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**PROPOSAL**

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From: Secretary-General of the European Commission,  
signed by Mr Jordi AYET PUIGARNAU, Director

date of receipt: 6 September 2019

To: Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of  
the European Union

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Subject: Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF  
THE COUNCIL providing further macro-financial assistance to the  
Hashemite Kingdom of Jordan

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Delegations will find attached document COM(2019) 411 final.

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Encl.: COM(2019) 411 final



Brussels, 6.9.2019  
COM(2019) 411 final

2019/0192 (COD)

Proposal for a

**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**  
**providing further macro-financial assistance to the Hashemite Kingdom of Jordan**

{SWD(2019) 324 final}

## EXPLANATORY MEMORANDUM

### 1. CONTEXT OF THE PROPOSAL

#### • Reasons for and objectives of the proposal

**In recent years, the Jordanian economy has been significantly affected by regional unrest, notably in neighbouring Iraq and Syria.** This regional unrest has taken a heavy toll on external receipts and has strained public finances. Lower tourism and foreign direct investment (FDI) inflows, blocked trade routes for 8 years, and repeated disruptions to the flow of natural gas from Egypt, which forced Jordan to replace gas imports from Egypt with more expensive fuels for electricity generation, have put a drag on growth and weighed on Jordan's external and fiscal position.

The Syrian conflict has impacted Jordan not only by disrupting trade with and through Syria but also by causing an inflow of around 1.3 million of Syrians refugees (according to estimates from the Jordanian authorities) of which 660,330 are registered with the office of the United Nations High Commissioner for Refugees – UNHCR (data as of 4 august 2019). This large inflow of Syrian refugees into Jordan has increased pressure on Jordan's fiscal position, public services and infrastructure.

**A broadly appropriate policy response and large-scale international support helped the country to preserve macroeconomic stability and prevented an economic contraction. However, Jordan's economy remains vulnerable to external shocks.** Real growth receded to 1.9% in 2018, the lowest rate since 1996. Unemployment jumped to 19% in early 2019 while FDI plummeted. Despite efforts, fiscal consolidation was not sustained at the initially programmed pace, as a result of lower than expected growth, which weakened tax revenues, and the generation of losses by the electricity company in the absence of cost-reflective tariffs. Public debt has barely decreased and Jordan remains dependent on foreign aid. Indeed, Jordan continues to face considerable external financing needs including payment obligations on Eurobonds and other external market borrowing which comes due in 2020-22. **In this context, continued support from Jordan's international partners remains essential.**

In August 2016, Jordan and the International Monetary Fund (IMF) agreed on a three-year USD 723 million (150% of quota) Extended Fund Facility (EFF) which has recently been extended to March 2020. This programme followed a three-year Stand-By Arrangement (SBA) in the amount of USD 2 billion (800% of quota) which was agreed in August 2012 and completed in August 2015. The IMF programmes were complemented by two Macro-Financial Assistance (MFA) programmes: the MFA-I, for an amount of EUR 180 million in loans, which was adopted by the co-legislators in December 2013 and completed in October 2015; and the MFA-II, for an amount of EUR 200 million in loans, which was adopted by the co-legislators in December 2016, and completed in July 2019.

The MFA programmes were **part of a wider effort by the EU and other international donors**, agreed at the London conference "Supporting Syria and the region" in February 2016, to help Jordan and other countries in the region mitigate the economic and social impact stemming from the regional conflicts and the presence of a large number of Syrian refugees. The international commitment towards Jordan was confirmed on several subsequent occasions, notably during the Brussels Conference on "Supporting the Future of Syria" in April 2017, the EU-Jordan Association Council in July 2017 and the Brussels-II Conference on "Supporting the Future of Syria" in April 2018. At the "London Initiative" conference, which took place in February 2019, and at the Brussels-III Conference held in March 2019,

the international and regional donor community, including the EU, re-confirmed its intentions to support Jordan's efforts to preserve macroeconomic stability and enhance growth prospects.

**On 11 July 2019, Jordan addressed an official request to the European Commission for additional macro-financial assistance from the EU** in the amount of EUR 500 million in three instalments, as anticipated during the EU-Jordan Association Council held in Luxembourg on 26 June 2019. This assistance would contribute to covering the country's external financing needs and support reform implementation.

In light of this request and of the economic situation in Jordan, in particular the emergence of additional external financing needs, **the European Commission is submitting to the European Parliament and the Council a proposal to provide further macro-financial assistance (MFA) to Jordan**, based on Article 212 of the TFEU, **for an amount of up to EUR 500 million, to be provided in the form of medium- to long-term loans in three instalments.**

**The objective of the proposed MFA is to help Jordan cover part of its additional external financing needs in 2020-2021**, reducing the economy's short-term balance-of-payment and fiscal vulnerabilities as well as contributing to the debt sustainability. In addition, the EU assistance would **provide incentives to step up Jordan's reform efforts** through a Memorandum of Understanding, to be agreed with the Jordanian authorities, setting out an appropriate package of measures supporting economic adjustment and structural reforms. These policy conditions would be in line with the reform commitments taken by Jordan in the context of the EU-Jordan Partnership Priorities and other EU support instruments, as well as the adjustment programmes agreed with the IMF and the World Bank, and the Five-Year Reform and Growth Matrix presented at the "London Initiative" conference in February 2019.

As further elaborated in the Commission Staff Working Document accompanying this proposal, and based, among others, on the assessment of the political situation made jointly by the Commission and the European External Action Service (EEAS), **the Commission considers that the existence of an external financing gap in Jordan, combined with the country's cooperation with the IMF under a disbursing programme, warrants an MFA operation from an economic point of view, and that the political pre-conditions for the proposed MFA operation are satisfied.**

General context

**The Jordanian economy has been particularly affected by the conflict in Syria, which broke out in 2011.** Following a period of robust growth averaging 6.2% during 2001-2010, Jordan's GDP growth has decelerated to an average of 2.4% in 2011-2018. While reflecting Jordan's long-standing macroeconomic and structural weaknesses the economic slowdown was largely driven by a series of external shocks including the disruption of critical export routes and markets from protracted regional conflicts, the sharp decline in FDI, the hosting of large numbers of Syrian refugees (1.3 million according to estimates of the Jordanian authorities out of which 660,330 are registered with the UNHCR) and rising oil prices and borrowing costs reflecting the rise of Fed's rates.

**The weakening of economic activity continued in 2018**, as real GDP growth slowed to 1.9% in 2018 (from 2.1% in 2017) marking the lowest rate of expansion since 1996.

Positively, tourist inflows and exports recovered somewhat and two border crossings with Iraq and Syria were reopened in 2018. In the fourth quarter of 2018, low-cost gas imports from Egypt also resumed. However, these developments have yet to manifest themselves in growth figures: in the first quarter of 2019, real GDP increased by 2%, essentially unchanged when compared with the pace of recent years.

Against this background, **unemployment rose** to 19% in Q1 2019 from 18.4% a year earlier, marking a significant upward trend since 2014, when it stood at 12.9%. Unemployment for youth (38.5%) and women (28.9%) remains high compared to unemployment for men (16.4%).

Inflation rose to 4.5% in 2018 (from 3.3% at the end of 2017) reflecting the increase in oil prices during much of 2018 and the rise of the General Sales Tax in various basic products that was enacted in January. However, **in the first four months of 2019 inflation moderated** to 0.6% as the effect of the tax increases faded away. The Central Bank of Jordan increased the re-discount rate in seven steps from 3.75% to 5.75% between February 2017 and December 2018. This broadly mirrors the Fed's rate rises, given the peg of the Jordanian Dinar to the US dollar. The tightening cycle coincided with a gradual yet moderate increase in inflation, as mentioned earlier. In June 2019, the re-discount rate remained unchanged (at 5.75%) as inflation declined and foreign exchange pressures, which had persisted in 2018, eased. Nevertheless, in the context of the second review of the IMF programme, the authorities expressed their readiness to tighten monetary policy, if needed, to ensure reserve targets are met.

