The Mashreq region and, in particular, the countries of Iraq, Jordan, and Lebanon are facing major policy and fiscal challenges to growth and job creation. The Maximizing Finance for Development (MFD) approach aims to optimize the relationship between the public and the private sector. It would achieve this in two major ways: (i) maximizing the volume of investment and commercial finance that can be crowded in by effective reforms coupled with targeted deployment of scarce domestic and international public funds; and (ii) efficiency gains with extensive involvement of the private sector to expand and improve public services while minimizing the burden on the national budget and tax resources.

The World Bank Group seeks, for the first time, to develop and implement the MFD agenda based on a standardized subregional framework. This note describes the prerequisites recently put in place in Jordan for effective MFD implementation through a combined public investment management (PIM) and public-private partnership (PPP) policy framework.

WHY SELECT MFD?
Given its location and historical role in the Middle East and North Africa Region, Jordan is highly exposed to exogenous shocks. They arise through spillovers from regional conflict, most recently from Iraq and Syria, as well as fluctuations in commodity prices and shifts in geopolitical relations. The effects from these shocks are magnified as a result of the country’s small size and close proximity to major disturbances.

Jordan needs good social and economic infrastructure to support its economic growth, support private sector development, and meet the needs of its growing population. Jordanians now enjoy high rates of access to infrastructure services, including electricity (nearly 100 percent), improved water services (99 percent, despite being one of the most water-scarce countries in the world), and improved sanitation (97 percent). However, the perceived quality of its infrastructure has declined from a rank of 34 out of 134 countries in 2009 to 63 out of 137 countries in 2018. Essentially, infrastructure investment did not keep pace with demographic growth and the influx of refugees.

With a limited ability to undertake public investment from its own fiscal resources, Jordan supplements its modest domestic resources with large volumes of concessional aid. Relative to the size of its economy, it is one of the leading recipients of official development assistance for infrastructure, which was 2 percent of gross domestic product (GDP) in 2017. State-owned utilities have limited access to commercial finance and rely on state budget support funded largely from development assistance.

Jordan also attracted large volumes of investment through PPPs — an estimated $9 billion in more than 30 transactions since 2004. Power distribution was privatized long ago, and the country boasts world-class PPP transactions, such as the Queen Alia International Airport, the Aqaba Container Terminal, and multiple renewable-energy projects supported by the International Finance Corporation and the European Bank for Reconstruction and Development. By 2015, nearly one-third of the public sector’s investment portfolio was procured through PPPs compared to 6 percent on average for emerging economies. As of 2018’s end, Jordan’s PPP capital stock was estimated to surpass 22 percent of its GDP.

Yet, the efficacy of infrastructure investment declined. The incremental capital output ratio more than doubled since 2007, indicating a failing efficiency of investment. Past success in attracting private finance masked vulnerabilities in overall infrastructure investment planning. Given the variable quality of investment, the fiscal implications of projects need to be more carefully analyzed. Sectoral investment plans have not included capital projects with a strong appraisal and selection...
framework, and PPPs have not been implemented within the bounds of a suitable development and monitoring framework.

Previously, the government of Jordan employed two separate work streams to improve the value for money of infrastructure investments. One stream focused on strengthening the institutional framework for public infrastructure investments through PIM. The other stream focused on strengthening country capacity for PPPs. These streams needed to be effectively integrated to create a seamless process for selecting priority investment projects that are economically viable, at which point they could then be screened for PPP suitability.

Under the 2019–2021 MFD strategy for the Mashreq region, the World Bank Group seeks, for the first time, to develop and implement the MFD agenda based on a standardized subregional framework. The new approach aims to optimize the relationship between the public and private sectors in two major ways:

- maximizing the volume of investment and commercial finance that can be crowded in by effective reforms coupled with targeted deployment of scarce domestic and international public funds; and
- (ii) achieving efficiency gains from the more extensive involvement of the private sector to expand and improve public services while also minimizing the burden on the national budget and tax resources.

The MFD subregional initiative employs two drivers for change. It provides an incentive for policy reforms and new financing tools to address market failures that impede the mobilization of new sources of financing and capital investment for growth and jobs. It also has the potential to make an impact through improved governance and partnerships for policy implementation. Effective collaboration and partnerships are critical, especially given how regional insecurity further complicates the challenges of growth and private sector job creation in Mashreq countries.

The main challenge to initiation in Jordan concerns insufficient capacity in planning and capital budgeting in critical areas, such as project management, procurement, and land use. Using a cascade algorithm as a stepwise diagnostic process is an important step to determine MFD’s potential, including constraints and opportunities, in a country or sector.

The first step is to identify the policy, legal, and institutional reforms needed to create a conducive enabling environment for private financing flows. Until PIM institutions and regulatory systems are well-established, both the public and private sectors will likely be unable to implement the algorithm. The MFD agenda will require an upgrade of the country’s PIM system. A robust planning system is a prerequisite for effective MFD implementation in Jordan.

