending units.

In addition, it is envisaged to send the Budget draft law to Parliament in October instead of December.

*2. Raising efficiency in planning, preparation and execution of the general budget*

This objective includes a rationalization of the budget preparation so as to arrive at a result oriented budget within clear sector priorities; it also aims to achieve more fiscal transparency, upgrade of the quality of government service to citizens and investors through more accountability in ministries and spending units.

In this respect one should note that the MoF with the support of expertise financed by USAID has embarked on an ambitious computerization scheme (GMFIS) adapted to a new chart of account based on the accrual system and in full conformity with the International Public Sector Accounting Standards (IPSAS). The system will also be implemented in all Government departments and spending units allowing the MoF to be permanently informed about spending conducted by other ministries or entities. When fully operational in three to four years time, the system should allow the MoF to follow the expenditure cycle at each stage and to improve planning, monitoring and control of the budget preparation and execution. It will also produce budget accounts in real time.

The reform programme calls here for a better cash management of the Treasury, the full implementation of a Single Treasury Account (STA) with the Central Bank which is already in progress.

*3. Institutional capacity building and human resources development*

This objective requires a full review of the administrative and organizational structure of the Ministry of Finance as well as the definition of functions and job descriptions. It also emphasizes the need to reinforce the Studies and Economic Policies Directorate with additional human resources, a better monitoring of the performance of the commercial and industrial companies in which the Government has shares and the decrease of the cost of tax management.

#### 4. Improving the standard of services provided to citizen and investors

### 3. Assessment of the PFM systems, processes and institutions

#### 3.1 Budget credibility

##### PI-1. Aggregate expenditure out-turn compared to original approved budget

The differences between the actual expenditures and the original approved budget can be calculated in various ways given the fact that the Government sends to Parliament Additional budget laws during the years. On the basis of total budgeted appropriations, the aggregate expenditure out-turn has been less than 5%, but additional budget laws represent more than 5% of original Budget, as can be seen from the table below. Additional Budget Laws have been designed to cope with unexpected rise in price of oil and with relief spending for the large influx of refugees from Iraq.

Total Expenditures				Current expenditures (including debt service)			
(in million JD)	2004	2005	2006	(in million JD)	2004	2005	2006
Original Budget law	2,670	3,330	3,449	Original Budget law	2,133	2,545	2,607
Supplementary Budget Law	443	383	590	Supplementary Budget Law	306	383	565
% change	16.6%	11.5%	17.1%	% change	14.4%	15.0%	21.7%
Total budgeted expenditure	3,113	3,713	4,039	Total budgeted expenditure	2,439	2,928	3,172
Actual amount spent	3,181	3,539	3,912	Actual amount spent	2,378	2,908	3,123
% change	2.2%	-4.7%	-3.1%	% change	-2.5%	-0.7%	-1.5%
% change original BL to actual expenditures	19.1%	6.3%	13.4%	% change original BL to actual expenditures	11.5%	14.3%	19.8%

Source: General Government Finance Bulletin, Vol. 8 – N° 12, MoF, January 2007

Score	Minimum Requirements (Scoring Method M1)
A	(i) In no more than one out of the last three years has the actual expenditure deviated from <b>budgeted expenditure</b> by an amount equivalent to more than 5% of budgeted expenditure.

##### PI-2. Composition of expenditure out-turn compared to original approved budget

Actual spending deviated from budgeted spending in two main categories of expenses: Relief assistance and oil price subsidies. A less than anticipated actual expenses compared to budgeted (original and additional) took place in 2005, but was compensated by an increase of actual expenses on these two items in 2006 in comparison to total budgeted expenses.

year	for PI-1 total exp. deviation	total exp. variance	for PI-2 variance in excess of total deviation
2004	3,2%	5,9%	2,7%
2005	-5%	10,8%	15,9%
2006	-2,3%	9,9%	12,2%

Score	Minimum Requirements (Scoring Method M1)
<b>D</b>	(i) Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.

### PI-3 Aggregate revenue out-turn compared to original approved budget

*Tax Revenues collected have always been above 97% of budgeted estimates of tax revenues. For total revenues including grant, the out-turn for only one year was less than 97%.*

Tax revenues				Total revenues (including grants)			
(in million JD)	2004	2005	2006	(in million JD)	2004	2005	2006
Original Budget law	1,186	1,368	1,855	Original Budget law	2,297	3,060	3,000
Supplementary Budget Law	248	113	120	Supplementary Budget Law	443	136	345
% change	20.9%	8.3%	6.5%	% change	19.3%	4.4%	11.5%
Total budgeted revenues	1,434	1,481	1,975	Total budgeted revenues	2,740	3,196	3,345
Actual collection	1,429	1,766	2,134	Actual amount spent	2,959	3,062	3,469
<b>% collection</b>	<b>99.6%</b>	<b>119.2%</b>	<b>108.0%</b>	<b>% change</b>	<b>108.0%</b>	<b>95.8%</b>	<b>103.7%</b>
% collection to original BL revenues estimate	120.5%	129.1%	115.0%	% change to original BL revenues estimate	128.8%	100.1%	115.6%

Source: General Government Finance Bulletin, Vol. 8 – N° 12, MoF, January 2007

Score	Minimum Requirements (Scoring Method M1)
<b>A</b>	(i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.

### PI-4. Stock and monitoring of expenditure payment arrears

*A system is being developed to monitor arrears with the beginning of year 2007 as part of the general Reform Program of the Ministry of Finance and the preparation of the new Chart of account and the introduction of a GMFIS system. New monitoring table formats have been developed to follow expenditures at each stage and training sessions have taken place for concerned civil servants on how to use and fill these new forms.*

*Arrears have developed inside the public sector, mainly between AGA, but the Council of Minister has ordered in 2006 all AGA to clear their arrears to other AGA. Disbursement of Government support to AGA is being made conditional on the AGA clearing its stock of arrears.*

*As the system for monitoring arrears is not yet in place and as we could not receive data about the present stock of arrears, the score should be D.*

Score	Minimum Requirements (Scoring Method M1)
<b>D</b>	(ii) There is no reliable data on the stock of arrears from the last two years.

## 3.2 Comprehensiveness and Transparency

### PI-5. Classification of the budget

Progresses have been achieved in implementing GFS standard classification. The monthly General Government Finance Bulletin includes a classification of expenditures and revenues in conformity with GFS standards. The 2007 Budget economic classification has been adapted to the GFS standard:

#### Economic classification of expenditures

Wages & Salaries
Consumption of Goods & Services
Interest paid
Subsidies to Public Entities
Grants to Int. Inst. or Gov. Units
Social Benefits
Other Expenditures
Non Financial Assets

In addition, the 2007 budget is organized by an administrative classification based on spending units (57 units) and along a functional classification in conformity with GFS standards as follows:

FUNCTIONAL CLASSIFICATION			
Sector	Item	Sub-categories	
Global Public Services	701	7011	Legislative & Executive bodies, Foreign & Financial Affairs
		7012	Foreign Grants
		7013	Public Services
		7015	R & D for Public Services
		7016	Other Public Services
		7017	Public Debt Transactions
		7018	Transfers between CG & sub-Gov.
		7018	Transfers between CG & sub-Gov.
Defense Affairs & Services	702	7021	Military Defense
		7024	R&D for Defense
Public Order & Security	703	7031	Police Services
		7032	Services of Fire Protection
		7033	Courts
		7036	Public Order and Public Security Affairs, unclassified
Economic Affairs	704	7041	Economic and Commercial Affairs, and Public Labor Affairs
		7042	Agriculture, Forestry, Fishing and Hunting
		7043	Fuel and Energy
		7044	Metal and Transformation Industries, and Contracting
		7045	Transportation
		7046	Communication
		7047	Other Industries
		7048	R&D for Economic Affairs
Environment Protection	705	7049	Economic Affairs, unclassified
		7051	Waste Management
		7055	R&D for Environment Protection
		7056	Environment Protection, unclassified

<b>Housing Services &amp; Social Dev.</b>	706	7062	Society Development
		7063	Water Pipelines
<b>Health</b>	707	7071	Medical Products and Equipments
		7072	Services of External Clinics
		7073	Hospital Services
		7074	Public Health Services
		7076	Environment Protection, unclassified
<b>Leisure, Culture &amp; Religion</b>	708	7081	Entertainment and Sports Services
		7082	Cultural Services
		7083	Broadcasting and Publishing Services
		7084	Other Religious and Social Activities
		7085	R&D in Entertainment, Culture and Religion
<b>Education</b>	709	7091	Pre- Elementary and Elementary Education
		7092	Secondary Education
		7094	Higher Education
		7095	Unclassified Education
		7097	R&D for Education
		7098	Education Affairs, unclassified
<b>Social Protection</b>	710	7101	Sickness and Disability
		7102	Elderly Care
		7104	Family and Children
		7106	Habitat
		7107	Social Exclusion, unclassified
		7108	R&D for Social Protection

<b>Score</b>	<b>Minimum Requirements (Scoring Method M1)</b>
<b>A</b>	(i) The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)

## **PI-6. Comprehensiveness of information included in budget documentation**

1. There is a Medium Term Framework for the Budget that is being developed with the assistance of GTZ. The Ministry Directorate for Studies and Economic Policies is being reinforced. However, if the budget documents do not yet include this Framework as there is no Economic Report included in the Budget documents, the Budget main document includes the Minister of Finance speech to Parliament. This speech describes first the past year economic developments and their impact on budget implementation in terms of revenues and expenditures. It also enunciates briefly the main macro-economic figures and assumptions on which the Budget has been built after.
2. The fiscal deficit and deficit financing are designed and calculated according to GFS and international standards inside the budget.
3. The Budget document includes deficit financing, describing anticipated composition
3. There is no list of financial assets in the Budget documentation
4. The debt stock coverage is extensive in the monthly General Government Finance Bulletin.
5. The Budget includes amount of debt service for domestic and for external debt shown separately and shows also the amounts to be disbursed during the year from contracted loans and amounts to be repaid on outstanding loans.
6. Prior year's budget out-turn is presented in the same format as the budget proposal

7. Current year's budget (either the revised budget or the estimated outturn) is presented in the same format as the budget proposal.

