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**Macro-financial assistance to the Hashemite Kingdom of Jordan
of up to EUR 700 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

AND

**the Hashemite Kingdom of Jordan
as Borrower**

and

**the Central Bank of Jordan
as Agent to the Borrower**

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND THE HASHEMITE KINGDOM OF JORDAN

1. On 15 January 2020, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/33) to make available macro-financial assistance to the Hashemite Kingdom of Jordan macro-financial assistance of up to EUR 500 million in the form of a loan.¹ The assistance shall be made available for two and a half years starting from the first day after the entry into force of the Memorandum of Understanding (hereafter referred to as “the MoU”).

On top of this, on 25 May 2020, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701) to make available macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic.² The Decision makes available to the Hashemite Kingdom of Jordan (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 200 million in the form of a loan. The assistance shall be made available for one year starting from the first day after the entry into force of the MoU.

2. The objective of this assistance is to ease the Country’s external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the Country address the current external and financial vulnerabilities. This assistance from the European Union is complementary to the resources provided to the Country by international financial institutions and bilateral donors in support of the authorities’ economic stabilisation and reform programme.
3. The assistance shall be disbursed in three instalments. The first instalment of up to EUR 250 million shall be disbursed under Decision (EU) 2020/33 (EUR 100 million) and under Decision (EU) 2020/701 (EUR 150 million). The second instalment of up to EUR 250 million shall be disbursed under Decision (EU) 2020/33 (EUR 200 million) and under Decision (EU) 2020/701 (EUR 50 million). The third instalment of up to EUR 200 million shall be disbursed in entirety under Decision (EU) 2020/33.
4. The first instalment of the assistance shall be released upon the signature and entry into force of this MoU and the accompanying Loan Facility Agreement and shall be conditional upon a satisfactory track record of implementation of the programme agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”).

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

¹ Decision (EU) 2020/33 of the European Parliament and of the Council of 15 January 2020 providing further macro-financial assistance to the Hashemite Kingdom of Jordan, OJ L 14, 17.1.2020, p. 1-7.

² Decision (EU) 2020/701 of the European Parliament and of the Council of 25 May 2020 providing macro-financial assistance to enlargement and neighbourhood partners in the context of the COVID-19 pandemic, OJ L 165, 27.5.2020, p. 31-37.

The disbursement of the second and third instalments of the assistance will be conditional on both a satisfactory track record in the implementation of the programme agreed with the IMF and on a positive assessment by the European Commission (hereafter referred to as "the Commission") on behalf of the European Union, of progress made with respect to a number of macroeconomic and structural adjustment measures. The policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the authorities of the Country and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the national authorities and IMF staff, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

5. Prior to the release of the second and third instalments by the Commission, the Country's authorities shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to the instalments in question. Upon receipt of the compliance statement by the authorities of the Country, the Commission will evaluate, based on consultations with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms to public finance management, utilities, social and labour market policies and governance. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of a negative evaluation, the Commission may withhold the disbursement of the instalments until the Country proves the compliance with the conditionality. If necessary, Annex I may be amended upon mutual agreement, following the completion of the respective approval processes of the European Union and the Country.
6. The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel the assistance in case the financing needs of the Country have decreased fundamentally during the period of disbursement compared to the initial projections.
7. The Commission shall transfer the instalments to a euro account of the Ministry of Finance of the Country (hereafter referred to as "the Recipient") at the Central Bank of Jordan (hereafter referred to as "the Agent"). Given the substantial budgetary financing needs faced by the Country, the proceeds of the loan will be used to finance the Country's budget.
8. During the implementation of the assistance, the Country's authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
9. With a view to preventing irregularities and fraud related to the use of the assistance and ensuring the protection of the EU's financial interests, the relevant provisions of the Loan Facility Agreement will apply, notably those regarding regular checks by the Country on the use of European Union assistance, and checks, audits and investigations performed by the Commission, including the European Anti-Fraud Office, and the European Court of Auditors and the European Public Prosecutor's Office. Also, the provisions of the Loan Facility Agreement on early repayment will apply in case it has been established that the

Country has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.

10. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of European Union macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
11. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supplying all necessary information to the Commission, represented by its own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.
12. The authorities will ensure, as appropriate, close co-operation with the European Commission.
13. This assistance is implemented on the understanding that the authorities of the Country will continue to respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and to guarantee the respect for human rights.
14. Annexes I and II are an integral part of this MoU.
15. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the European Union

European Commission
Directorate General for
Economic and Financial Affairs
CHAR 11/248
B-1049 Brussels, Belgium

For the Hashemite Kingdom of Jordan

Ministry of Finance
HE the Minister of Finance
King Hussein Street, no. 67
P.O. Box 85, Amman 11118, Jordan

With copy to:

Central Bank of Jordan
HE the Governor of the Central Bank of Jordan
King Hussein Street, no. 62
P.O. Box 37, Amman 11118, Jordan

16. The present MoU shall enter into force following the signature by the European Union and the Country.
17. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

Done in _____ on _____ in four originals in the English language.

Done in Brussels on 21/10/2020

FOR THE EUROPEAN UNION
as Lender

FOR THE HASHEMITE KINGDOM
OF JORDAN
as Borrower

Represented by


Represented by

the EUROPEAN COMMISSION

the MINISTRY OF FINANCE



H.E. Paolo Gentiloni
Member of the European Commission



H.E. Mohammad Al Ississ
Minister of Finance

FOR THE CENTRAL BANK
OF JORDAN
as Agent to the Borrower

Represented by



H.E. Dr. Ziad Fariz
Governor of the Central Bank of Jordan

ANNEX I

STRUCTURAL REFORM CRITERIA

Second Instalment

At the time of the Commission staff review that will precede the decision on the disbursement of the second instalment, the authorities of the Country are committed to have accomplished the following actions:

Public finance management

1. In order to enhance the predictability of the budget execution, the government will adopt a revised **draft framework law on public finance management** containing elements on:

- promoting top-down budgeting to ensure that the overall fiscal strategy is reflected in the budget preparation;
- improving the reliability of macro-economic and fiscal revenue projections to avoid underperformance;
- reducing the scope of off-budget expenditure;
- enhancing the reporting on budget execution of the general government;
- enhancing the financial reporting of state-owned enterprises.