**Jordan made significant progress in consolidating its public finances in the past years, but on the back of the weak growth profile and lack of progress in addressing the losses of the public electricity and water supply providers, this progress could not be sustained in 2018.** The overall fiscal deficit (including grants) widened to 3.3% of GDP in 2018 from 2.2% of GDP in 2017. The combined public sector deficit – a fiscal metric that takes into account the balance of NEPCO (the public electricity provider) and WAJ (the Water Authority of Jordan) jumped to 4.3% of GDP in 2018 from 2.9% of GDP in 2017, reflecting increased cost of oil combined with the absence of cost-reflective tariffs in the electricity and water sectors, which encourages over-consumption. For 2019, the IMF programme foresees the reduction of the fiscal and of the combined public sector deficit to 2.3% and 2.6% respectively. In the first four months of 2019 the fiscal deficit narrowed to 3% of GDP from 3.8% of GDP year-on-year. However, tax revenues declined by 1.4% year-on-year raising concerns about the budget execution until the end of 2019.

At the end of March 2019, total gross public debt stood at 94.4% of GDP, practically unchanged from end-2018. External public debt amounted to 39.4% of GDP, out of which 72% was denominated in USD, to which the Jordanian Dinar is pegged. **While the elevated level of public debt is a source of vulnerability, the IMF judges it to be sustainable** provided that the country continues to deliver on fiscal adjustment and growth enhancing reforms and that the international and regional donor community continues to provide significant support to Jordan, notably in the form of grants and concessional funding.

With respect to the external sector, Jordan's **current account deficit narrowed** in 2018 to USD 2.9 billion or 7% of GDP (10.3% excluding grants) from 10.5% of GDP in the same period in 2017. This reflected a moderate increase in goods exports (which increased by 3.4% in value terms), while goods imports decreased (by 1.3% in value terms). In the first quarter of 2019, goods exports performed even more strongly, recording a 9.3% increase in value

terms, while goods imports decreased by 3.2% in value terms. In the same period, income from tourism increased by 6.1% year-on-year while remittances increased only marginally.

**Foreign direct investments (FDI) plummeted** to USD 959 million in 2018 (2.2% of GDP), down by 52% in US dollar terms compared to 2017. This marked the lowest net FDI inflow since 2003. This downward trend is consistent with the long-term weakening of FDI (as a share of GDP) since the Syrian conflict: from an average of 12.7% in 2005-2010 to 4.5% in 2011-2018. The regional conflict, which blocked trade routes for 8 years, the economic slowdown in Gulf countries, which were Jordan's major investors, but also the country's structural weaknesses, such as rigid labour markets, constraints to foreign investors and high business costs, contributed to the decline of FDI inflows.

**The decline in FDI created further pressures on the capital and financial account**, as did a decline in public borrowing from around USD 1 billion in 2017 to less than USD 500 million in 2018. These pressures contributed to a sizeable decrease of the commercial banks' net foreign assets (by around USD 900 million) in 2018, partially caused by tighter monetary policy in neighbouring countries and the political instability in Jordan in mid-2018 (when former Prime Minister Mulki resigned in response to public discontent notably over tax reform plans). Conversely, a small net inflow of USD 41 million in private portfolio investments in 2018 (compared to a large net outflow in 2017), as well as a considerable increase by around USD 600 million in other investments supported the capital and financial account in 2018.

**The current level of reserves** – standing at USD 13.2 billion (or 7.1 months of imports) at the end of April 2019 – **should be increased** to make the country more resilient to the above factors. This is particularly important given the vulnerability of the external position, the elevated risks from regional conflicts or geo-political tensions, the exchange rate peg and exposure to oil price shocks.

Despite the favourable developments in exports and tourism, **a number of macroeconomic vulnerabilities remain**. The country continues to operate under a **difficult economic environment** impacted by the protracted regional conflict, the hosting of Syrian refugees, the disruption or slow recovery of critical export markets and the marked fall of FDI. As a result, economic growth has remained at very low levels, insufficient to reduce high unemployment. As happened in 2018, the **pace of future fiscal adjustment could be lower than envisaged** if growth weakens further and Jordan fails to mobilise tax revenues through combating tax evasion and increasing the capacity of tax administration. The same could happen if Jordan does not achieve to restructure effectively the **loss-making state-owned (electricity and water) companies**, which add to the general government's deficit. In addition to the above risks, borrowing costs of Eurobonds are higher compared with the cost of Jordan's Eurobonds that will mature in the coming years (many of which were US-guaranteed), rendering **costly the roll-over of the bonds**. For the above reasons, the current projection for the decline of public debt to 83.7% by 2024 remains fragile and depends on the success of fiscal adjustment and growth-enhancing reforms that the authorities have committed to do, as well as on the their ability to continue attracting sizeable donor and market financing. **Reserves remain below IMF adequacy standards** and could come under renewed pressure in 2020-2021, when the country is expected to make around USD 3.1 billion of payments (interest and principal) on sovereign and Eurobonds external debt. In this context, the further replenishment of Jordan's international reserves seems necessary, and the EU's additional MFA could usefully support this effort, both directly (through its disbursements) and

indirectly (as a catalyst for private capital inflows and instilling confidence in the local currency).

**In conclusion, Jordan's economy remains fragile with substantial external financing needs and exposed to a number of vulnerabilities. In this context, continued support from the IMF and Jordan's international partners, including the EU, remains essential.**

- **Consistency with existing policy provisions in the policy area**

MFA has been provided to Jordan under two separate decisions:

- Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 providing macro-financial assistance to the Hashemite Kingdom of Jordan<sup>1</sup>
- Decision No 2371/2016/EU of the European Parliament and of the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan<sup>2</sup>

As both these operations have been fully disbursed, a new Decision is required before EU MFA support to Jordan can continue.

- **Consistency with other Union policies**

The proposed MFA is consistent with the EU's commitment to support Jordan's economic and political situation. It is consistent with the principles governing the use of the instrument of MFA, including its exceptional character, political preconditions, complementarity, conditionality and financial discipline.

The proposed MFA is in line with the objectives of the European Neighbourhood Policy (ENP). It contributes to support the European Union's objectives of economic stability and development in Jordan and, more broadly, resilience in the South European neighbourhood. By supporting the authorities' efforts to establish a stable macroeconomic framework and implement ambitious structural reforms, the proposed operation enhances the added value of the overall EU involvement in Jordan. It also improves the effectiveness of other forms of EU financial assistance to the country – including budget support operations and grants available through external financial instruments under the current multiannual financial framework for 2014-2020. The proposed MFA will also be an integral part of overall international support for Jordan, including in response to the Syrian crisis, and will continue to complement the assistance provided by other multilateral and bilateral donors.

Jordan is a key partner for the EU due to its important role in promoting stability and inter-faith tolerance in the Middle East but also due to the hospitality that continues to provide to 1.3 million of Syrians (out of which 660,330 are registered with the UNHCR). The EU and Jordan have a strong partnership across many sectors and have been linked through an Association Agreement which entered into force in May 2002. In line with the revised European Neighbourhood Policy, the EU and Jordan adopted in 2016 the EU-Jordan Partnership Priorities (which included at that time the EU-Jordan Compact). In December 2018, the EU-Jordan Partnership Priorities were extended by two more years to cover 2016-2020.

