

SECTION C – DESCRIPTION / SPECIFICATIONS/STATEMENT OF WORK

C.1 BACKGROUND

The purpose of this Task Order is to support a program of technical assistance to Jordan in the areas tax and customs administration, budget management, more effective economic policy formulation, and an improved system for valuation and taxation of real property at the national and local levels. The main counterpart for the activity will be the Ministry of Finance (MOF).

The Fiscal Reform Project II (FRP II) will support Component 1 of USAID/Jordan's Strategic Objective for 2007-11: Improved Economic Opportunities for Jordanians. In particular, the work under this project will *improve economic policy and the business environment* by helping to streamline budgeting, financial management, and the provision of government services and to make revenue collection more efficient and equitable.

The Contractor implementing this activity will coordinate with other US Government agencies, donors such as the European Union (EU) and GTZ, and with international organizations such as the World Bank and the International Monetary Fund (IMF), in order to ensure common objectives and policy approaches and to avoid duplication of effort.

C.1.1. Jordan's Fiscal Performance

Jordan's real economic activity has grown at a 6 percent annual rate since 2000. In view of this rapid growth and with buoyant levels of remittances and foreign official grants, the government debt has declined from about 100 percent of GDP in 2003 to about 60 percent of GDP in 2008. With assistance from the current Jordan Fiscal Reform I (JFR I) project, the MOF has developed a proposed tax reform that is expected to become effective in 2010. The GOJ is planning to submit this proposal to Parliament for approval during the summer of 2009. If approved, the reduced income tax rates (and higher thresholds for individual taxpayers) are expected to result in reduced revenue collection in 2010. Other features of the tax reform bill are projected to broaden the tax base and give revenue agencies increased powers to enforce tax compliance and revive revenue in the medium term (3-4 years). Beginning in 2010, foreign grants are projected to fall back to about 2.6 percent of GDP (about 2 percentage points lower than during 2008-09). The planned GOJ fiscal program for 2009-10 is considered by the IMF to be appropriate to meet the current cyclical downturn that Jordan is now facing. However, these conditions will be putting pressure on the government to raise revenue and to restrain government expenditures (currently amounting to about 38 percent of GDP) from 2011 onward.

C.1.2. Predecessor Activities

Jordan Fiscal Reform I

The \$18 million, 3-year JFR I project that USAID/Jordan has implemented since May 2006, is helping the Ministry of Finance (MOF) to:

- prepare a comprehensive tax reform proposal and draft a new tax code that is planned for submission to Parliament in mid-2009;

- introduce improvements in tax administration (audit and collections);
- implement initial steps toward government-wide Results-Oriented-Budgeting (ROB);
- train MOF and other ministries' budget-management staff and oversee the work of the firm executing the MOF's contract to implement a Government Financial Management Information System (GFMIS); and
- establish a Macro-Fiscal Unit (MFU) to produce forecasts and to conduct economic policy analysis for the Minister.

The following document from the project is among the relevant reference items available for review on the USAID/Jordan country website: <http://jordan.usaid.gov>.

- "White Book," providing in-depth information on tax issues, delivered by JFR I contractor BearingPoint to MOF in Feb 2007

Millennium Challenge Corporation Customs Administration Modernization Project (MCC CAMP)

As part of an MCC Threshold Country Plan, USAID administered a two-year program of assistance to the MOF Department of Customs to:

- establish a single-window system for border clearance;
- upgrade and integrate the Customs information and communications technology (ICT) infrastructure;
- train and strengthen the capacity of Customs officials; and
- improve relations between the Customs Department and its customers.

The \$8.5 million MCC CAMP implemented ICT improvements valued at \$4.5 million and trained over 1,900 Customs officers and business users in new technologies and procedures.

The results of MCC CAMP are summarized in the contractor's Summary of Results and Recommendations, dated January 15, 2009 and in the Contractor's Final Report of June 2009. These items and other related material can be found at the website listed above.

C.2. Scope of Work

The main goal of the Project is to assist the GOJ in achieving macroeconomic stability and economic growth through improving public financial management and fiscal policy. FRP II will consist of five components that will be expected to contribute to the following higher-level results:

- Objective 1:* Improved efficiency of use of public resources through stronger public financial management.
- Objective 2:* Results-oriented government.
- Objective 3:* Enhanced revenue mobilization through better revenue administration.

Objective 4: Adoption of resource-saving reforms in selected government programs through sound policy analysis initiated from the MOF.

Objective 5: Increased efficiency in trading across borders.