8. Summarized budget data along GFS standards is published in the monthly General Government Finance Bulletin. Detailed data according to the Administrative and Economic classifications including data for the current and previous year is included in the Budget.

9. The Minister of Finance speech to Parliament includes a description of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs. His speeches to the two Finance Committees of the lower and upper houses are also detailed documents giving additional information to members of the Committees.

Score	Minimum Requirements (Scoring Method M1)
A	(i) recent budget documentation fulfils 7-9 of the 9 information benchmarks

### PI-7. Extent of unreported government operations

Capital budget projects funded locally or by donors has been included in the Budget Law in recent years as part of the efforts to report all government operations in the budget. In addition, budget appropriations as well as final accounts show clearly for all projects what is financed by the Treasury and what is foreign funded through loans or grants.

Special programs as the National Agenda Program, as well as SETP and other special programs are included in the Budget. They used to be regrouped in the MoF Budget until 2006, but for 2007 they have been distributed between the concerned ministries budget.

The details of the various support given to investment projects implemented by public entities and amounts to be disbursed for specific programs is given in the following table. In each item the beneficiaries or executing entities are listed with the corresponding amount.

Projects funded by foreign donors or under special national programs as per Jordanian budgets				
Budget items	(in '000 Jordanian Dinars)	2005 (actual)	2006 (Revised estimate)	2007 (Estimate)
508	Projects	9 148	17 500	62 500
509	Loans and Support contribution	98 417	96 200	103 100
512	Other supported projects (including foreign funded)	103 436	113 848	111 615
509	ESPT	16 707	9 957	
504-512	National Agenda		20 125	
	<b>TOTAL</b>	<b>227 707</b>	<b>257 630</b>	<b>277 215</b>

Source: Jordanian Budget for 2007

Projects funded by donors to local bodies or AGA are reported in the accounts of these institutions. Only projects directly funded and implemented by donor agencies are unreported in Government accounts.

As will be reported in more details in comments on Indicator PI-9, the Budget of State supported Universities is not included in the Jordanian Central Government Budget, nor is it included in the Annual Report of the AGAs financial statements. However, the amount of subsidy transferred by the CG to the Universities (20 million JD) is shown in the Budget of the Ministry of Higher Education and Scientific Research. The Universities Budget is audited by the Audit Board.

*We do not believe that the fact that these University budgets (representing 5.6% of the total amount of Budget) are not included in the CG Budget constitute an “unreported government operation”. In the future, the MoF will include these budgets in the AGA annual financial statements that are published.*

Score	Minimum requirements (Scoring Method M1).
<b>B</b>	(i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure.  (ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.

### PI-8. Transparency of Inter-Governmental Fiscal Relations

*The Budget includes a clear picture of different types of transfers from the Central Government to other entities. These transfers are regrouped in item 304 of the budget classification. Some 26 institutions are receiving transfers, many of them in the educational and health sector.*

#### Appropriations for Transfers in the Jordanian Budget

(in million JD)	2005 (actual)	2006 (Revised estimate)	2007 (Estimate)
Contribution to Government entities (Current budget)	128,6	201,8	163,6
Subsidies of which	324,2	469,1	198
Gazoline	310	270	
Basic food products	64	60	60
Social protection network		62	65
Local & municipal councils (6%)	15	15	21
Transfers to SS for pensions (employer & employee contribution)	414,2	488,9	524,7
<b>Total Transfers (Current Budget)</b>	<b>867</b>	<b>1 159,8</b>	<b>886,3</b>
<b>Total Current Budget</b>	<b>2 477</b>	<b>3 134</b>	<b>3 320</b>
<b>% to total Current Budget</b>	<b>35,0%</b>	<b>37,0%</b>	<b>26,7%</b>
Loans & Contribution (Capital Budget)	122,4	116,5	104,7
<b>Total Capital Budget</b>	<b>634,7</b>	<b>768,3</b>	<b>944,2</b>
<b>% to total Capital Budget</b>	<b>19,3%</b>	<b>15,2%</b>	<b>11,1%</b>
Total Transfers & Contributions	989,4	1276,3	991
<b>TOTAL Current &amp; Capital Budget</b>	<b>3 112</b>	<b>3 903</b>	<b>4 264</b>
<b>% Transfers &amp; Contributions to total Budget</b>	<b>31,8%</b>	<b>32,7%</b>	<b>23,2%</b>

*Source: Jordanian Budget for 2007*

*The list of transfers includes also the amount of transfer to local and municipal councils resulting from the share (6%) of these councils in the taxation of certain gasoline product. The following table shows the three different types of transfers, in addition to transfers in favor of the Social Security institution representing the contribution of the employer (the State) in the Jordanian pension system.*

*In addition, local and municipal councils receive a 35% share in the proceeds of the annual car registration fees. This share is deposited in a special trust account of the Treasury and amounts are disbursed monthly to the Urban and Rural Development Bank (URDB) that is in charge of distributing*



these proceeds to the municipalities according to the Council of Minister rules<sup>1</sup>. The Law on municipality being presently renovated has enunciated a certain number of criteria<sup>2</sup> for distributing the share of the two taxes between the municipalities. These rules take in consideration the population number, the geographical size, the regional importance, the poverty rate. These same rules are implemented for the proceeds of the 6% tax on the price of certain gasoline products allocated for municipalities. These proceeds are also disbursed by the MoF to the URDB on a monthly basis.

Large and well equipped municipalities are able to determine their year financial resources as they can forecast their income from the tax they assess and collect according to the law on municipalities, as well as their share from the two taxes collected by the Central Government. The URDB is also acting as a financial advisor for small municipalities to which it can grant short term facilities or medium term loans to its shareholders.

The table also shows the loans and State contributions to specific capital projects of Government supported entities (item 509 and 512 of the Budget classification).

Accounts of the municipalities and local councils are shown in details in the monthly General Government Finance Bulletin. However, statistics in the January 2007 Bulletin date back to the period 2000-2005 (preliminary). The statistics give a detailed picture of all SN revenues and expenditures. In addition to the share in taxes collected by the CG and mentioned here above, the SN have their own revenues consisting mainly of a real estate tax, license fees, other taxes and penalties, revenues from investments and capital projects and from banks deposits.

Expenditures are also shown in detail according to a functional classification and divided between current and capital expenditures. The following table summarizes the financial accounts of SN

#### Municipalities Income and expenditures

in JD Million	2000 (actual)	2001 (actual)	2002 (actual)	2003 (actual)	2004 (actual)	2005 (prelim)
<b>Income</b>						
Tax revenues	100,7	104,3	124,3	133,6		
Other revenues (including grants)	23,8	35,3	30,5	34		
<b>Total revenues</b>	<b>124,5</b>	<b>139,6</b>	<b>154,8</b>	<b>167,6</b>	<b>183,3</b>	<b>205,5</b>
<b>Current expenditure</b>						
Salaries	54,9	59,2	67,2	71,6		
Services, supplies, maintenance	13,2	14,5	18,1	18		
Interest payments	4,1	1,4	3,7	4,1		
Contributions & subsidies	1	0,9	0,7	1,1		
Others	1,3	1,6	1,6	1,6		
<b>Total current expenditure</b>	<b>74,5</b>	<b>77,6</b>	<b>91,3</b>	<b>96,4</b>	<b>101,6</b>	<b>106,6</b>
<b>Capital expenditures</b>	<b>41</b>	<b>50,3</b>	<b>71,3</b>	<b>74,3</b>	<b>71,8</b>	<b>95,4</b>
<b>Total expenditures</b>	<b>115,5</b>	<b>127,9</b>	<b>162,6</b>	<b>170,7</b>	<b>173,4</b>	<b>202</b>
<b>Deficit or surplus</b>	<b>9,1</b>	<b>11,7</b>	<b>-7,9</b>	<b>-3,2</b>	<b>9,9</b>	<b>3,5</b>

Source: General Government Finance Bulletin, Vol. 8 – N° 12, MoF, January 2007

<sup>1</sup> Beginning next year, this share of the tax will be directly transferred to the URDB for distribution without going through the Treasury Trust account. The municipalities will also collect directly the real estate tax that has been collected up to now by the MoF. The policy regarding municipalities has been to merge municipalities without sufficient resources with more solvent municipalities. The number was thus reduced from 328 municipalities in 1999 to 95 municipalities in 2006.

<sup>2</sup> These criteria have been changed in 2001 based on a World Bank report on this issue. It has been reviewed by a special Committee in 2006 so as not to deprive a rich Municipality like Amman of any share in these resources.