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<sup>1</sup> OJ L 341, 18.12.2013, p. 4–9

<sup>2</sup> O.J. L 352, 23.12.2016, p. 18–25.

Cooperation under the Partnership Priorities is structured around three mutually reinforcing objectives: i) macroeconomic stability and sustainable and knowledge-based growth; ii) strengthening democratic governance, the rule of law and human rights; and iii) regional stability and security, including counter-terrorism. Cooperation is also being pursued on cross-cutting issues such as migration and mobility as well as economic, social and political inclusion of vulnerable groups, including youth and women.

Trade relations between the EU and Jordan are governed by the Association Agreement. This agreement established a Free Trade Area opening up two-way trade in goods between the EU and Jordan. In July 2016, the EU and Jordan agreed to make more flexible the rules of origin that Jordanian exporters use in their trade with the EU. Both sides reviewed and improved this initiative in December 2018. The EU is Jordan's first trading partner, accounting for 17.1% (in value terms) of Jordan's total trade in 2018. Jordanian exports to the EU amounted to EUR 300 million in 2018 while imports from the EU amounted to EUR 3.6 billion (in value terms).

## **2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY**

### **• Legal basis**

The legal basis for this proposal is Article 212 of the TFEU.

### **• Subsidiarity (for non-exclusive competence)**

The subsidiarity principle is respected as the objectives of restoring short-term macroeconomic stability in Jordan cannot be sufficiently achieved by the Member States alone and can therefore be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectiveness of the assistance.

### **• Proportionality**

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of short-term macroeconomic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission based on the estimates of the IMF in the context of the Extended Fund Facility, the amount of the assistance corresponds to around 9.7% of the estimated residual financing gap for the period 2020-2021. This significant commitment is justified by: the political importance of Jordan for the stability in the European Neighbourhood; the political association and economic integration of the country with the EU as reflected by the Association Agreement between the two sides that entered into force on 1 May 2002; as well as the challenging economic situation that Jordan continues to face, notably as a result of the conflicts in Syria and Iraq and the presence of large numbers of Syrians in the country.

### **• Choice of the instrument**

Project finance or technical assistance would not be suitable to address macroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be to alleviate the external financial constraint in a swift manner and to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate framework for macroeconomic and structural policies, MFA can increase the effectiveness of the actions financed in Jordan under other, more narrowly focused EU financial instruments.



### **3. RESULTS OF EX-POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS**

- **Ex-post evaluations/fitness checks of existing legislation**

The Commission's MFA proposal builds on lessons learned from ex-post evaluations carried out on past operations in the EU's neighbourhood, particularly on the ex-post evaluation of the MFA-I operation provided to Jordan in 2015 that was governed by Decision 1351/2013/EU of the European Parliament and of the Council of 11 December 2013.<sup>3</sup>

This ex-post evaluation<sup>4</sup> concluded that the MFA-I programme met its objectives. Its design was relevant with Jordan's economic challenges, while it contributed substantially to the effective stabilisation of Jordan's external and fiscal financial position. The programme had considerable added-value for the EU as it supported macroeconomic stability in a neighbouring partner country and mitigated the impact of the refugee crisis. It was designed and implemented in a coherent way to other EU policies or instruments. The programme also had a positive social impact while it made an impactful contribution with regard to public debt sustainability by offering extremely favourable financing conditions.

- **Stakeholder consultations**

In the preparation of this proposal for MFA, the Commission services have been in regular contact with the Jordanian authorities, in order to foster Jordan's ownership of the programme. Besides, as MFA is provided as an integral part of the international support for the economic stabilisation of Jordan, the Commission has also consulted with international partners of Jordan such as the International Monetary Fund and the World Bank, which are supporting the country through sizeable financing programmes.

- **Collection and use of expertise**

An Operational Assessment verifying the quality and reliability of Jordan's public financial circuits and administrative procedures was carried out by the Commission with the assistance of external experts, with the final report prepared in September 2016. A new Operational Assessment is foreseen to be conducted in the first quarter of 2020 in order to reflect recent developments.

- **Impact assessment**

The EU's macro-financial assistance is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries. Therefore, this MFA proposal is exempted from the requirement to carry out an Impact Assessment in accordance with the Commission's Better Regulation Guidelines (SWD(2015) 111 final) as there is a political imperative to move ahead quickly in this emergency situation requiring a rapid response.

The MFA will help alleviate Jordan's short-term financing needs. The economic adjustment and reform programme attached, building on the Jordan government 5 year growth and reform matrix, will contribute to create a stable macroeconomic framework and to implement ambitious structural reforms that will enhance growth and job creation prospects. MFA financing will also help the beneficiary country make the necessary economic adjustment less harsh and abrupt, compared with an alternative scenario without external financial assistance.

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<sup>3</sup> OJ L341, 18.12.2013, p. 4

<sup>4</sup> Ex-Post Evaluation available at: [https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/ex-post-evaluation-mfa-operations-jordan\\_en](https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/ex-post-evaluation-mfa-operations-jordan_en)

In this way, it helps cushion the social impact of the adjustment and avert the adverse effects of the crisis that the country is undergoing. By providing long-term financing on highly concessional terms and supporting reforms, the MFA programme will contribute to pursue fiscal adjustment, enhance Jordan's debt sustainability and to create the fiscal space necessary to preserve necessary social spending amid the persistent economic and social pressures arising from the challenging regional context, including the presence of around 1.3 million of Syrians according to estimates of the Jordanian authorities (out of which 660,330 were registered with the UNHCR in August 2019). Moreover, through targeted policy conditionality, MFA helps to set the conditions for more balanced, sustainable and inclusive growth with adequate social protection.

#### **4. BUDGETARY IMPLICATIONS**

The planned assistance would be provided in the form of loans and should be financed through borrowing operations that the Commission will conduct on behalf of the EU. The budgetary costs of the assistance will correspond to the provisioning, at a rate of 9%, of the amounts disbursed into the Guarantee fund for external actions of the EU, from budget line 01 03 06 ("Provisioning of the Guarantee Fund")<sup>5</sup>.

Assuming that the first two loan disbursements will be made in 2020 for a total amount of EUR 300 million and the third loan disbursement in 2021 for the amount of EUR 200 million, and according to the rules governing the guarantee fund mechanism, the corresponding provisioning amounts will be entered in the budgets for 2022 (EUR 27 million) and 2023 (EUR 18 million).

The Commission assesses that the budgetary impact of the proposed MFA operation for Jordan can be accommodated within the Commission's proposal for the next MFF.

#### **5. OTHER ELEMENTS**

- **Implementation plans and monitoring, evaluation and reporting arrangements**

The European Union shall make MFA available to Jordan for a total amount of up to EUR 500 million, provided in the form of medium- to long-term loans, which will contribute to cover Jordan's residual external financing needs in 2020-21. The assistance is planned to be disbursed in three loan instalments. The disbursement of the first instalment is expected to take place towards June 2020. The second and third instalment could be disbursed in the fourth quarter of 2020 and in the second quarter of 2021 provided that the policy measures attached to each instalment have been implemented in a timely manner.

The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

The Commission and the Jordanian authorities would agree on a Memorandum of Understanding setting out the structural reform measures associated with the proposed MFA operation, including aspects of timing and sequencing. Moreover, as is normally the case with MFA, the disbursements would inter alia be conditional on satisfactory reviews under the IMF programme and the continued drawing by Jordan on IMF funds.