One higher-level objective of the fiscal reform program will be to lower the annual fiscal deficit to a level that will be sustainable by Jordan and consistent with a safe level of public and external debt.

The component of the project to develop ROB and to improve value for money through better public financial management is expected to have linkages to other sectoral USAID activities in Jordan. Ministries that support education, health, and other public services will be expected to improve the formulation of their objectives during the annual GOJ budget process and to reallocate their future program efforts based upon the results that are achieved by different programs within their ministry. In addition, USAID activities in other sectors that contribute to GOJ generation of non-tax revenue (e.g., removal of water subsidies) will contribute to the higher-level objective of FRP II.

a. Tax Revenue Mobilization Component

- 1. Tax Policy.** FRP II will provide the MOF with tax policy advice to prepare amendments to tax legislation. (Key features of the 2009 law are expected to include lower income tax rates and tools for better enforcement of the income tax.) FRP II will also provide advice to the MOF and GOJ regarding other aspects of tax policy in connection with Component c.
- 2. Tax Administration.** Assistance will be provided to the Income and Sales Tax Department (ISTD) to further improve its tax administration functions. This includes but not limited to a) improving taxpayer services and b) informing taxpayers and c) training ISTD employees on the new law. Assistance will be provided in the areas of:
 - Implementation Planning and Transition - The new tax code will introduce many changes in rates, deadlines and required operational activities of the ISTD.
 - Administrative enhancements will include new systems and procedures for Taxpayer Services (such as expanding e-filing and information outreach) and implementation of the new tax code, increased focus of Audits on non-compliant taxpayers, and improved and faster techniques (under the new tax code) for Enforced Collections of unpaid tax obligations.
 - Modernization and improvement of all IT applications so that management control and monitoring is more effective. This will fully utilize the data ISTD has and organize it into a more effective system.
 - Formulation of, and assisted with implementing, a proposed new staffing structure for ISTD. The IMF has recommended to “evaluate the HR implications of its tax administration reforms and develop a plan to ensure the optimal mix and number of staff for the reform of ISTD.”

- Training for managers to implement audit functions procedures in a consolidated manner; for taxpayer services managers; and for others.
- Implementation of a performance measurement system for audit and collection activities.

The results of assistance for Components a.1 and a.2 are expected to include: better compliance by income taxpayers (such as larger numbers of corporate tax filers, and, above the tax-exempt threshold, larger numbers of individual income tax filers) and improved efficiency of tax administration (such as higher audit yields).

3. Property Tax Improvement - Assistance will be provided to the Department of Land and Surveys (DLS) of the MOF and the Municipality of Greater Amman in order to improve the fairness of assessments and the potential level of revenue provided by property taxes. Since USAID has not yet conducted a needs assessment of the DLS, the Contractor will conduct an in-depth assessment of the property registration system, the staff and procedures of the DLS and recommend to USAID a program of technical assistance, training, and other support that will be appropriate over the life of the project.

In order to improve the property tax collection process, the contractor will develop a Computer Assisted Mass Appraisal (CAMA) system on a pilot basis in a number of national land and survey districts so that mass property valuations can be performed. The CAMA system will provide a simple, transparent basis for determining market values of real estate for purposes of:

- DLS determination of the real estate transfer and registration tax (10 percent of the MOF-assessed value for transfers; a 1.0 percent fee applies for registration of mortgage liens; etc.)¹ and
- Municipality determination of annual property tax (which is currently prescribed to be 18 percent of the municipality's estimated annual rental value of the property).

A second illustrative area of assistance for the project is to help DLS develop and implement new approaches to training of its newly recruited and existing professional staff – approximately 200 land registration officials (law graduates) and 250 surveyors – which are subject to high turnover.

Two of the desired results from that new approach are expected to be:

- more limited grounds for taxpayer appeals of assessments, and hence reduced opportunities for corruption and favoritism in the assessment-appeals process, and

¹ Such DLS collected taxes totaled JD 380 million in 2008 but are expected to be somewhat lower in the future, as real estate transactions subside from the record rate of 2008.