Score	B+	Minimum requirements for dimension score. Scoring Methodology M2
(i) Transparency and objectivity in the horizontal allocation among SN governments	A	<b>Score = A:</b> The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems
(ii) Timeliness of reliable information to SN governments on their allocations	A	<b>Score = A:</b> SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories	C	<b>Score = C:</b> Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of

### PI-9. Oversight of aggregate fiscal risk from other public sector entities

*The Ministry of Finance (Budget Directorate) is producing an annual review of the budget of 40 Autonomous Government agencies and entities. 15 AGA are in a situation of financial surplus, 21 suffer from a limited deficit and 4 are in a state of full deficit. The Document includes aggregate figures and detailed figure for each AGA. The aggregate budget of these agencies in year 2006 is given in the table below. A list of these AGA has been included in Annex I.*

*There is also a reporting by AGA of donors' funded projects in their yearly report. These reports are assembled and integrated in an annual document published by the Directorate of the Budget. This annual document is approved by the Council of Minister upon the proposal of the MoF. It contains a short description of the main aggregates evolution and the recommendations and orientations given by the Prime Minister to the MoF as to how to orient the financial management of AGA (as the requirement to clear all arrears). But it includes also the financial statements of each AGA. The document prepared by the Budget Directorate is distributed to all members of both houses (upper and lower) and to universities, in addition to ministers.*

*It seems that the budget annual document and the annual financial estimate accounts of the AGA now give a complete picture of Government financial operations, except for two types of entities. We have found that the budgets of the State owned universities are not included in one of these two documents. This represented in 2005 a gross aggregate amount of 236 million JD (including the amount of support included in the budget). The Budget Directorate intends to include this amount in its documents on AGA next year. The Audit Board is the external Controller of the State Universities and its 2005 Annual report has given a full review of their financial statements.*

*Another item missing in the financial statements of AGA is the balance sheet of the Cities and Villages Development Bank<sup>3</sup> (with total assets and liabilities of 87.7 million JD in 2005).*

*Accounts of the municipalities and of AGA are audited by the Audit Bureau. The Ministry of Municipalities is also monitoring the budget of the municipalities and the Ministry of Higher Education that of the Universities.*

<sup>3</sup> The municipalities are the shareholders of this bank.

The General Government Finance Bulletin includes a consolidation of aggregate revenues and expenditures of the CG, the local bodies and the AGA. In addition, overall fiscal developments are analyzed periodically in this bulletin.

#### Year 2005 Aggregate summary of Revenues and expenditures of main AGA

1	Current Revenues		Current expenditures	
	Current revenues	501,981	Salaries	95,281
	Government subsidies	47,150	Operational expenses	150,347
			Transfer expenses	69,039
			Other	142
	<b>Total</b>	<b>549,131</b>	<b>Total</b>	<b>314,809</b>
2	Capital revenues		Capital expenditures	
	Government contribution to development projects	100,642	Own financed projects	257,901
	Revenues from projects	128,166	Loan financed projects	51,690
	Foreign grants	87,624	Grant financed projects	96,481
	Loans proceeds			
	Grant from PSET	6,757		
	Other	186.0		
	Appropriations from National Agenda Program	41,100		
	<b>Total</b>	<b>364,475</b>	<b>Total</b>	<b>406,072</b>
	<b>Total 1 + 2</b>	<b>913,606</b>	<b>Total 1 + 2</b>	<b>720,881</b>
			<b>Surplus 1 + 2</b>	<b>192,725</b>
3	Sources of fund		Use of funds	
	Domestic loans	69,150	Reimbursement of domestic loans	54,348
	Foreign loans	46,690	Reimbursement of foreign loans	22,090
	Current Budget surplus	262,059	Settlement of deficits	69,334
	Previous years surplus	130,571	Transfers to the Treasury	219,084
	Other	6,906	Surplus end of year	150,520
	<b>Total</b>	<b>515,376</b>	<b>Total</b>	<b>515,376</b>

Source: MoF, Budget of State Owned Agencies for year 2006

Score	B+	Minimum requirements (Scoring methodology: M1)
<b>A</b>		(i) All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as <b>annual audited accounts</b> , and central government consolidates fiscal risk issues into a report <b>at least annually</b> . (ii) SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.
<b>B</b>		(i) All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report. (ii) The net fiscal position is <b>monitored at least annually</b> for the most important level of SN government, and central government consolidates overall fiscal risk into a report.

#### PI-10. Public Access to key fiscal information

The website of the Ministry makes available the following:

- ✓ The budget law
- ✓ The monthly General Government Finance Bulletin that includes final figures for budget execution according to GFS classification
- ✓ The Board of Audit Report on Budget execution is a public document and it is sent to Parliament yearly

Score	Minimum Requirements (Scoring Method M1)
B	(i) the government makes available to the public 3-4 of the 6 listed types of information

### 3.3 Policy based budgeting

#### PI-11. Orderliness and participation in the annual budget process

*There is a clear calendar budget which is stated in the Constitution (articles 111 to 119). The budget has to be presented to Parliament at least one month before the end of the year. Pending the approval of the budget, the Government can only spend on a monthly basis an amount equivalent to 1/12 of previous year budget.*

*The budget cycle as described in writing by the MoF is the following:*

1.	<i>Preparation of the three years macro-economic framework</i>	<i>Beginning of May</i>
2.	<i>Preparation of the Medium Term Financial Framework (MTFF)</i>	<i>Mid June</i>
3.	<i>Adoption of the MTFF by the Minister of Finance</i>	<i>Second part of June</i>
4.	<i>Preparation of Budget ceilings by ministries and sector (MoF and Budget Directorate)</i>	<i>End of June</i>
5.	<i>Preparation of the Budget Circular (MoF and BD)</i>	<i>Mid July</i>
6.	<i>Spending Ministries &amp; entities send their budget to the BD</i>	<i>Mid August</i>
7.	<i>Preparation of the Budget law and transmission to the Council of Ministers</i>	<i>Beginning of October</i>
8.	<i>Sending of the Budget project to the Parliament</i>	<i>End of November</i>
9.	<i>Preparation of the Minister of Finance Budget speech to Parliament</i>	<i>Beginning of December</i>
10.	<i>Discussions in Finance Committees of both houses</i>	<i>January-February</i>
11.	<i>Approval of the Budget by both houses</i>	<i>End of February or beginning of March</i>

*The last three budget laws for 2004, 2005 and 2006 have been approved respectively in March 2, the February 22 and February 28.*

*Discussions between MoF and line ministries have taken 100 days in 2004, 90 days in 2005 and 68 days in 2006.*

Score	B +	Minimum requirements for dimension score. Scoring Methodology M2
(i) Existence of and adherence to a fixed budget calendar	A	<b>Score = A:</b> A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.
(ii) Guidance on the preparation of budget submissions	A	<b>Score = A:</b> A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.

(iii) Timely budget approval by the legislature	<b>C</b>	<b>Score = C:</b> The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.
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## PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting

Since 2004, the Directorate of Studies and Economic policies has begun to work on a three years macro-economic framework. Periodical reports have been issued by this Directorate. The last one for the period 2006-2009 is quite comprehensive as it is built on the National Agenda Program and the various sectoral allocations needed to achieve the targets. Estimates for foreign grants are conservative as they are built exclusively on confirmed grants. This framework is also taking into account the IMF macro-economic assumptions for the period 2006-2010.

Budget ceilings are given to the different spending units by the Budget Department annually in the Budget Circular (see PI-11).

Debt sustainability analysis is conducted on a regular basis using modeling tools supplied by the World Bank.

Score	B+	Minimum requirements for dimension score. Scoring Methodology M2
(i) Multi-year fiscal forecasts and functional allocations	<b>A</b>	<b>Score = A:</b> Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for <b>at least three years</b> on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.
(ii) Scope and frequency of debt sustainability analysis	<b>A</b>	<b>Score = A:</b> DSA for external and domestic debt is undertaken annually.
(iii) Existence of costed sector strategies	<b>B</b>	<b>Score = B:</b> Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.
(iv) Linkages between investment budgets and forward expenditure estimates	<b>C</b>	<b>Score = C:</b> Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.

### 3.4 Predictability and control in Budget execution

#### PI-13 Transparency of taxpayer liabilities and obligations

##### (i) Clarity and comprehensiveness of tax liabilities

Clarity and comprehensiveness of main tax liabilities appear to be reasonable as it has recently improved in terms of legislation and administrative procedures, including appeals of Jordan's two major taxes (basically the Sales Tax and the Income Tax), and there is good information available on these two taxes to the public via the Income Tax and Sales Tax Directorate's Website and other

publications. The income tax is covered by the primary statute of the Income Tax Law (No.57) 1985 – the latest proposals put forward in March 2007, and the Sales Tax by Law (No.6) 1994. Together they account for approximately 75% of the country's tax revenue. The number of tax brackets has been reduced, as well as the registration threshold for Sales tax registration to JD 50,000 per annum.