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<sup>5</sup> Under the next MFF there will be a new budgetary nomenclature, which is not yet adopted. The provisioning will thus take place from the relevant successor line to 01.0306.

The proposal includes a sunset clause. The proposed MFA would be made available for two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding.

The Commission will report yearly to the European Parliament and to the Council on the implementation of this Decision in the preceding year. Furthermore, the fulfilment of the objectives of the assistance will be assessed by the Commission, including in the context of an ex-post evaluation that the Commission shall submit to the European Parliament and to the Council not later than two years after the expiry of the availability period of the assistance.

The text of this proposal is consistent with the text of previous MFA Decisions as approved by the European Parliament and the Council in recent years.

Proposal for a

**DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**

**providing further macro-financial assistance to the Hashemite Kingdom of Jordan**

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 (2) thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Relations between the European Union ('the Union') and the Hashemite Kingdom of Jordan ('Jordan') are developing within the framework of the European Neighbourhood Policy (ENP). Jordan signed an Association Agreement with the Union on 24 November 1997, which came into force on 1 May 2002. Under the Association Agreement, the Union and Jordan gradually established a Free Trade Area over a transitional period of 12 years. In addition, an agreement on further liberalisation of agricultural products entered into force in 2007. In 2010, an Advanced Status partnership was agreed between the EU and Jordan that entails expanded areas of cooperation. A protocol on Dispute Settlement Mechanisms for trade between the EU and Jordan initialled in December 2009 entered into force on 1 July 2011. Bilateral political dialogue and economic cooperation have been further developed within the framework of the Association Agreement, the EU-Jordan Partnership Priorities and the Single Support Framework adopted for 2017-2020.
- (2) Since 2011, Jordan has embarked on a number of political reforms to strengthen parliamentary democracy and the rule of law. A Constitutional Court and an Independent Electoral Commission have been set up and a number of major laws, including the Electoral Act and the Political Parties Act as well as laws on decentralisation and municipalities, have been passed by the Jordanian Parliament. Legislative improvements as regards the independence of the judiciary and women's rights have been adopted.
- (3) The Jordanian economy has suffered significantly from the protracted conflicts, notably in neighbouring Iraq and Syria. This regional unrest has taken a heavy toll on external receipts and has strained public finances. Tourism and foreign direct investment inflows have been negatively affected, and trading routes have remained blocked for long periods. Separately, the flow of natural gas from Egypt was disrupted for several years, giving rise to a need to procure energy from alternative sources at a higher cost. In addition, the Jordanian economy has been impacted by a large inflow of Syrian refugees, which has increased pressure on its fiscal position, public services and infrastructure.

- (4) In August 2016, the Jordanian authorities and the IMF agreed on a second economic adjustment programme supported by a three-year Extended Fund Facility (EFF) in the amount of USD 723 million, which followed a USD 2 billion three-year Stand-by Arrangement running from 2012 to 2015. In May 2019, the EFF programme was extended until March 2020.
- (5) In December 2016, the Union adopted<sup>6</sup> a second programme of macro-financial assistance (MFA-II) of EUR 200 million in the form of loans, in response to a request from Jordan in March 2016 and following the completion of a first MFA programme of EUR 180 million implemented in 2015. MFA-II came as a follow-up to the commitment expressed at the conference “Supporting Syria and the Region”, held in London on 4 February 2016, where the Union pledged EUR 2.39 billion in 2016-2017 in financial support for the countries most affected by the refugee crisis, including Jordan. The Memorandum of Understanding defining the policy conditions related to MFA-II entered into force on 19 September 2017. The first instalment of MFA-II was released on 17 October 2017 and the second instalment on 21 June 2019, following the implementation of the agreed policy measures.
- (6) The Decision for MFA-II, as adopted by the co-legislators in December 2016, included a Joint Statement by the European Parliament, the Council and the Commission in which the Commission, in light of the fiscal challenges and extraordinary circumstances Jordan faces as a result of hosting large numbers of Syrians (1.3 million according to the Jordanian authorities), committed to submit, if appropriate, a new proposal for extending and increasing MFA to Jordan, upon the successful conclusion of the second MFA and provided that the usual preconditions for this type of assistance, including an updated assessment by the Commission of Jordan’s external financing needs, are met.
- (7) In 2017-2019, the protracted regional instability, high exposure to fluctuation of oil prices and the increase of borrowing costs for emerging markets globally continued to weigh on the Jordanian economy. As a result, economic growth slowed again, unemployment increased significantly, tax revenues collections fell and new fiscal and external financing needs emerged.
- (8) In this challenging context, the Union and the international community expressed again the commitment to supporting Jordan on several subsequent occasions, notably during the Brussels Conference on “Supporting the Future of Syria” in April 2017, the EU-Jordan Association Council in July 2017 and the Brussels-II Conference on “Supporting the Future of Syria” in April 2018. At the “London Initiative” conference, which took place in February 2019, and at the Brussels-III Conference held in March 2019, the international and regional donor community, including the EU, re-confirmed its intentions to support Jordan’s efforts to preserve macroeconomic stability and enhance growth prospects.
- (9) Since the beginning of the Syrian crisis in 2011, the Union has made available more than EUR 2.1 billion to Jordan under different instruments (including EUR 380 million under the two aforementioned MFA programmes) to help the country preserve economic stability, sustain political and economic reform and address its related

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<sup>6</sup> Decision No 2371/2016/EU of the European Parliament and of the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan (O.J. L 352, 23.12.2016, p. 18–25).

humanitarian, development and security needs. In addition, the European Investment Bank has allocated around EUR 486 million in project loans to Jordan.

- (10) In July 2019, in view of the still difficult economic situation and outlook, Jordan requested additional macro-financial assistance from the Union.
- (11) Following the successful completion of the second IMF programme review on 6 May 2019 the IMF and Jordan have started discussions on a successor IMF programme beyond March 2020 when the arrangement under the Extended Fund Facility is expected to be completed.
- (12) Given that Jordan is a country covered by the ENP, it should be considered to be eligible to receive macro-financial assistance from the Union.
- (13) The Union's macro-financial assistance should be an exceptional financial instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary's immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position in the short term.
- (14) Given that a residual financing gap remains in Jordan's balance of payments over and above the resources provided by IMF and other multilateral institutions, the provision by the Union of macro-financial assistance to Jordan is, under the current exceptional circumstances, considered to be an appropriate response to Jordan's request to the Union to support its economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of Jordan, supplementing resources made available under the IMF's financial arrangement.
- (15) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for Jordan thereby supporting its economic and social development.
- (16) The determination of the amount of the Union's macro-financial assistance is based on a complete quantitative assessment of Jordan's residual external financing needs, and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account expected financial contributions from bilateral and multilateral donors and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Jordan and the added value of the overall Union involvement.
- (17) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in accordance with the key principles and objectives, and of the measures taken within, the different areas of external action and other relevant Union policies.
- (18) The Union's macro-financial assistance should support the Union's external policy towards Jordan. Commission services and the European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and to ensure the consistency of, Union external policy.