- placement of both MOF and municipal real estate assessments on a common “market-value” basis, to eliminate the current practice of separate, duplicative appraisals by the two levels of government.

b. Public Financial Management Component

1. Improve Government Budget Planning and Administration - Technical assistance will help MOF continue the improved implementation of ROB. This will include focused efforts to train budget analysts within the General Budget Department (GBD) (currently numbering approximately 40) and counterpart line ministry staff in:

- Issue Analysis - GBD budget staff will be trained to develop issue analyses and options for resource allocation with the aims of improving public service effectiveness, efficiency, and equity – within budget constraints.
- Budget Format and Monitoring- Assistance will be provided in continued development of the annual budget document format with improved performance monitoring, such as through mid-year performance reporting.
- Program Budgeting - Improving the presentation of budget objectives within government ministries is particularly important for the development of a more policy-focused review of budget issues by the Government and Parliament.

The program for training of budget analysts for the GBD will need to take into account the relatively high rate of turnover of staff that has been occurring – especially among the most highly qualified analysts who have been attracted to higher paid jobs in the Gulf. Additional areas of assistance for Improved Budget Administration include but are not limited to:

Decentralization - To adapt to new policies for decentralization (now under discussion within the GOJ). In order to permit more local control over spending priorities without exceeding the overall budget constraints on the ministries, the GBD will need to introduce new standards and procedures for regional allocation (by line ministries) for resources to support basic public services.

Government-wide application of the e-procurement - While most GOJ ministries and agencies have primary responsibility for developing and managing their procurement programs, the MOF has overarching needs to evaluate independently their performance and to recommend correction of shortcomings as the e-procurement system evolves. One area of attention will be the integration of the procurement activities with the GFMS that agencies will be learning to use.

Through ROB Component b.1, methods will be developed to define the work processes, the resources, and to define desired outputs and their outcomes at an earlier stage in the annual budget process. The result will be improved delivery of public services and more efficient use of public financial resources.

- 2. Implement GFMIS.** The GFMIS Program Management Office will become the responsibility of the Contractor. They will provide ongoing technical assistance/support services for a) the system now being tested at six pilot sites, b) completing the change management activities, c) implementing the system at all government ministries and departments, and d) training MOF staff to manage the system after the external contractor, Intracom IT Services, departs at the end of 2010.

Following the implementation of the GFMIS in the planned 30 sites, the Contractor will provide additional training or assistance to MOF in the uses of the GFMIS – for example, on how to use the GFMIS records for the conduct of audits.

Results of Component b.2 will include improved formulation of targets, improved annual measurement of performance, and improved accountability at major line ministries (such as Health, Education, and Public Works) that account for large shares of the national budget.

- 3. Debt Management -** Assist the MOF in developing a debt management strategy, assess weaknesses and provide assistance to implement improvements in the Public Debt Department and improve the MOF's monitoring and management of Jordan's public and external debt.

- 4. Capacity Building and Policy Advisory Support to Establish a Capital Projects Unit -** A major new aspect of the USAID technical assistance for Improved Budget Planning, to begin during 2009-10, will be the formation of a new high-level unit within the Office of the Minister and the MOF Secretary General to scrutinize and evaluate major, long-term investment projects that have multi-million dollar budget costs. This unit would mobilize experts with a high degree of technical expertise – for example - in the engineering, maintenance, financing, and cost-recovery aspects of a major water-supply project to monitor and report on progress.

The deepening of reforms in public financial management and reporting will, in turn, bring about sustained improvements in government effectiveness. FRP II will develop and report measures for such government effectiveness for strategic sectors and institutions, while Jordan's overall ranking in the World Bank's Government Effectiveness Indicators will be expected to rise.

Due to the fast-shifting political and economic environment in Jordan, mainly affected by regional instability and the impact of the global financial crises, the FRP II will respond to the needs of and requests by the MOF to improve public financial management and assist in the implementation of IMF and World Bank recommendations when possible.

c. MOF Economic Policy Analysis Capabilities Component

- 1. Policy Advisory Support to the Minister on Macro-fiscal Policy.** FRP II will supply senior economic policy analysts to lead research and to provide polished and authoritative analysis of public policy issues that the Minister of Finance will need to

present to the Cabinet of Ministers, the Parliament, or at other policy forums. Goals for the MOF from this task include but are not limited to: strengthened strategic planning; improved capability to market ideas effectively; improved legal drafting capabilities; and the ability to plan and oversee the implementation of reforms.

Illustrative areas of focus may include but are not limited to:

- Quantification and analysis of tax expenditures (implicit subsidies resulting from exemptions of tax obligations) that are often inefficient but go unnoticed;
- Assessment of needs for reform of payroll systems and development, monitoring, and/or implementation of electronic procurement and centralized Payroll Management;
- Assessment and proposals for reform of the public retirement system (e.g., studies toward avoidance of an excessive future burden of retirement benefits on the budget).