***In addition to these there two main taxes and to custom duties there is a significant number of taxes and a variety of fees and charges and revenue collection bodies which add to the complexity of the system and cumbersomeness of the overall tax system in the Kingdom. This a subject of citizens' complaint, especially that some confusion does exist and transparency is impaired for reasons such as the regular stream of changes made to laws and the scope for interpretation which remains within the various tax laws. The Income tax law changed 14 times since 1994. In addition, as will be described hereunder, different investment incentives under the form of tax holidays or exemptions have reduced the taxable basis for income tax and created differences among tax payers' liabilities.***

*In fact, discussions with the private sector indicates that whilst there is clarity over the major taxes, the situation is less clear if the full range of Government taxes and fees are considered. Principally, it is the sheer number of taxes, the method of calculation and the wide range in the tax rates and variety of fees and charges which contributes to this confusion. USAID have a project on tax simplification.*

*Future plans include the further strengthening of the large taxpayer office and setting up medium taxpayer offices, the move to a single taxpayer identification number which should reduce the risk of tax evasion and a unified tax base.*

*Since 2003, the principal revenue administration authority (RA) which collects the two major taxes referred to above is the Ministry of Finance's Income and Sales Tax Department ((ISTD). Other significant RA's include the Ministry of Finance Custom's Department and the Municipalities – though there are many others. These include the Free zones Corporation, which under the provisions of the Law of the Free zones Corporation (No.32) 1984 and subsequent Investment Regulation amendments has the authority to determine exemptions, special tax rates and partial tax rates within the boundaries of Jordan's designated Free zone areas.*

*The first Investment Promotion Law (No 16) came into effect in 1995 and the Jordan Investment Bureau was created, as a governmental body enjoying financial and administrative independence, by the Investment Promotion Laws (Nos. 67& 68) 2003. Prior to that, the investment procedures for exemption were conducted by a department within the Ministry of Trade and Industry. Within the scope of the laws any exemptions can be granted by the Jordanian Investment Board Committee; extra incentives can be granted only by Cabinet approval. The 1995 law apparently allows for flexibility under 'special exemptions'. The 2003 law gives scope for further incentives not set out in the original law for any projects which can be shown as 'vital to Jordan's economy'. The Airport has very recently come within this category<sup>4</sup>.*

<b>JIB Statistics obtained by interview</b>			
<b>Project Information</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
No. of projects receiving exemptions	421	557	578
Value of investments to be made - reported by the companies requesting the exemptions in JD	418,326,849	749,983,134	1,833,641,420

Source : Jordan Investment Board

<sup>4</sup> Example of the scope of exemptions - income and social taxes breaks ranging from 25-75% for ten years, in special cases this can be 20years. In South Jordan Ma'hn Industrial Estate it is 100% including exemptions from customs duty. Business categories attracting exemption are Industry, Agriculture, Hotels, Hospitals, Maritime transport and Railways. It was not possible to appraise the fairness of the system to grant tax exemptions by the Council of Ministers or concerned specialized committees.

**(ii) Taxpayer access to information on tax liabilities and administrative procedures.**

The revenue administration authorities use information technology to good effect and both the Income and Sales Tax Department and the Customs Department have good quality websites which provide taxpayers with the relevant and up to date legislation and regulations. The website also facilitates access to forms, departmental contact details, and electronic communications and promotes the use of a telephone call centre in respect of Income Tax and Sales Tax. A visit to the Income and Sales Tax main office revealed a well organised public office with relevant guidance booklets and forms clearly displayed.

The Department's mission and its customer charter / staff code of ethics regarding the treatment and rights of taxpayers were both in view together with publicity from an external information campaign promoting the linkage of citizenship to individuals' tax responsibilities.

We have not been able to assess this dimension of other taxes.

**(iii) Existence and functioning of a tax appeals system.**

There is a well defined appeals system. In the first instance an appeal against an assessment would be investigated internally. Any unresolved cases can then be taken to a more formal (court) appeals system. The procedure for this is set out in the tax laws including guidance on admissible cases or circumstances for the challenge of an assessment; timeframes and rights of the taxpayer throughout the process. Prior to 1996 the only redress was through the courts system, since then the internal administrative stage has been introduced.

Strategic objectives under the FMR Strategy 2004-2007 are to reduce the number of appeals and complaints and the number of cases at court. The amount of outstanding income tax appeals which are within both the internal system and at court is recorded for income tax. The system for GST is not as developed but improvements are planned. The table below sets out the figures for Income Tax.

	<b>Number of Cases</b>	<b>Total amount in thousand JD</b>
Pre 1980	2	140
1980-1989	92	44,218
1990-1999	240	178,912
Since 2000	5,271	25,465,090
<b>Total</b>	<b>5,605</b>	<b>25,688,360</b>

Source: Statistics from the Income tax and Sales Tax Department

In respect of GST we are advised that there are an estimated 300 cases at court, representing 19 million JD.

As the scoring is mainly based on major taxes and not on all tax liabilities and the overall efficiency of the tax system, the score attributed is B and not C.

<b>Score</b>	<b>B</b>	<b>Minimum requirements for dimension score. Scoring Methodology M2</b>
(i) Clarity and comprehensiveness of tax liabilities	<b>B</b>	<b>Score = B:</b> Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.

(ii) Taxpayers' access to information on tax liabilities and administrative procedures	<b>B</b>	<b>Score = B:</b> Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.
(iii) Existence and functioning of a tax appeals mechanism.	<b>B</b>	<b>Score = B:</b> A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed.

#### **PI-14 Effectiveness of measures for taxpayer registration and tax assessment**

*The Income and Sales Tax department maintains a computerised database. The procedures operating over the existing database appear to be adequate, however, a reconciliation of the taxpayer database with other government registration systems would achieve even greater control ; this is one of the future developments envisaged by the Department's strategic planning together with an aim to expand the taxpayer database.*

*The liability for violations of the major tax legislations is set out in articles of the Income Tax Law and articles of the GST. We understand that recent proposed changes to the Income Tax Law have further strengthened the scale of penalties and fines. In 2006 eight income tax fraud cases were referred to court and while the legislation permits it, it is rather unusual in Jordan. The Department is still awaiting the court's reaction to this and it will use the learning from these test cases to develop a new procedure for the future. We are advised that the existing penalties do provide some deterrent as will the stronger approach in future referred to above.*

*There is evidence of a number of levels of audit, control and investigation in respect of the tax function. There are 35 civil servants permanently allocated external Audit Bureau staff in the Income and Sales tax Department's head office in addition to its own internal control and the tax investigation and audit department.*

*Currently there are approximately 700,000 registered files of which 425,000 are active income tax files of individuals, partnerships, and 25,000 registered GST entities of which 17,000 are active. The controls operating over the identification number assigned to each taxpayer include the fact that it is generated from the national ID number taken from the database held by the Civilian Department.*

*Jordan does not operate a capital gains tax system there are no records of the assets of individuals - and access to details regarding the opening of bank accounts appears to be restricted to situations where formal investigations are underway.*

*In respect of businesses, there additional means of further verification of the completeness of the GST registration base. Two examples are a cross check of businesses registered with trade organisations versus those registered for GST and the investigation department does operate periodic physical inspections of business premises.*

*Some form of risk assessment appears to take place in the reviews to be undertaken in respect of income tax, and the investigation unit. Audit teams exist which cover large, medium and small taxpayers. A systematic audit plan of GST registered taxpayers is being implemented as per the 2005-2007 Plan of the Directorate.*



Score	C+	Minimum requirements for dimension score. Scoring Methodology M2
(i) Controls in the taxpayer registration system.	C	<b>Score = C:</b> Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration	B	<b>Score = B:</b> Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.
(iii) Planning and monitoring of tax audit programs.	C	<b>Score = C:</b> There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.

### P1-15 Effectiveness in collection of tax payments

Statistics supplied by the ISTD as per the following table shows a high degree of improvement in tax collection that can only be explained by more collections on previous years unpaid tax liabilities for income tax and by the high rate of growth of imports and consumption for the GST and the Custom duties and more generally the increase in economic activity for registration and other fees.

#### Tax assessment and collection

(in '000 JD)

	2004	2005	2006
<b>Income Tax</b>			
Budget estimates	201,000	220,000	305,000
Taxable Income declared by taxpayers	123,591	164,709	276,964
Taxable income as amended by Directorate	180,554	278,503	290,895
Income tax collected	223,805	287,262	419,036
<b>% collection to assessment</b>	<b>124.0%</b>	<b>103.1%</b>	<b>144.1%</b>
<b>Value Added Tax</b>			
Budget estimate	800,000	856,000	1,080,000
Tax declared by taxpayers	821,300	1,001,400	1,222,000
Tax as corrected by the Directorate	9,700	33,500	6,600
Tax collected	831,000	1,034,900	1,228,600
<b>% collection to estimates</b>	<b>104%</b>	<b>121%</b>	<b>114%</b>
<b>Other taxes</b>			
<b>Registration fees</b>			
Budget estimate	34,500	42,000	54,700
Fees collected	40,432	48,696	
<b>% collection to estimates</b>	<b>117%</b>	<b>116%</b>	<b>n.a.</b>
<b>Custom Duties</b>			
Budget estimate	190,000	208,000	303,100
Assessed			
Collected	266,906	304,950	
<b>% collection to estimates</b>	<b>140.5%</b>	<b>146.2%</b>	
<b>Other fees</b>			
Budget estimate	241,500	310,000	496,500
Fees collected	325,068	423,947	n.a.
<b>% collection to estimates</b>	<b>135%</b>	<b>137%</b>	

Source: MoF, Annual Report of the Directorate for Income & Sales Tax for year 2006

As for tax arrears, the following table shows the status of the various pending cases.

#### STATUS OF TAX ARREARS

TYPE	PENDING	SETTLED	AMOUNTS STILL DUE
Permanent Exemption	80,127	-53,934	26,193
Deceased	6,020,763	-298,263	5,722,500
Company liquidation	788,452	-79	788,373
Residing abroad	11,031,457	-152,357	10,879,100
Unknown residence	11,223,385	-477,315	10,746,070
Temporarily exempted	1,126,299	-122,646	1,003,653
Active file	166,262,627	-178,456,062	-12,193,435
Electronic file	605,346	-130,632	474,714
Activities ended	15,314,417	-218,705	15,095,712
Death/liquidation	638,152		638,152
<b>Total</b>	<b>213,091,025</b>	<b>-179,909,993</b>	<b>33,181,032</b>

Source: Statistics from the Income tax and Sales Tax Department

Certainly in terms of the Income Tax and Sales Department daily transfers are made for cash payments and as soon as cheques are cleared for cheque payments. Therefore, the transfer of the major tax revenues to the Treasury is undertaken on a daily basis where the payment is made in cash and immediately upon bank clearance when the payment is by cheque. According to the MoF Director of Revenues – collection is totally computerised for every tax. Payments are made into Treasury accounts at the Central Bank or its branches or at commercial banks.