- (19) The Union's macro-financial assistance should support Jordan's commitment to values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rule-based and fair trade.
- (20) A pre-condition for granting the Union's macro-financial assistance should be that Jordan respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems in Jordan and promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both the fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service.
- (21) In order to ensure that the Union's financial interests linked to the Union's macro-financial assistance are protected efficiently, Jordan should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, provision should be made for the Commission to carry out checks and for the Court of Auditors to carry out audits.
- (22) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council (as budgetary authority).
- (23) The amounts of provisioning required for the Union's macro-financial assistance should be consistent with the budgetary appropriations provided for in the multi-annual financial framework.
- (24) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with the relevant documents.
- (25) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council<sup>7</sup>.
- (26) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Jordanian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-financial assistance to Jordan, the examination procedure should apply to the adoption

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<sup>7</sup> Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,

HAVE ADOPTED THIS DECISION:

#### *Article 1*

1. The Union shall make macro-financial assistance of a maximum amount of EUR 500 million available to Jordan (“the Union’s macro-financial assistance”), with a view to supporting Jordan’s economic stabilisation and a substantive reform agenda. The assistance shall contribute to covering Jordan’s balance of payments needs as identified in the IMF programme.
2. The full amount of the Union’s macro-financial assistance shall be provided to Jordan in the form of loans. The Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions and to on-lend them to Jordan. The loans shall have a maximum average maturity of 15 years.
3. The release of the Union’s macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Jordan, and with the key principles and objectives of economic reforms set out in the EU-Jordan Association Agreement.

The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union’s macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.

4. The Union’s macro-financial assistance shall be made available for a period of two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1).
5. If the financing needs of Jordan decrease fundamentally during the period of the disbursement of the Union’s macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

#### *Article 2*

1. A pre-condition for granting the Union’s macro-financial assistance shall be that Jordan respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.
2. The Commission and the European External Action Service shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union’s macro-financial assistance.



3. Paragraphs 1 and 2 of this Article shall be applied in accordance with Council Decision 2010/427/EU<sup>8</sup>.

#### *Article 3*

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Jordanian authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding") which shall include a timeframe for the fulfilment of those conditions. The economic policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Jordan with the support of the IMF.
2. The conditions referred to in paragraph 1 shall aim, in particular, at enhancing the efficiency, transparency and accountability of the public finance management systems in Jordan, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade, and other priorities in the context of the Union's external policy shall also be duly taken into account when designing the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.
3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a Loan Agreement to be concluded between the Commission and the Jordanian authorities.
4. The Commission shall verify, at regular intervals, that the conditions referred to in Article 4(3) continue to be met, including whether the economic policies of Jordan are in accordance with the objectives of the Union's macro-financial assistance. In so doing, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

#### *Article 4*

1. Subject to the conditions referred to in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in three loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3.
2. The amounts of the Union's macro-financial assistance shall be provisioned, where required, in accordance with Council Regulation (EC, Euratom) No 480/2009.<sup>9</sup>
3. The Commission shall decide on the release of the instalments subject to the fulfilment of all of the following conditions:
  - (a) the pre-condition set out in Article 2;

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<sup>8</sup> Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).

<sup>9</sup> Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (OJ L 145, 10.6.2009, p. 10).

- (b) a continuous satisfactory track record of implementing a policy programme that contains strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement; and
- (c) the satisfactory implementation of the economic policy and financial conditions agreed in the Memorandum of Understanding.

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment. The release of the third instalment shall not, in principle, take place earlier than three months after the release of the second instalment.

- 4. Where the conditions referred to in the first subparagraph of paragraph 3 are not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for the suspension or cancellation.
- 5. The Union's macro-financial assistance shall be disbursed to the Central Bank of Jordan. Subject to the provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred to the Jordanian Ministry of Finance as the final beneficiary.

#### *Article 5*

- 1. The borrowing and lending operations related to the Union's macro-financial assistance shall be carried out in euro using the same value date and shall not involve the Union in the transformation of maturities, or expose it to any exchange or interest rate risk, or to any other commercial risk.
- 2. Where the circumstances permit, and if Jordan so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.
- 3. Where circumstances permit an improvement of the interest rate of the loan and if Jordan so requests, the Commission may decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with paragraphs 1 and 4 and shall not have the effect of extending the maturity of the borrowings concerned or of increasing the amount of capital outstanding at the date of the refinancing or restructuring.
- 4. All costs incurred by the Union which relate to the borrowing and lending operations under this Decision shall be borne by Jordan.
- 5. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraphs 2 and 3.

## Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council<sup>10</sup>.
2. The Union's macro-financial assistance shall be implemented under direct management.
3. The Loan Agreement referred to in Article 3(3) shall contain provisions:
  - (a) ensuring that Jordan regularly checks that financing provided from the budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any funds provided under this Decision that have been misappropriated;
  - (b) ensuring the protection of the Union's financial interests, in particular providing for specific measures in relation to the prevention of, and fight against, fraud, corruption and any other irregularities affecting the Union's macro-financial assistance, in accordance with Council Regulation (EC, Euratom) No 2988/95<sup>11</sup>, Council Regulation (EC, Euratom) No 2185/96<sup>12</sup> and Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council<sup>13</sup>. Notably, to that end, the European Anti-Fraud Office shall be expressly authorised to carry out investigations, including in particular on-the-spot checks and inspections including digital forensic operations and interviews;
  - (c) expressly authorising the Commission (OLAF), or its representatives to carry out checks, including on-the-spot checks and inspections;
  - (d) expressly authorising the Commission and the Court of Auditors to perform audits during and after the availability period of the Union's macro-financial assistance, including document audits and on-the-spot audits, such as operational assessments;
  - (e) ensuring that the Union is entitled to early repayment of the loan where it has been established that, in relation to the management of the Union's macro-financial assistance, Jordan has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.
  - (f) ensuring that all costs incurred by the Union that relate to a financial assistance shall be borne by Jordan.

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<sup>10</sup> Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.07.2018, p. 1).

<sup>11</sup> Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

<sup>12</sup> Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission to protect the Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

<sup>13</sup> Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

4. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, the soundness of Jordan's financial arrangements, the administrative procedures, and the internal and external control mechanisms which are relevant to the assistance.

*Article 7*

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.
2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

*Article 8*

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:
  - (a) examine the progress made in implementing the Union's macro-financial assistance;
  - (b) assess the economic situation and prospects of Jordan, as well as progress made in implementing the policy measures referred to in Article 3(1);
  - (c) indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, Jordan's on-going economic and fiscal performance and the Commission's decisions to release the instalments of the Union's macro-financial assistance.
2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex-post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

*Article 9*

This Decision shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*

Done at Brussels,

*For the European Parliament*  
*The President*

*For the Council*  
*The President*

## LEGISLATIVE FINANCIAL STATEMENT

### 1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

1.2. Policy area(s) concerned

1.3. The proposal/initiative relates to

1.4. Objective(s)

*1.4.1. General objective(s)*

*1.4.2. Specific objective(s)*

*1.4.3. Expected result(s) and impact*

*1.4.4. Indicators of performance*

1.5. Grounds for the proposal/initiative

*1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative*

*1.5.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.*

*1.5.3. Lessons learned from similar experiences in the past*

*1.5.4. Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments*

*1.5.5. Assessment of the different available financing options, including scope for redeployment*

1.6. Duration and financial impact of the proposal/initiative

1.7. Management mode(s) planned

## **2. MANAGEMENT MEASURES**

2.1. Monitoring and reporting rules

2.2. Management and control system(s)

*2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed*

*2.2.2. Information concerning the risks identified and the internal control system(s) set up to mitigate them*