2. In order to improve tax compliance, the government will develop the **Electronic Invoicing System**, connect a first set of high-risk sectors/professions to it and make its use obligatory for these sectors/professions.

3. In order to improve the oversight and effectiveness of the framework for **Public Private Partnerships**, consistent with the recently adopted PPP legislation, the government will **adopt the necessary secondary legislation** to establish project cycles in line with international best practice.

4. In order to increase transparency and efficiency in the public procurement system, the government will **make operational an electronic tendering system** and launch the first electronic tenders above JOD 1 million through this system.

Utilities

5. In order to identify water leakages and to reduce losses from non-revenue water, the government will launch tenders to **introduce smart meters** to Amman and Irbid metropolitan areas, thus extending the corresponding Aqaba pilot project.

Social and labour market policy

6. With a view to increasing labour market participation, in particular of women, the government will licence at least 40 **nurseries** in 2020 through the e-licencing system in accordance with transparent quality standards.

Governance

7. In order to facilitate cross-border trade, the government will **expand the operation of the single window for customs clearance** beyond Aqaba to Amman's Queen Alia International Airport.

8. With a view to promoting a high level of good tax governance, Jordan will **sign the Convention on Mutual Administrative Assistance in Tax Matters** (MAC convention).

Third Instalment

At the time of the Commission staff review that will precede the decision on the disbursement of the third instalment, the authorities of the Country are committed to have accomplished the following actions:

Public finance management

9. In order to improve tax compliance, the **Electronic Invoicing System** will be rolled out across the economy.

10. In order to increase the transparency and efficiency of public investments, the government will establish a **National Registry of Investment Projects**. A dedicated Public Investment Management Unit will **start the evaluation of these projects** on the basis of a methodology in line with international best practice.

11. To operationalise the new Public-Private Partnership framework, a **dedicated PPP Unit** will create the operational tools and manuals and start the training of staff in relevant government ministries.

12. In order to increase transparency and efficiency in the public procurement system, the government will **expand the use of the electronic tendering system** to at least 80% in terms of value and number of tenders.

13. In order to improve planning of procurement processes, **procuring entities will submit their annual procurement plans** for the next year to the Procurement Policy Committee. These plans will be made public.

Utilities

14. In order to identify water leakages and to reduce losses from non-revenue water, the government will launch tenders to **extend smart water meters to other cities/areas** than those referred to in Action 5 above.

15. In order to improve transparency and promote functional unbundling, **NEPCO will start publishing annual financial statements** based on separate and independent accounting for each area of operations.

Social and labour market policy

16. As part of a strategy to cushion the poor against the impact of future electricity price changes, the government will **install small solar energy stations** in at least 4,000 economically vulnerable households.

17. The government will **expand the Takaful social assistance programme** to reach 168,000 households by the end of 2020. The budget law for 2021 will contain the necessary budget allocation for the inclusion of an additional 30,000 households to the programme during 2021.

18. With a view to developing the digital skills of youth, the government will **adopt a national plan for digital skills training**. This plan will include the creation of a digital skills curriculum for pupils in public schools, as well as the training of students and young professionals at different levels.

19. With a view to enhancing and streamlining labour inspections, the government will develop **an electronic inspection management system for labour inspections**. On the basis of this system, labour inspections will be conducted using risk-based criteria and data related to inspections will be shared across government entities to ensure an integrated approach to inspections.

Governance

20. As part of the national effort to reduce corruption, adopt and **enact amendments to the Illicit Enrichment Law** to make the law more enforceable, including by:

- authorising the Jordan Integrity and Anti-Corruption Commission (JIACC) to receive, store and verify all financial disclosure information by public officials;
- stipulating that all financial disclosure information is maintained within an electronic database to be shared across relevant government agencies;
- broadening public access to basic financial disclosure information by public officials; and
- stipulating that officials under investigation for illicit enrichment are obliged to prove the legitimacy of their assets.

21. With a view to increasing transparency, strengthening tax revenues and reducing distortions, including in the special economic zones and development zones, an **amended Investment Law will be adopted**. Amendments will streamline investment incentives and reduce tax exemptions and aim at improving and simplifying administrative and governance structures.

22. With a view to promoting a high level of good tax governance, Jordan will **ratify the Convention on Mutual Administrative Assistance in Tax Matters** (MAC convention).

ANNEX II

MONITORING SYSTEM

1. Monitoring of macro-economic and financial developments and policies

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be published or provided to the Commission by the relevant authorities of the Country, on a quarterly basis.

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- External public debt stock and (interest and principal) payments (quarterly)
- Domestic public debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external public debt for the years 2020-2022 (quarterly)
- Consumer and producer prices (monthly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the Central Bank of Jordan

- Interbank interest rates at benchmark maturities (monthly)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (monthly)
- Nominal bilateral exchange rates against the euro and the USD (monthly)

2. Monitoring of structural policies

During the implementation of the European Union macro-financial assistance, data and/or information relating to the implementation of policy measures specified in Annex I shall be provided to the Commission by the relevant authorities of the Country, on request from the Commission, notably:

- Number and value of total public procurement tenders, as well as number and volume of electronic public procurement tenders (quarterly)
- Number of households covered by the Takaful social assistance programme and total value of benefits paid to them (quarterly)