Aggregate reporting on tax assessments, collections, arrears and transfers to (and receipts by) the Treasury take place regularly and are reconciled, where appropriate, in order to ensure that the collection system functions as intended. Tax arrears are monitored. Regular reconciliations take place.

As accounting in the Jordanian Administration is not yet based on accruals, we could not obtain statistics related to collection on previous year income tax assessments separated from collection on other previous years. The result is that the scoring of this indicator where the level of tax arrears is linked to the debt collection is difficult.

Although the debt collection ratio is higher than 100% and taxes are paid in Treasury accounts, the score had to take into consideration the other problems mentioned here above in PI-13.

Score	Minimum requirements (Scoring methodology: M1)
<b>B</b>	(i) The average debt collection ratio in the two most recent fiscal years was 75-90% and the total amount of tax arrears is significant. (ii) Revenue collections are transferred to the Treasury at least weekly. (iii) Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least quarterly within six weeks of end of quarter.

#### PI-16. Predictability in the availability of funds for commitment of expenditures

Two Directorates are in charge of preparing and monitoring cash flows for each spending unit. Cash flows are detailed by months of the fiscal year and are reviewed monthly.

*The Budget Directorate is in charge of allocating a monthly ceiling for expenditures of each ministry. This is the ceiling in which expenditures can be committed and prepared for payment.*

*The Cash Management Directorate allocates to each ministry a monthly payment ceiling that is determined according to the Budget ceiling and to the funding available to the Treasury. These two ceilings are to be unified in 2008.*

*Schedule of monthly payment ceilings are reviewed each month.*

*Monitoring and reviewing is done by different Steering and Technical Committees.*

*In-year adjustments are done through the issuance of additional (or complementary) budget law. Inside the budget items changes are regulated by the clear rules in the annual Budget law.*

Score	Minimum requirements (Scoring methodology: M1)
A	(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows. (ii) MDAs' are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations. (iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.

**PI-17. Recording and management of cash balances, debt and guarantees**

*Very clear regulations exist to manage public funds and debt and guarantees. These regulations are contained (i) in the Financial By-Law of 1994 and its applications and instructions of 1995 and (ii) the Public Debt Management Law n° 26 of 2001. The Financial By-Law provides regulations for accounting, collection of revenues, budget appropriations and expenditures, advances, deposits in trust, cash management, documents and records, financial control. The Public Debt Management Law has created a Committee (composed of the Minister of Finance, the Minister of Planning and the Governor of the Central Bank) to manage the debt. It has also stipulated the necessity of a unified register for the debt and determined the objectives of any borrowing or guarantee (external and internal). It has also set ceilings for domestic, external and total public debt to GDP (80%, reduced recently to 60%).*

*The quality of debt recording and reporting is good. There is a transparent system of dissemination by MoF through the directorate responsible, governed by the Financial By-Law of 1994. Reconciliation takes place and to a high standard. The Single Treasury Account (STA) is in Phase 2 of 4. At present it consolidates 149 budget user accounts daily and re-distributes the amounts by the following morning. However, the STA is not exhaustive for budget users for either the central govt or those outside the central govt. budget. Approximately 200m JD or 40% of the total is outside the STA and at commercial banks, although only half of this is for central government budget users. Foreign Currency assets at the Central Bank are not presently included although Phases 3 and 4 will bring the FX assets into the STA as well as the segment of budget funds at commercial banks.*

*There are 2 types of other accounts held at commercial banks for central government agencies. Type 1 covers revenue accounts, which by law must be transferred to the Central Bank within 3 days; type 2 covers "others" and the central bank has no data on this.*

*Systems for contracting loans and issuance of guarantees have improved in recent years. Sovereign or public guarantee can no longer be issued without MoF endorsement and this is done rarely e.g. projects. The data on guarantees is kept at MoF's debt department.*

*Detailed statistics on the public debt is made available to the public.*

<b>Dimension</b>	<b>B+</b>	<b>Minimum requirements for dimension score.</b>
		<b>Scoring Methodology M2</b>
(i) Quality of debt data recording and reporting	<b>A</b>	<b>Score = A:</b> Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly
(ii) Extent of consolidation of the government's cash balances	<b>B</b>	<b>Score = A:</b> All cash balances are calculated daily and consolidated. <b>Score = B:</b> Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.
(iii) Systems for contracting loans and issuance of guarantees.	<b>A</b>	<b>Score = A:</b> Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.

### **PI-18 Effectiveness of payroll controls**

*The controls operating over the payroll system for the Ministry of Finance employees are based on a centralised computer based system run by the Ministry of Finance with apparently good integration of personal records to the computerised payroll. Other ministries also run computerised payroll – though not yet unified and integrated.*

*Amendments to the database are made only after SG approval based on Civil Service Bureau notification. Internal audit carries out a 100% check of amendments and the Audit Bureau undertakes annual audits – It seems that only minor findings had been reported.*

#### **(i) Degree of integration and reconciliation between personnel records and payroll data.**

*The degree of integration witnessed in Finance Department appeared to be good. The payroll system was computerised and the supporting documentation for establishing new employees and processing amendments seemed well controlled. Authorised (and internally audited) documents were filed etc.*

*Checks over the establishment come from DG Budget (financial) and the Civil Service Bureau which has to approve new jobs, salary increases – witnessed the process to update payroll after recent civil servants award.*

#### **(ii) Timeliness of changes to personnel records and the payroll**

*Based on evidence in the Ministry of Finance's Payroll Division during the mission the changes for the recently approved salary increase to Civil servants was being actioned and these were timely*

***(iii) Internal controls of changes to personnel records and the payroll***

*Internal control provided by internal audit (100% check). This was evidenced by Ministry of Finance employee files and some amendments to personnel circumstances.*

***(iv) Existence of payroll audits to identify control weaknesses and /or ghost workers.***

*Auditors (IA or controllers) appear to be an integral part of the process- 100% check of amendments. Audit Bureau staff do periodic audits.*

<b>Score</b>	<b>Minimum requirements (Scoring methodology: M1)</b>
<b>B</b>	<p>(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.</p> <p>(ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.</p> <p>(iii) Authority and basis for changes to personnel records and the payroll are clear.</p> <p>(iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).</p>

**PI-19. Competition, value for money and controls in procurements**

*The Public procurement system in Jordan has a separate DG and covers all procurement for the central govt. It has a Practical Guide for tenderers covering services, supplies and works (90% compliant with WTO requirements; not clear how much vis-à-vis Article 9 of EU's Procurement Law and the basis of the Association Agreement with EU) and has a transparent system of communications – including web based platforms. We still have to validate whether the positive assessment garnered is reflected by independent feedback from end users. We will therefore aim to meet the Chamber of Commerce and some of the private sector accountancy firms to ascertain this.*

*Scope of this indicator is all procurement for central government using national procedures – include all MDA's and AGA's*

*In 2004 the Prime Minister approved the restructure of the committee responsible for preparing and reviewing joint procurement by-law in order to take WTO requirements into account. A major pillar of reform includes the rationalisation of government procurement for goods and services.*

*The institutional framework is composed of :*

- *the Government central purchasing department (GSD) within Ministry of Finance and*
- *the Government Tender Department (GTD) in the Ministry of Public Works*
- *Joint procurement Department within the Prime Minister's Office – established under the joint procurement regulations for medications*

*There has been a one year UNDP e-procurement project, the aim of which was the unification of Jordan's procurement procedures to include transparency, reduction in costs, enhance competition and electronic procurement processes.*

*The legal basis is as follows:*

- *Supplies Act (No 32) of 1993 and its amendments*
- *Public Works By- Law (no91) of 1996 and its amendments*
- *Joint Procurements Law of 2002 (for procurement in Health)*
- *Latter acts mostly in line with WTO and also cover e-procurements*

**(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases**

There is a clear system of method used to award public contracts. The threshold is currently 20 000 JD but is soon to be raised to 50 000 JD. Above that threshold purchases are forwarded through the GS) after Ministry’s budget department has sanctioned the availability of funds. The dept. states that it has an established system that prevents artificial slicing of contracts to dip under the threshold.

Tender advertisements and awards are published on many Government websites. The system of evaluation has demonstrable elements of transparency, for example tender opening procedures are screened live by internet – audit and visual. Clearly this is positive evidence of intent regarding transparency rather than absolute proof.

**(ii) Justification for use of less competitive procurement methods**

We do not have statistics / data on actual contracts which meet these criteria although typical scenarios would be:

- Disaster or emergency situations where contracts might be let to suppliers who are already know to the Ministry but there is insufficient time to go through the normal channels
- disease, shortage of medicines / supplies

100m JD out of a total procurement envelope of 500m is under the threshold and therefore, by corollary, by direct contract. On the other hand, as shown by the table hereunder,

Other specialised procurement routes involve those where donor funded and specific procurement goes through a different route (MoPIC) deals with it though GSD have a presence on the committee).

Medical supplies are managed by a separate department within the PM’s cabinet.

**(iii) Existence and operation of a procurement complaints mechanism**

There is a complaints process. About 30 cases out of an average 500 go to the complaints process out of which 5 would be successful. There is further redress via the court although no data has been provided on the success or failure rates of complaints made.

Score	B	Minimum requirements for dimension score. Scoring Methodology M2
(i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<b>B</b>	<p><b>Score = A:</b> Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.</p> <p><b>Score = B:</b> Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate.</p> <p><b>Score = C:</b> Available data shows that less than 50% of contracts above the threshold are awarded on an open competitive basis, but the data may not be accurate.</p> <p><b>Score = D:</b> Insufficient data exists to assess the method used to award public contracts OR the available data indicates that use of open competition is limited.</p>

(ii) Justification for use of less competitive procurement methods	<b>B</b>	<b>Score = B:</b> Other less competitive methods when used are justified in accordance with regulatory requirements.
(iii) Existence and operation of a procurement complaints mechanism	<b>B</b>	<b>Score = B:</b> A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.