Desired results from Component c.1 will be the delivery of economic policy options and proposals that the MOF will use to promote policy changes to achieve:

- sustained savings in budget resources,
- improved delivery of public services, and/or
- reduced economic distortions within Jordan's economy.

- 2. Capacity-building for the Macro Fiscal Unit (MFU)** - To complement the tools for tax analysis and macro forecasting developed under JFR I, the MOF must develop an effective plan for further recruitment and training of professional staff in this small unit within the Directorate for Studies and Economic Policies.

The Contractor will need to conduct an assessment of: a) skills of the existing MFU staff; b) the existing tools including those developed or improved during JFR I (micro simulation models, a medium-term expenditure framework model); c) additional models and tools that may be needed; and d) current plans for recruitment and training of new staff. Based on that assessment, the Contractor will recommend to MOF and USAID a short- and medium-term work plan for recruitment, training, and technical assistance support to the MFU.

One of the objectives for Component c.2 is to improve the skills of existing and newly recruited staff to use and to adapt the use of tools that are now available to the MFU to provide impact analysis for policy options to help the MOF make informed decisions. A longer term objective is to develop stronger MOF in-house capacity to produce polished reports that provide sound, quantitatively grounded analysis of public policy issues.

d. **Customs Administration and Trade Facilitation Component**

1. **Customs Administration.** The customs component of the FRP II project will build upon the work of the two-year MCC program, completed in January 2009, and assist the MOF Department of Customs to improve the speed of export and import deliveries (including pre-shipment and pre-arrival procedures) and to reduce the costs borne by exporters and importers. Illustrative interventions include but are not limited to:
 - completing the implementation of the Single Window Program at a) all seven of the pilot customs centers², b) at additional customs centers and c) assist the identification and process of GOJ removal of remaining obstacles (e.g., border clearance procedures of non-MOF departments and ministries) that delay exports and imports. This includes the completion and roll out of the integrated risk management system at the Sahab and Aqaba Special Economic Zone customs centers;
 - upgrading and integrating the Customs ICT systems;
 - training and strengthening the capacity of Customs and other border officials (for example, in implementation of World Customs Organization and World Trade Organization standards as well as best practice human resources standards); and
 - enhancing the partnership between Customs and the private sector.
2. **Trade Facilitation.** To complement the efforts of Customs toward reducing obstacles to trade, the FRP II project will also provide assistance to other agencies that have border-control responsibilities. Such assistance to the GOJ may include a survey and assessment of the standards and procedures that private traders now face, in order to develop recommendations for changes that would help to speed up trade deliveries, improve access to markets, and/or reduce the costs faced by exporters and importers. Such an assessment would likely include a review of important current and prospective categories of Jordan's trade that are subject to review and approval by the agencies responsible for standards and metrology, agriculture, health, and food and drug products.

Results of Component d. will include:

- effective implementation by the GOJ of Single Window procedures at Customs centers that account for the bulk of international trade;
- significant reduction for Jordanian exporters and importers in the average times from order to delivery for their traded products;
- improved customer service on the part of Customs; and
- improved human resources standards and practices.

² See report by ARD, Inc, "Single Window Implementation Review," December 5, 2008.

e. **MOF Structure and Operations Component**

Important illustrative elements of this component are expected to include but are not limited to:

- an assessment and recommendations for restructuring of the MOF to reduce the number of departments reporting directly to the Minister and to consolidate and enhance the effectiveness of current, duplicative departments (e.g., for audit and internal control)
- Improved budget procedures, in cooperation with the Ministry of Planning and International Cooperation and the line ministries, for government capital spending - to integrate with current spending and to reflect the ROB process;

An important need within the revamped MOF structure will be improved communication of the strategies and measures that the MOF will be proposing and implementing - to improve public financial management, the performance of Customs and other border-management agencies, and the overall effective delivery of public services. To supplement (and indeed to lead the respective MOF departments in) this communication effort, the Office of the Minister and the Secretary General will need to be “staffed up” for more effective consultation and outreach than in the past – vis-à-vis the Cabinet, the Parliament, key stakeholder, and the public – in order to forge a more successful consensus among stakeholders on important reforms.

A framework for proposing and achieving results from Component e. will be developed jointly between USAID and MOF, with the assistance from the Contractor.

C.3 Gender

The Contractor will be required to undertake a detailed gender analysis that identifies ways to mitigate gender issues affecting this project. Further, the Contractor will integrate gender considerations into all planned project deliverables.

END OF SECTION C