*2.2.3. Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

2.3. Measures to prevent fraud and irregularities

## **3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE**

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

3.2. Estimated financial impact of the proposal on appropriations

*3.2.1. Summary of estimated impact on operational appropriations*

*3.2.2. Estimated output funded with operational appropriations*

*3.2.3. Summary of estimated impact on administrative appropriations*

*3.2.4. Compatibility with the current multiannual financial framework*

*3.2.5. Third-party contributions*

3.3. Estimated impact on revenue

## LEGISLATIVE FINANCIAL STATEMENT

### **1. FRAMEWORK OF THE PROPOSAL/INITIATIVE**

#### **1.1. Title of the proposal/initiative**

Macro-financial assistance to the Hashemite Kingdom of Jordan

#### **1.2. Policy area(s) concerned**

Policy area: Economic and Financial Affairs

Activity: International economic and financial affairs

#### **1.3. The proposal/initiative relates to a new action**

#### **1.4. Objective(s)**

##### *1.4.1. General objective(s)*

“A new boost for jobs, growth and investment: promoting prosperity beyond the EU”

##### *1.4.2. Specific objective(s)*

“Promoting prosperity beyond the EU”

The DG ECFIN related activities pertain to:

- (a) Supporting macro-financial stability and promoting growth-enhancing reforms outside the EU, including through regular economic dialogues with key partners and by providing macro-financial assistance; and
- (b) Supporting the enlargement process, the implementation of the EU Neighbourhood Policy and EU priorities in other third countries by conducting economic analysis and providing policy assessments and advice.

##### *1.4.3. Expected result(s) and impact*

The proposed assistance consists of an EU loan of up to EUR 500 million to Jordan, with a view to contributing to a more sustainable balance-of-payments situation. The assistance, to be disbursed in three instalments, should help the country overcome its difficult economic and balance-of-payments situation. It will also promote structural reforms aimed at raising sustainable economic growth and improving public finance management. Moreover, by providing long-term financing on highly concessional terms, the MFA programme will also contribute to enhancing Jordan's debt sustainability, while helping the country to preserve necessary social spending amid the persistent economic and social pressures arising from the challenging regional context, including the presence of large numbers of Syrians (estimated to 1.3 million by the Jordanian government out of which 660,330 registered in the UNHCR, data as of 4 August 2019). The MFA programme will highlight the EU's solidarity with and confidence in Jordan, as well as Jordan's geo-political importance for the EU in the context of the Syrian crisis.

##### *1.4.4. Indicators of performance*

The authorities will be required to report on a set of economic indicators to the Commission services on a regular basis and provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the instalments of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures in Jordan that would be carried out in the first quarter of 2020. The EU Delegation in Jordan will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in Jordan.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, including an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

## **1.5. Grounds for the proposal/initiative**

### *1.5.1. Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative*

The disbursement of the assistance will be conditional on the fulfilment of the political pre-condition and a satisfactory track record in the implementation of a financing arrangement between Jordan and the IMF. In addition, the Commission shall agree with the Jordanian authorities on specific policy conditions, listed in a Memorandum of Understanding.

The assistance is planned to be disbursed in three loan instalments. The disbursement of the first instalment is expected to take place towards June 2020. The second and third instalment could be disbursed in the fourth quarter of 2020 and in the second quarter of 2021 provided that the policy measures attached to each instalment have been implemented in a timely manner.

### *1.5.2. Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.*

The proposed MFA to Jordan reflects the country's strategic importance to the EU and is in line with the objectives of the European Neighbourhood Policy (ENP). The MFA instrument is a policy-based instrument that aims to alleviate short- and medium-term external financial needs. As a part of the overall EU package of assistance, it would contribute to supporting the Union's objectives of economic stability, economic development and resilience in Jordan and, more broadly, in the South European neighbourhood.

The MFA programme will highlight the EU's solidarity with and confidence in Jordan, as well as Jordan's geo-political importance for the EU in the context of the Syrian crisis. This is consistent with EU's commitments towards Jordan as expressed on several occasions in recent years including in the London Initiative conference in February 2019 and in the Brussels III conference in March 2019.

By supporting the Jordan authorities' efforts to establish a stable macroeconomic framework and implement ambitious structural reforms, the proposed operation enhances the added value of the overall EU involvement in Jordan and improves the effectiveness of other forms of EU financial assistance to the country, including budget support operations and grants, available through external financial instruments under the current multiannual financial framework for 2014-2020.



In addition to the financial impact of the MFA, the proposed programme will strengthen the government's reform commitment and further foster its aspiration towards closer relations with the EU, as reflected by the Association Agreement that entered into force in May 2002 and the Partnership Priorities with the EU that have been in force since 2016. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal to the other countries in the region that the EU is ready to support countries embarking on a clear path towards economic reforms.

The proposed MFA is also an integral part of overall international support for Jordan and will continue to complement the assistance provided by other multilateral and bilateral donors. By complementing the resources made available by the IFIs and other donors, EU MFA contributes to the overall effectiveness of the financial support agreed by the international donor community. Furthermore, by providing long-term financing on highly concessional terms, usually lower than the other multilateral or bilateral donors, the MFA programme will contribute to enhancing Jordan's debt sustainability, while helping the country to preserve necessary social spending amid the persistent economic and social pressures arising from the challenging regional context. MFA conditions will also help fostering a sustainable balance of payments and budgetary position, raising potential growth, promoting integration and regulatory convergence with the EU and strengthening public finance management.

### *1.5.3. Lessons learned from similar experiences in the past*

Since 2004, eighteen ex-post evaluations have been carried out on macro-financial assistance operations. These evaluations conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the recipient country. In most cases, MFA operations had a positive effect on the balance of payments of the beneficiary country and helped to relax their budgetary constraints. They also led to somewhat higher economic growth.

An independent evaluation examined in 2017 the added value, impact, design and implementation of one previous MFA operation in Jordan (MFA-I for a total of EUR 180 million disbursed in 2015) and found it to be relevant, effective and efficiently implemented. The main conclusions from the evaluation are that the MFA had a positive impact on Jordan's economy, helping the country to stabilise its external position and contribute to the reform efforts. Also, due to its very favourable financing terms, the MFA contributed to Jordan's debt sustainability and allowed a more gradual fiscal consolidation, which would otherwise have serious negative social impacts (such as further public spending cuts).

### *1.5.4. Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments*

#### *Compatibility with the Multiannual Financial Framework*

As part of the mid-term review of the 2014-2020 multiannual financial framework, the annual lending capacity of the MFA was increased to EUR 2 000 million. This amount is sufficient to cover this operation as well as other MFA operations being implemented.

#### *Possible synergies with other EU instruments:*

The EU is among the major donors to Jordan, supporting its economic, structural and institutional reforms as well as civil society. In this context, MFA complements other EU external actions or instruments used to support Jordan. The policy measures associated with MFA cover selected provisions related to the Association Agreement and the EU Jordan Partnership Priorities. It is also aligned with the Single Support Framework defining areas of focus of bilateral aid under the European Neighbourhood Instrument for 2014-2020.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a sustainable balance-of-payments and budgetary situation, and an appropriate framework for advancing structural reforms. MFA does not provide regular financial support and is to be discontinued as soon as the country's external financial situation has been brought back onto a sustainable path.

MFA would also be complementary to interventions envisaged by the international community, in particular the adjustment and reform programmes supported by the IMF and the World Bank.

### *1.5.5. Assessment of the different available financing options, including scope for redeployment*

By using loans, this MFA operation increases the effectiveness of the EU budget through the leverage effect and provides for the best cost-efficient option.

The Commission is empowered to borrow funds from capital markets on behalf of both the European Union and Euratom using the guarantee of the EU budget. The aim is to obtain funds from the market at the best available rates due to the top credit status (AAA-rated by Fitch, Moody's and DBRS, AA by S&P, all with stable outlook) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back-to-back operation, ensuring that the EU budget does not take any interest rate or foreign exchange risk. The target of obtaining funds at the best available rates for borrowing and lending activities has been achieved because those rates are in line with peer institutions (EIB, EFSM, and ESM), as confirmed by the ECA in 2016.