## **PI-20 Effectiveness of internal controls for non-salary expenditures**

*Internal controls are regulated by the Financial By-Law of 1994 well known and always quoted as the law which regulated the internal control function. IC in the ministries seems to embrace a management division, financial control and internal control / inspectorate.*

*In case of emergencies fiscal ceilings may be breached pending regularization through an additional budget law, as has been the case with Treasury advances which were not regularised as in the case of significant issues like the Iraqi refugee influx there used to be the possibility. These have ceased with effect from 2007.*

*The assessment here also considers whether the internal control system is*

- *Relevant –based on assessment of controls to manage risks*
- *Incorporates a comprehensive and cost effective set of controls addressing compliance with procurement/prevention of mistakes/quality accounting and reporting*
- *Widely understood and complied with*
- *Circumvented only for emergencies*

### **(i) Effectiveness of expenditure commitment controls**

*Commitment controls are not yet fully integrated into the accounting / financial management system which reduces the effectiveness of their existence. However, recent improvements taking effect from 2007 have been introduced to monitor commitments together with payments.*

### **(ii) Comprehensiveness, relevance and understanding of other internal control rules / procedures.**

*Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.*

*Internal controls appear to be extensive with control interventions by internal controllers (Ministry of Finance staff in line ministries), internal auditors (ex-ante) and external audit. The Cash Management Directorate and budget directorates all have a role in terms of authorising verifying the availability of funds and authorising the cash transfer of those funds*

### **(iii) Degree of compliance with rules for processing and recording transactions.**

*The MoF Directorate of Supervision, Control and Inspection has staff in all 52 ministries and 11 other agencies. As an integral part of control process- ex ante work and payments cannot be made without their certification.*

*Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification as is shown by rejection rates from MoF internal audit, health and education, etc. Rejections are well recorded.*

<b>Score</b>	<b>Minimum requirements (Scoring methodology: M1)</b>
<b>B</b>	<p>(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.</p> <p>(ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.</p> <p>(iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.</p>

## **PI-21 Effectiveness of internal audit**

*In the Jordanian Government, the Internal Audit function is an integral part of the internal control system providing what appears to be a full ex ante check on expenditures. It contributes to one of a number of levels of verification we have found throughout the system - thus keeping a stringent control over spending process from the transaction level up in line with cash ceilings.*

*Internal Audit function was established in 1992 by Law n° 31. A Cabinet decision was taken in 2006 giving the Minister of Finance (Secretary General) authority to further modernise this function in a way which would provide for a central harmonisation unit in the Ministry of Finance which would be responsible for the supervision, guidance, development of internal audit methodologies, manuals and training of internal auditors across the line ministries. This central supervision role would be more in line with EU and international best practice; however, it also needs to be looked at alongside audit developments in the Audit Bureau and in the improvements to the overall internal financial control systems.*

*It is acknowledged that the internal audit function needs to be properly activated to ease/support the work of the Audit Bureau*

*The work of internal audit is largely based on pre-audit of transactions and 100 % check rather than on sampling.*

*Internal audit units exist in all ministries and government departments, in addition to audit units in JCI, Social Insurance, Customs and Tax, GTD, municipalities,*

<b>Score</b>	<b>Minimum requirements (Scoring methodology: M1)</b>
<b>C</b>	<p>(i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.</p> <p>(ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.</p> <p>(iii) A fair degree of action taken by many managers on major issues but often with delay</p>



### 3.5 Accounting, Recording and Reporting

#### PI-22 Timeliness and regularity of accounts reconciliation

*Bank reconciliation for all central government accounts takes place on a monthly basis. Reconciliation with the STA at the Central Bank is done on a daily basis.*

*Both the Cash Management Directorate and the Accounting Directorate are concerned with accounts reconciliation.*

*The Cash Management Directorate reconcile accounts of the Treasury with the BOJ and the Commercial Banks. The Accounting Directorate reconciles on a monthly basis the accounts of the various Government Departments and spending units of the Central Government.*

Score	B+	Minimum requirements for dimension score. Scoring Methodology M2
(i) Regularity of bank reconciliations	A	<b>Score = A:</b> Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B	<b>Score = B:</b> Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.

#### PI-23. Availability of information on resources received by service delivery units

*There is some availability, special analyses undertaken and collection of information at service delivery units. This is put to various uses; but, the collection process is ad hoc and not sufficiently widespread to score higher at present. However, there is also an increasing awareness with the development in ROB MTEF and the monitoring of the National Agenda programmes that this needs to be improved and plans for improved collection and analysis of both financial and non financial data is recognised in various strategic planning documents*

Score	Minimum requirements (Scoring methodology: M1)
D	(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years.

#### PI-24. Quality and timeliness of in-year budget reports

*The Jordanian budget accounting system is decentralized and the MoF consolidates on a monthly basis the accounts of spending units. This is done by the Accounting Directorate on a monthly basis. The Government monthly financial Bulletin allows the public to follow the budget execution on a monthly basis.*

*The budget accounting system is not yet based on commitments and accruals, but on a cash basis. However, for debt servicing, the system is based on commitments.*

*The reforms being implemented in the accounting system will allow monitoring both commitments and payments. However, the execution of the budget is presently followed on a monthly basis by the three*

main Directorates (Budget, Cash Management, and Accounting). Several Technical and Steering Committees follow the quality and timeliness of budget reports.

*Due to the fact that the system of commitment accounting is not yet fully operational, the scoring can not exceed a C, in spite of the fact that timeliness is quite good.*

Score	Minimum requirements (Scoring methodology: M1)
C	(i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both). (ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter. (iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.

## PI-25. Quality and timeliness of annual financial statements

*The Accounting Directorate at the MoF issues at the end of the year the final accounts of all central Government Departments and spending units according to the budget classification. Final annual accounts are then transmitted to the Audit Bureau within two months of the end of the fiscal year. The Audit Bureau controls them and makes his remarks in his annual report that is sent to Parliament for review.*

*Financial assets and liabilities are not yet covered by the annual financial accounts and this explains the relatively low scoring (C). It is however possible to have access to the main elements of these assets and liabilities in different documents of the MoF accessible to the public. These elements are: Central Government balances with the Central Bank and the commercial banks, Investment portfolio of the State in commercial corporations, the liquid holdings in the Privatization account that has to be maintained separately and the Social Security accounts in respect to its assets portfolio.*

*National standards of accounting are close to the IPSAS except for the fact that accounting is still not based on accruals and commitments. However, transition to a new system in full compliance with IPSAS has begun with foreign technical assistance.*

Score	Minimum requirements (Scoring methodology: M1)
C	(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. (ii) The statements are submitted for external audit within 15 months of the end of the fiscal year. (iii) Statements are presented in consistent format over time with some disclosure of accounting standards.

## 3.6 External scrutiny and audit

### PI-26. Scope, nature and follow-up of external audit

*The Audit Bureau was initially created in 1928 as the Department of Accounts Reviewing. The law regulating its competencies since then has reflected the political, economic and legal developments of the Kingdom and the other professional revisions needed for the Bureau to have the scope to be a fully*

functioning SAI in line with international standards. Since the first Audit Bureau Law N° 21 of 1928 there have been six key revisions; the latest proposed in March 2007. These revisions have progressively extended scope from a traditional financial audit role into broader administrative, environmental, value-for-money auditing areas. They have also extended its mandate to encompass all government institutions which have a budget from the Government; the latest draft proposals extending scope to the audit of any public institution.

The Bureau is a member of the key international SAI organizations. Its Strategic Plan for the Period 2005-2009 and the majority of its internal regulations and guidance currently reflect, and continue to adopt, INTOSAI and other applicable international standards. The effective functioning of the Audit Bureau of Jordan in the context of European integration is one of its future development goals ; an EU funded technical assistance project which gives support to institutional reshaping the bureau's operations and to enhance the skill and the efficiency of the Bureau's auditors should support this.

Its strategic vision for the future is aimed at enhancing its role as an entity auditing and protecting public funds from waste and misuse as well as strengthening its role in reviewing the administrative decision making in the public agencies. There is also reference to the contribution it could make to ensuring wider governance objectives of transparency, justice and assisting the government in its efforts in fighting the financial and administrative corruption.

Therefore, there is evidence of some important and positive aspects to the scope provided by the present legal basis of the Bureau - and in its the vision for the future, however, **major weakness occur in practice which seriously fetter its ability to be an effective check and to achieve the impact in public sector oversight required by international standards and in line with public expectations.**

Most crucially, the Audit Bureau does not yet have the required positioning, in line with INTOSAI standards, of independence. Compared to international best practice the work carried out by the Bureau requires a major shift from the present basis of compliance work (much of which is undertaken by external auditors domiciled in line ministries on an ex-ante basis) to full ex post audit which places reliance on developed internal control systems and the work of effective internal audit units, increased performance audit interventions, and modern audit skills and methodologies which reflect the Government's strategic developments. For example, the implications of extensive additional IT on the internal control systems which underpin all government operations and the transition to outcome / results orientated strategies.

The Audit Bureau is recognized as the SAI in Jordan and the **key AB laws do provide for the institution to be operating substantially in line with international best practice.**

**In fact, its strong emphasis on compliance and ex-ante work coupled with its lack of independence seriously undermine its effectiveness and impact as an external auditor**

The Bureau's major annual reporting requirement is to report to Parliament on its activities including a review of the Government's final accounts. The 2006 report was timely being submitted within two months of the end of the fiscal year, however, a procedural issue regarding the approval of a supplementary budget for 2006 resulted in this key aspect of external oversight remaining outstanding in the report. There appears to be limited strategic consideration of the Audit Bureau's reports and its findings. Neither does it appear to have the necessary impact.

**Although all entities of the CG are audited annually, the score attributed could not be higher than C given the fact that the whole audit system has not yet been upgraded and modernized according to international standards.**

Score	Minimum requirements (Scoring methodology: M1)
C	(i) Central government entities representing at least 50% of total expenditures are audited annually. <b>Audits predominantly comprise transaction level testing, but reports identify significant issues.</b> Audit standards may be disclosed to a limited extent only. (ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors). (iii) <b>A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.</b>

## PI-27. Legislative scrutiny of the annual budget law

*The Jordanian constitution of 1952 (part VII, articles 111 to 119) and the Organic Law on Public Finance of 1962 are the two legal documents upon which the relations between the Government and the legislature are clearly regulated according to standard regulations in parliamentary systems.*

*The budget has to be transmitted to Parliament at least one month before the end of the fiscal year. Budget is voted item by item by the Parliament. The Parliament can not vote an increase in budget expenditure, but can modify the distribution of expenditures inside the budget. Appropriations for more than one year can be voted by the parliament. All tax revenues have to be included in the budget, except when a specific law provides that the amount collected on a tax is to be allocated for a specific purpose. No tax exemption could be granted without a special law.*

*The Parliament can not create new taxes in the budget. But he can always vote new laws creating taxes or authorising new expenditures outside the budget.*

*The fact that the Parliament is in session for only 4 months in a year limits quality time on budgetary matters. This has been the case for additional budget laws that are prepared while the legislature is not in session. When appropriations are needed to cope with emergency matters this has created a problem, the Government beginning to spend without the additional budget being approved. To express its discontent the parliament has refused to approve 2005 & 2006 additional budget laws. But in 2007 a salary increase for civil servants requested by the Parliament was promptly approved by him. In any case, supplementary budgets without parliamentary approval are no longer possible following a decision by the Supreme Court.*

*In practice, the legislature's discussions of the fiscal framework, medium term projections and priorities and competence are done by the Finance Committees of the Lower and Upper Houses. Discussions between the Minister of Finance and the members of these two committees can be quite lively and the Minister policies are discussed extensively. Most changes inside the draft Budget presented to Parliament take place within the two Committees. The main speeches in the two committees are made public through their publication in Arabic and in sometimes in English (for the Lower House). The Minister of Finance addresses also the Parliament in full session when presenting the budget. His speech is also made available to the public.*

*Clear rules exist for the in-year budget amendments by the executive (outside additional or complementary budget laws). These are regulated by the main Government ordinance on Public Finance, called Financial By-Law n° 3 of year 1994 and its amendments, as well as its*

*Applications Instructions of 1995. These two legal documents represent a full set of rules governing the preparation and execution of the budget and the management of public funds.*

*The power of the Government to transfer appropriations from one budget item to another is defined periodically in the annual Budget law, so that the Parliament can control the degree of flexibility that is attributed to the Executive in implementing the budget. Thus for 2007, the Budget law in its article 8 describes in details the different types of transfers between parts and items of the budget that the Minister of Finance can undertake. The same budget law includes also many stipulations concerning civil servant temporary or permanent appointments and the way new budget appropriations have to be created in the recurrent or the investment budget (article 10).*

Score	Minimum requirements (Scoring methodology: M1)
A	<ul style="list-style-type: none"> <li>(i) The legislature’s review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.</li> <li>(ii) The legislature’s procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.</li> <li>(iii) The legislature has at least two months to review the budget proposals.</li> <li>(iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.</li> </ul>

#### **PI-28. Legislative scrutiny of external audit reports**

*The Audit Bureau’s major annual reporting requirement is to report to Parliament on its activities including a review of the Government’s final accounts. The 2006 report was timely being submitted within two months of the end of the fiscal year. The Bureau, however, made a restricted approval of a supplementary draft budget for 2006 that was not approved by Parliament. **There appears to be limited strategic consideration of the Audit Bureau’s reports and its findings. Neither does it appear to have the necessary impact.***

*There does not appear to be rigorous review of the Audit Bureau’s findings by the Legislature due to the very short time of the Parliament session. However, the Budget Committee does hold hearings and interviews with responsible government officials that receive a qualified or adverse audit opinion although the process is not formalised. A recent Committee was established to investigate ‘alleged financial irregularities by a previous Government’ the nature of these was that the Govt wrote off JD 42 million in income tax owed by unidentified companies.*

*According to information from EU reports – the Legislature does not really influence the works of the Audit Bureau by comparison to EU and international standards.*

Score	Minimum requirements (Scoring methodology: M1)
C	<ul style="list-style-type: none"> <li>(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports.</li> <li>(ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.</li> <li>(iii) Actions are recommended, but are rarely acted upon by the executive.</li> </ul>

### 3.7 Donors practices

#### D-1 Predictability of direct budget support

*DBS accounts for a increasing share of the overall assistance envelope and accounts we are told for around 40%. The 2 main external financing bodies are the EU and USAID.*

- i) MoPIC knows the likely funds through the Financing Memoranda signed with the donors although there is no explicit forecasting either by the donors or by the GoJ through MoPIC or MoF. Notwithstanding, the anticipated funds have in the last 3 years been received on time from the USAID although there have been delays with the EU transfers due to a more elaborate system of disbursement premised on evaluation reports and on the Commission's financial system which is regarded by the GoJ as inflexible and not user-friendly. Although the precise data could not be confirmed, interview data confirmed that the annual DBS shortfall in the budget year varies between 4-8%.*
- ii) There is no explicit reporting requirement for a quarterly update for donors, nor one undertaken formally. However, in practice in-year timeliness can be validated since USAID disbursements occur in July as a single lump sum payment. MoPIC does have current data on EC disbursements – actual or delayed at any given time, whilst the latter is also available from the ECD.*

Score	Minimum requirements (Scoring methodology: M1)
<b>C</b>	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%. (ii) Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 50% in two of the last three years.

#### D-2 Financial information provided by donors for budgeting and reporting on project and program aid

*There is an Aid Co-ordination Unit at MoPIC that collates information from all donors including debt. Whilst grants are managed out of this unit, the management of debt is the competence of MoF.*

- i) Donors do not provide budget estimates for disbursement of non-DBS aid in line with any given reporting schedule or template. Nor is the data that a donor may ad-hoc provide related to the Jordanian budget cycle – if anything it is the reverse since donor funding is tied to the donor country/institution's own budget cycle. The latter fact, together with the fact that external aid is on a commitment basis makes it difficult for MoPIC to calculate real time disbursement rates on a harmonised calendar. Disbursements by project from donors have no consistency with budget classification. MoPIC does not transmit the information regarding classifications to the MoF.*
- ii) Almost no donor provides quarterly reports with any consistency to MoPIC nor within a month of each quarter-end.*

Score	Minimum requirements (Scoring methodology: M1)
<b>D</b>	(i) Not all major donors provide budget estimates for disbursement of project aid at least for the government's coming fiscal year and at least three months prior its start. (ii) Donors do not provide quarterly reports within two month of end-of-quarter on the disbursements made for at least 50% of the externally financed project estimates in the budget.

### **D-3 Proportion of Aid that is managed by use of national procedures**

*DBS uses national procedures once the transfer takes place to the Treasury. Most DBS funds go into the Single Treasury Account (STA) retained at the Central Bank. However some DBS earmarked for a particular sector is outside the STA. Formally this requires a waiver from the Ministry of Finance since by law all external DBS must flow through the STA. The funds for this second channel are held at the Central Bank or commercial banks and managed by MoPIC, which implies that 2 line agencies are involved for DBS. Data for the amounts via MoPIC is pending.*

*For grant financing excluding DBS, no donor currently uses national procedures.*

*For the EC, the switch from centralised to decentralised form of management has not yet taken place and is some way away. Instead, under the SAP programme, there has been a reversal toward centralisation, with the ex-ante function for endorsement taken away from the beneficiary. Procurement of TA funds use donor procurement procedures.*

<b>Score</b>	<b>Minimum requirements (Scoring methodology: M1)</b>
<b>D</b>	(i) Less than 50% of aid funds to central government are managed through national procedures.

## **Annex 1 : List of Autonomous Government Agencies which budget is published annually by the MoF**

Jordan Investment Cooperation  
Jordanian Free Zones Corporation  
Civil Service Consumer Corporation  
Postal Saving Bank  
Development and Employment Fund  
Jordan Securities Commission  
Al Awqaf Development Corporation  
Ports Corporation  
Telecommunications Regulatory Commission  
Public Transport Regulatory Commission  
Jordan Maritime Authority  
Audiovisual Commission  
National Electric Power Commission  
Jordan Hejaz Railways  
Kidney Treatment Fund  
Jordan Institution for Standards and Metrology  
Petra Regional Authority  
Aqaba Regional Authority  
Jordan Enterprise Development Corporation  
Water Authority of Jordan  
Aqaba Railway Corporation  
Housing and Urban Development Corporation  
Jordanian Nuclear Energy Commission  
Vocational Training Corporation  
Jordan Academy of Arabic  
The National Institute for Training  
Ministry of Education /  
National Information Technology Center  
Civil Health Care Insurance Fund  
Jordan Food and Drug Administration  
National Aid Fund  
Ministry of Awqaf and Islamic Affairs  
Jordan Radian and Television  
Insurance Commission  
Jordanian Co-operative Corporation  
Youth Support Fund  
Jordan Investment Board  
Investment Environment and Economic Activities Development Commission  
Higher Council for Youth  
Higher Media Council