#### **1.6. Duration and financial impact of the proposal/initiative**

**limited duration**

- In effect for 2.5 years from the entry into force of the Memorandum of Understanding, as stated in Article (1.4) of the Decision.
- Financial impact from 2020 to 2023 for commitment appropriations and from 2020 to 2023 for payment appropriations.

#### **1.7. Management mode(s) planned<sup>14</sup>**

**Direct management** by the Commission

- by its departments, including by its staff in the Union delegations;

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<sup>14</sup> Details of management modes and references to the Financial Regulation may be found on the BudgWeb site:  
<https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx>

## **2. MANAGEMENT MEASURES**

### **2.1. Monitoring and reporting rules**

This assistance is of macroeconomic nature and its design is consistent with the IMF-supported economic programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the IMF arrangement and specific reform measures to be agreed with the Jordanian authorities in a Memorandum of Understanding (see also point 1.4.4) with a frequency that is consistent with the number of instalments.

### **2.2. Management and control system(s)**

#### *2.2.1. Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed*

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

MFA disbursements are dependent on successful reviews, and tied to the fulfilment of conditionality attached to each operation. The implementation of conditions is closely monitored by the Commission, in close coordination with the Union Delegations.

#### *2.2.2. Information concerning the risks identified and the internal control system(s) set up to mitigate them*

##### *Risks identified*

There are fiduciary, policy and political risks related to the proposed MFA operation.

There is a risk that the MFA could be used in a fraudulent way. As MFA is not designated to specific expenses by Jordan (contrary to project financing, for example), this risk is related to factors such as the general quality of management systems in the Central Bank of Jordan and the Ministry of Finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities.

A second risk stems from the possibility that Jordan will fail to service the financial liabilities towards the EU stemming from the proposed MFA loans (default or credit risk), which could be caused for example by a significant additional deterioration of the balance of payments and fiscal position of the country.

Another key risk to the operation stems from the regional geopolitical situation, in particular the conflict in Syria, which acts as an important deterrent to private capital and inflows and has obstructed trade with neighbouring countries like Syria and Iraq. A worsening of the regional geopolitical situation could have a negative impact on Jordan's macroeconomic stability, affecting the performance of the IMF programme and the disbursement and/or repayment of the proposed MFA. In addition, we should note that Jordan remains exposed to potential oil shocks as it heavily relies on imported oil for its energy needs. Moreover, the rising interest rates of the USD to which the Jordanian Dinar is pegged, increases the cost of external borrowing. Last, Jordan dependence on foreign aid has increased. Although the international community has committed to support Jordan, the country needs to continue to attract

sizeable amounts of foreign aid in order to cover its financing needs in the next years.

On the domestic front, the main risks stem from the citizen's discontent from the worsening of the economic situation and the rise of unemployment. This could result in insufficient reform implementation or popular unrest, like it happened with the change of government in mid-2018, and therefore hamper the implementation of the proposed MFA, including though impacting on progress with the IMF programme.

*Control method(s) envisaged*

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and by the European Court of Auditors as foreseen by Article 129 of the Financial Regulation

Ex-ante: Commission assessment of management and control systems in the beneficiary countries. For each beneficiary country, an ex-ante operational assessment of the financial circuits and control environment is carried out by the Commission with technical support from consultants. An analysis of accounting procedures, segregation of duties and internal/external audit of the Central bank and the Ministry of Finance are carried out to ensure a reasonable level of assurance for sound financial management. Should weaknesses be identified, they are translated into conditions, which have to be implemented before the disbursement of the assistance. Also, when needed, specific arrangements for payments (e.g. ring-fenced accounts) are put in place.

During implementation: Commission checks of periodic beneficiary country declarations. The payment is subject to (1) monitoring by DG ECFIN staff, in close coordination with the EU Delegations and with the external stakeholders, like the IMF, of the implementation of the agreed conditionalities, and (2) the normal control procedure provided for by the financial circuit (model 2) used in DG ECFIN, including the verification by the financial unit of the fulfilment of conditions attached to the disbursement of the assistance mentioned above. The disbursement relating to MFA operations may be subject to additional independent ex-post (documentary and/or on-the-spot) verifications by officials of the ex-post control team of the DG. Such verifications may also be initiated at the request of the responsible AOSD. Interruptions and suspensions of payments, financial corrections (implemented by Commission), and recoveries may be practiced where needed (it has not occurred so far), and are explicitly foreseen in the financing agreements with the beneficiary countries.

2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The control systems in place, such as the ex-ante operational assessments or the ex-post assessments, ensured an effective error rate for the MFA payments of 0%. There are no known cases of fraud, corruption or illegal activity. MFA operations have a clear intervention logic, one that allows the Commission to evaluate their impact. The controls enable the confirmation of assurance and of attainment of policy objectives and priorities.

**2.3. Measures to prevent fraud and irregularities**

To mitigate the risks of fraudulent use several measures have been and will be taken:

First, the Loan Agreement will comprise a set of provisions on inspection, fraud prevention, audits and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, including in the area of public finance management, with a view to strengthening efficiency, transparency and accountability. Also, the assistance will be paid to a specific account of the Central Bank of Jordan.

Moreover, in line with the requirements of the Financial Regulation, the Commission services will carry out an Operational Assessment of the financial and administrative circuits of Jordan to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The assessment will cover areas such as budget preparation and execution, public internal financial control, internal and external audit, public procurement, cash and public debt management, as well as the independence of the central bank. The Operational Assessment is expected to be carried out in the first quarter of 2020. Developments in that area will be further closely monitored by the EU Delegation in Amman. The Commission is also using budget support assistance to help the Jordanian authorities improve their PFM systems, and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors as foreseen by Article 129 of the Financial Regulation.

### 3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

#### 3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

*In order of multiannual financial framework headings and budget lines.*

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff. <sup>15</sup>	from EFTA countries <sup>16</sup>	from candidate countries <sup>17</sup>	from third countries	within the meaning of Article 21(2)(a) of the Financial Regulation
4	01 03 02 Macro-financial assistance	Diff.	NO	NO	NO	NO
4	01 03 06 Provisioning of the Guarantee Fund	Non-diff.	NO	NO	NO	NO

01 03 06 – According to the Commission proposal, the Guarantee Fund for external actions will be provisioned according to the Fund Regulation,<sup>18</sup> using the appropriations under budget line 01 03 06 (“Provisioning of the Guarantee Fund”), at a rate of 9% of the total outstanding liabilities. The provisioning amount is calculated at the beginning of the year “n” as the difference between the target amount and the Fund’s net assets at the end of the year “n-1”. This provisioning amount is entered in year “n” into the “n+1” draft budget and effectively paid in one transaction at the beginning of the year “n+1” from the budget line “Provisioning of the Guarantee Fund” (budget line 01 03 06). As a result, 9% of the effectively disbursed amount will be considered in the target amount at the end of the year “n-1” for the calculation of the provisioning of the Fund.

N.B. Under the new MFF, there will be a new budgetary nomenclature which has not yet been adopted. The budgetary impact after 2020 will thus fall on the successor budget lines.

<sup>15</sup> Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.

<sup>16</sup> EFTA: European Free Trade Association.

<sup>17</sup> Candidate countries and, where applicable, potential candidates from the Western Balkans.

<sup>18</sup> Council Regulation (EC, EURATOM) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions, OJ L 145, 10.6.2009, p. 10.