## Annex II: Documentation

### I- Jordanian Documents

#### 1- Main Legal Texts

- The Constitution and its amendments for the year 1952 published on page 3 of the Official Gazette n° 1093 on January 8, 1952.  
الدستور وتعديلاته لسنة 1952 المنشور على الصفحة 3 من عدد الجريدة الرسمية رقم 1093 بتاريخ 1952/1/8
- Law No. (26) of 2001 Public Debt Management Law.
- Financial By-Law No. (3) for the year 1994, as Amended and Application Instructions for Financial Affairs No.1 for the Year 1995, as Amended.
- Application Instructions for Financial Affairs for Collection of Revenues by Means of Credit Card No. (11) for the Year 2002, as Amended Published on Page 6370 of the Official Gazette No. 4579 of the 31<sup>st</sup> of December 2002 Issued Pursuant to the Two Articles (7 & 58) of the Financial By-Law No. (3) for the Year 1994, as Amended.
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- Municipality Law n° (29) of the year 1955.
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- Jordan First Document, [www.kingabdullah.jo](http://www.kingabdullah.jo)
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- Social Economic Transformation Program, [www.kingabdullah.jo](http://www.kingabdullah.jo)

#### 3- Ministry of Finance

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- General Budget Law for the Financial Year 2007.  
قانون الموازنة العامة للسنة المالية 2007
- Draft General Budget Law, Allocation of Capital Expenses According to Districts and Governorates for Financial Year 2007.  
مشروع قانون الموازنة العامة. تبويب النفقات الرأسمالية حسب الأقاليم والمحافظات للسنة المالية 2007
- Draft Additional Budget to General Budget Law n° (1) for year 2007.

- مشروع قانون ملحق بقانون الموازنة العامة رقم (1) لسنة 2007
- Draft Additional Budget to General Budget Law n° (1) for Year 2006.  
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#### g) Income Tax Department

- Annual Report 2006, February 2007.

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- Income Tax Law, Law n° (57) for the year 1985, as Amended and Application instructions for Financial Affairs, 2005.  
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- Guide and Procedures of Invoices, Registry and Book Keeping, December 2006.  
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- Questions and Answers, January 2006.  
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#### 4) Other Concerned Entities

##### a) Audit Bureau

- The fifty fifth annual report of the Audit Bureau 2006.
- التقرير السنوي الخامس والخمسون ديوان المحاسبة 2006
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- التطورات النقدية والاقتصادية في الاردن، التقرير الشهري لدائرة الابحاث، كانون الثاني 2007

##### c) Social Security Corporation

- Budget of Insurance Activities for the Year 2007.
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- Annual Report 2005
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##### d) Jordan Investment Cooperation

- Seventeenth Annual Report 2005.

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**e) Municipalities**

- Cities and Villages Development Bank, The Twenty Third Annual Report 2005, Planning and Local Development Department.

## **II- Other Relevant Documents**

### **1- International Monetary Fund Reports on Jordan**

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- Jordan-Concluding Statement for the 2006 Article IV Consultation and Fourth Post-Program Monitoring Discussions, Washington D.C., November 28, 2006.
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### **2- PEFA Methodology and Documentation**

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### 3- USAID/ JORDAN

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- MEDA Twinning Project Interim Quarterly Report, Institutional Strengthening of the Audit Bureau of the Hashemite Kingdom of Jordan, March 14, 2006.

### III- Websites

- The Official site of the Jordanian e-government: [www.jordan.gov.jo](http://www.jordan.gov.jo)
- Ministry of Finance: [www.mof.gov.jo](http://www.mof.gov.jo)
- Ministry of industry and trade: [www.mit.gov.jo](http://www.mit.gov.jo)
- Ministry of Administrative Reform: [www.adm.gov.jo](http://www.adm.gov.jo)
- King Abdullah: [www.kingabdullah.jo](http://www.kingabdullah.jo) Department of Statistics: [www.dos.gov.jo](http://www.dos.gov.jo)
- Civil Service Bureau: [www.csb.gov.jo](http://www.csb.gov.jo) Jordan Customs: [www.customs.gov.jo](http://www.customs.gov.jo)
- Audit Bureau: [www.audit-bureau.gov.jo](http://www.audit-bureau.gov.jo)
- Income and Sales Tax Department: [www.incometax.gov.jo](http://www.incometax.gov.jo)
- Companies Control Department: [www.ccd.gov.jo](http://www.ccd.gov.jo)
- National Information Technology center: [www.nic.gov.jo](http://www.nic.gov.jo)
- National information system: [www.nis.gov.jo](http://www.nis.gov.jo)
- National Agenda: [www.nationalagenda.jo](http://www.nationalagenda.jo)
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- Amman Municipalité : [www.ammancity.gov.jo](http://www.ammancity.gov.jo)
- Amman Chamber of commerce: [www.ammanchamber.org](http://www.ammanchamber.org)
- Amman Chamber of industry: [www.aci.org.jo](http://www.aci.org.jo)
- USAID/JORDAN : [www.usaidjordan.org](http://www.usaidjordan.org)
- GTZ in Jordan : <http://www.gtz.de/en/weltweit/maghreb-naher-osten/675.htm>
- Public Expenditure & Financial Accountability: [www.pefa.org](http://www.pefa.org)
- EU Commission in Jordan : [www.deljor.cec.eu.int](http://www.deljor.cec.eu.int)

## Annex III: List of Meetings

### MINISTRY OF FINANCE:

Name	Title
H.E. Dr. Hamad KASASBEH	Secretary General
Mr. Sami AHJAK	Public Debt Director
Mr. Sami TOUGHOUZ	Public Debt Department Director
Mr. Hussam ABU ALI	General Revenues Director
Ms. Asema DOUGHAN	Public Expenditures Director
Mr. Jalal DEBEI	General Accounting Director
Mr. Shaher ODEH	Cash Management Director
Mr. Hisham BITAR	Control and Inspection Director
H.E. Mr. Ali MADADHA	General Budget Director
Dr. Khaled AL-AMAIREH	Internal Audit Directorate
Mr Mshari Algarrach	Cash Management Dept, Head of Cash Flow
Dr. Ismail ZAGHLOUL	Studies and Economic Policies Director
H.E. Dr. Ahmed MASHAQBEH	General Supplies Director General
Mr. Hussein HIASAT	General Supplies / E-Accounting E- Procurement Project Manager
H.E. Mr. Eyad AL-QUADAH	Income and Sales Dept. Director General
Dr. Mohammad FAOURI	Income and Sales Taxes Department
Mr. Basheer AL'ZOUBI	Income and Sales Taxes Department/ National Project Director/ Information Technology Director
Mr. Mahmoud JABR	Computer & Information Director
Mr. Yousef AL-ABSSI	Administrative Directorate
Mr. Essa SALEH YASEIN	Economic Advisor
Mr. Mazen SHOTAR	Advisor

### OTHER MINISTRIES AND AGENCIES:

Name	Title	Institution
Mr. Bassam Al-MUNAIR	Financial Manager	Ministry of Health
Dr. Faris PATUSA	Director of Finance	Ministry of Health
H.E. Mr. Nasser AL-SHRAIDEH	Secretary General	Ministry of Planning
Miss Zeina TOUKAN	International Cooperation Department Director	MoPIC
Mr. Mahmoud MAHER	Financial Manager	MoPIC
Mr. Emad SHANA'AH	EU partnership section Director	MoPIC
Dr Eid ZYOUD	Economic Researcher, Consultant Macroeconometric models,	MoPIC
Mr. Majed AL-SHARA'	Financial Manager	Ministry of Public Works & Housing
Mr. Hisham AL-ATRASH	Financial Manager	Ministry of Education
Mr. Jamil SMAIRAT	Audit Director	Ministry of Education
Mr. Ayan McLELLAN	Executive Director, Development Coordination Unit	Ministry of Education
Dr Muna MU'TAMA	Managing Director, Education Planning	Ministry of Education
H.E. Mr. Fares SHARAF	Deputy Governor	Central Bank of Jordan
Miss Nilly BATSHON	Open Market Operations and Public Debt Department	Central Bank of Jordan
H.E. Mr. Mustafa AL-BARARI	President	Audit Bureau
Mr. Nigel PENNY	Resident Twinning Advisor	Audit Bureau
Mr. Mohammad AL-HADID	General Director	Cities & Villages Development Bank

Dr. Nabih SALAMEH	Director General	Jordan Investment Corporation
H.E. Dr. Ma'an Al NSOUR		Jordan Investment Board
H.E. Dr. Hashim AL-DABBAS	Head of Financial and Economic Committee	Lower House
Mr. Mahmoud KHLEFAT	Financial Manager	Municipality of Greater Amman
H.E. Dr. Omar AL-RAZAZ	Deputy Chairman/ Director General	Social Security Corporation
Mr Mhuannad L.ATTAR	Director General	Amman chamber of Commerce
H.E. Mr. Amin AL HUSSAINI		Amman chamber of Commerce

### **DONORS, TECHNICAL ASSISTANTS AND OTHERS<sup>99</sup>**

Name	Title	Institution
Dr. Ms. Ruba JARADAT	Project Management Specialist	USAID/ Office of economic opportunities
Mr. Jean MULOT	Team Leader	Ministry of Finance/ GTZ
Mr. Gregory J. AMBROSSIO	Resident Advisor,	US Dept. of Treasury/Office of Technical Assistance, Ministry of Finance
Mr. Les SWEETING	Chief of Party	Jordan Fiscal Reform Project / Bearing Point
Mr. Than LWIN	Treasury Advisor	Jordan Fiscal Reform Project / Bearing Point
Mr. Arnold HOITNIK		Bearing Point Monitoring & Evaluation Mission
	Tax Advisor	Ernst & Young
	DG & DDG	Anti-Corruption Bureau/Commission