### 3.2. Estimated financial impact of the proposal on appropriations

#### 3.2.1. Summary of estimated impact on operational appropriations

- The proposal/initiative requires the use of operational appropriations, as explained below:

EUR million (to three decimal places)

<b>Heading of multiannual financial framework</b>	4	The EU as a global partner
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DG: ECFIN			2019	2020	2021	2022	2023	TOTAL
<b>• Operational appropriations<sup>19</sup></b>								
Budget line 01 03 06 Provisioning of the Guarantee Fund	Commitments	(1)				27	18	<b>45</b>
	Payments	(2)				27	18	<b>45</b>
Budget line 01 03 02 Macro-financial assistance (operational assessment and ex-post evaluation)	Commitments	(3)		0.07			0.15	<b>0.22</b>
	Payments	(4)		0.07			0.15	<b>0.22</b>
<b>Appropriations of an administrative nature financed from the envelope of specific programmes<sup>20</sup></b>	Commitments = Payments	(5)						-
<b>TOTAL appropriations under HEADING 4 of the multiannual financial framework</b>	Commitments	=1+3		0.07		27	18.15	<b>45.22</b>
	Payments	=2+4		0.07		27	18.15	<b>45.22</b>

<sup>19</sup> According to the current official budget nomenclature. As from 2021, the budgetary impact will fall on the successor lines in the next MFF.

<sup>20</sup> Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.



<b>Heading of multiannual financial framework</b>	<b>5</b>	‘Administrative expenditure’
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EUR million (to three decimal places)

		2019	2020	2021	2022	2023	<b>TOTAL</b>
DG: ECFIN							
• Human resources		0.030	0.064	0.038	0.002	0.023	<b>0.157</b>
• Other administrative expenditure		0.010	0.020	0.010			<b>0.040</b>
<b>TOTAL DG ECFIN</b>	Appropriations	0.040	0.084	0.048	0.002	0.023	<b>0.197</b>
<b>TOTAL appropriations under HEADING 5 of the multiannual financial framework</b>	(Total commitments = Total payments)	0.040	0.084	0.048	0.002	0.023	<b>0.197</b>

EUR million (to three decimal places)

		2019	2020	2021	2022	2023	<b>TOTAL</b>
<b>TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework</b>	Commitments	0.040	0.154	0.048	27.002	18.173	<b>45.417</b>
	Payments	0.040	0.154	0.048	27.002	18.173	<b>45.417</b>

### 3.2.2. Estimated output funded with operational appropriations

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs			Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	<b>TOTAL</b>
	<b>OUTPUTS</b>							

↓	Type <sup>21</sup>	Average cost	No	Cost	No	Cost	No	Cost	No	Cost	No	Cost	Total No	Total cost
SPECIFIC OBJECTIVE No 1 <sup>22</sup> ...														
- Output	Operational Assessment				1	0.070							1	0.070
- Output	Provisioning of the Guarantee Fund								2	27	1	18	3	45
- Output	Ex-post Evaluation										1	0.150	1	0.150
Subtotal for specific objective No 1					1	0.070			2	27	2	18.150	5	45.22
<b>TOTALS</b>					<b>1</b>	<b>0.070</b>			<b>2</b>	<b>27</b>	<b>2</b>	<b>18.150</b>	<b>5</b>	<b>45.22</b>

<sup>21</sup> Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

<sup>22</sup> As described in point 1.4.2. 'Specific objective(s)...'

### 3.2.3. Summary of estimated impact on administrative appropriations

- The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	<b>TOTAL</b>
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<b>HEADING 5 of the multiannual financial framework</b>						
Human resources	0.030	0.064	0.038	0.002	0.023	<b>0.157</b>
Other administrative expenditure	0.010	0.020	0.010			<b>0.040</b>
<b>Subtotal HEADING 5 of the multiannual financial framework</b>	<b>0.040</b>	<b>0.084</b>	<b>0.048</b>	<b>0.002</b>	<b>0.023</b>	<b>0.197</b>

<b>Outside HEADING 5<sup>23</sup> of the multiannual financial framework</b>						
Human resources						
Other expenditure of an administrative nature						
<b>Subtotal outside HEADING 5 of the multiannual financial framework</b>						

<b>TOTAL</b>	<b>0.040</b>	<b>0.084</b>	<b>0.048</b>	<b>0.002</b>	<b>0.023</b>	<b>0.197</b>
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The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

<sup>23</sup> Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

### 3.2.3.1. Estimated requirements of human resources

- The proposal/initiative requires the use of human resources, as explained below:

*Estimate to be expressed in full time equivalent units*

	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
•					
<b>• Establishment plan posts (officials and temporary staff)</b>					
XX 01 01 01 (Headquarters and Commission's Representation Offices)	0.10	0.25	0.15	0.01	0.01
XX 01 01 02 (Delegations)					
XX 01 05 01/11/21 (Indirect research)					
10 01 05 01/11 (Direct research)					
<b>• External staff (in Full Time Equivalent unit: FTE)<sup>24</sup></b>					
XX 01 02 01 (AC, END, INT from the 'global envelope')	0.20	0.35	0.20	0.01	0.01
XX 01 02 02 (AC, AL, END, INT and JPD in the delegations)					
XX 01 04 yy <sup>25</sup>	• - at Headquarters				
	• - in Delegations				
XX 01 05 02/12/22 (AC, END, INT - Indirect research)					
10 01 05 02/12 (AC, END, INT - Direct research)					
Other budget lines (specify)					
<b>TOTAL</b>	<b>0.30</b>	<b>0.60</b>	<b>0.35</b>	<b>0.02</b>	<b>0.20</b>

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	<p>Director Dir. D: Supervise and manage the operation, liaise with Council and Parliament for the adoption of the Decision and the approval of the Memorandum of Understanding (MoU), negotiate the MoU with the authorities of the beneficiary country, review reports, lead missions and assess progress with conditionality compliance.</p> <p>HoU/DHoU Dir. D: Assist the Director in managing the operation, liaising with Council and Parliament for the adoption of the Decision and the approval of the MoU, negotiating the MoU and (together with Dir. L) the Loan Facility Agreement with the authorities of the beneficiary country, reviewing reports and assessing progress with conditionality compliance.</p> <p>Desk economists, MFA Sector (Dir. D): Prepare the Decision and MoU, liaise with the authorities and the IFIs, conduct review missions, prepare Commission staff reports</p>
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<sup>24</sup> AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

<sup>25</sup> Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

	<p>and Commission procedures related to the management of the assistance, liaise with external experts for the operational assessment and the ex-post evaluation.</p> <p>Directorate L (Units L1, L2 and L3 under the supervision of the Director): Prepare the Loan Facility Agreement (LFA), negotiate it with the authorities of the beneficiary country and have it approved by the responsible Commission services and signed by both parties. Follow up the entry into force of the LFA. Prepare the Commission decision(s) on the borrowing transaction(s), follow up the submission of the Request(s) for Funds, select the banks, prepare and execute the funding transaction(s) and disburse the funds to the beneficiary country. Carry out the back-office activities to follow up the reimbursement of the loan(s). Prepare the corresponding reports on these activities.</p>
External staff	

#### 3.2.4. *Compatibility with the current multiannual financial framework*

The proposal/initiative:

- can be fully financed through redeployment within the relevant heading of the Multiannual Financial Framework (MFF).

#### 3.2.5. *Third-party contributions*

The proposal/initiative:

- does not provide for co-financing by third parties

### 3.3. **Estimated impact on revenue**

- The proposal/initiative has no financial impact on revenue.