RATIONAL FOR A POLICY FRAMEWORK

The effective delivery of public capital is integral to achieving the goals of “Jordan 2025: A National Vision and Strategy” and the resilience components of the Jordan Response Plan. Jordan 2025, a 10-year blueprint for sustainable growth and prosperity, envisions Jordan as an economic gateway to regional markets, taking advantage of free trade agreements with several countries. Its primary objectives are to address the challenges of higher living costs while reducing poverty and unemployment as well as ensuring enhanced prosperity. Therefore, improved PIM remains critical for Jordan’s ability to convert its financial support from abroad — and its own budgetary resources — into more productive capital.

The most significant challenge is achieving a qualitative improvement in public investments. To attain more accelerated, export-led growth, Jordan needs to improve its primary infrastructure and the efficiency and effectiveness of its public investments. Fiscal space must exist or be created if extra resources are to be made available for productive government spending. Thus, PIM — public investment project (PIP) and PPP — must comply with quality formulation and evaluation standards and be controlled and monitored under uniform and transparent rules. Adequate public participation of both public institutions and civil society, including interest groups, nongovernmental organizations, and private sponsors, ought to be ensured.

A formal system of PIP-PPP operations appraisal could provide the basis and conditions for the government to move forward with establishing a rolling 3-year Executive Development Plan. Only those initiatives that are demonstrably the most economically attractive for the society as a whole would be considered. This approach would allow for the transformation of investment ideas into PIP and PPP decisions and projects.

1 The Jordan Response Plan for the Syria Crisis is a three-year plan that seeks to address the needs and vulnerabilities of Syrian refugees and Jordanian people, communities, and institutions affected by the crisis.
2 Fiscal space refers to room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.
3 The need to screen, appraise, and select PIP and PPP operations that will create the highest economic and social returns requires government officials in Jordan to employ state-of-the-art practices and techniques in public investment preparation and appraisal.
This kind of a system would be designed to guide projects through the project life cycle, starting with the identification of a project idea or concept and ending with the final handover to operations and evaluation. The development cycle is a continuous and dynamic process with much overlap, interaction, and feedback among its various phases. Considerable interaction also takes place between the implementation and evaluation phases, as lessons are continuously used to modify project operations.

ADOPTING A POLICY FRAMEWORK

In 2019, the government developed and adopted a PIM-PPP policy to strengthen the robustness and reliability of its PIM system for both public sector institutions and private sector stakeholders. It seeks to promote a unified approach at the upstream points of identification, selection, and registration for preparing and implementing investment projects. This policy is expected to have broad application, avoiding any exemptions.

The policy framework and related laws and regulations apply to the following:

- National and subnational public sector entities and their agencies (i.e., contracting authorities) when planning and implementing public investments.
- PIPs, whether wholly or partially funded through public finances. Likewise, they pertain to projects across all sectors considered for implementation through PPP arrangements, in accordance with the PPP-related law, regulations, and guidelines.

Figure 1 summarizes the overall PIM (PIP + PPP) policy framework.

**Figure 1. Combined PIM-PPP Policy Framework**

Investment priorities such as Jordan 2025 and EDP

Contracting authorities (ministries, departments, and agencies)

Operation and management of the National Registry of Investment Projects

PPP Directorate/PMO

Central PIM Unit/MoPIC

Operation and management of the National Registry of Investment Projects

Annual budget (PIP and PPP)

PPP Law

PPM Law and Public Procurement Regulation

Council of Ministers Decision

Public funding of PIP

Partial public funding of PPP and partial or full private sector financing

MoF recommendation (fiscal and contingent)

Project Development Fund

Note: EDP = Executive Development Plan; MoF = Ministry of Finance; MoPIC = Ministry of Planning and International Cooperation; PFM = public financial management; PIM = public investment management; PIP = public investment project; PMO = Prime Minister’s Office; PPP = public-private partnership.

The policy’s main purpose is to provide an overarching framework for the efficient and effective management of public investments encompassing project planning, selection, development, implementation, management, and monitoring to ensure value for money and the optimal use of public resources. The policy details the roles and responsibilities of the various institutions responsible for implementing the framework through a PIM-PPP process (see figure 2).
Figure 2. PIM-PPP Process

FOUR PHASES OF THE PROCESS

1. **PPP Application and Registration**
   - Project initiation by CA which submits project concept note in NRIP
   - CA conducts pre-feasibility study
   - Ministerial Committee reviews pre-feasibility study and recommends whether to proceed with it/TA
   - CA conducts feasibility study with PPP Directorate (and transaction advisor if need be)
   - PPP Directorate reviews PPP feasibility study and provides recommendation
   - TCFC reviews feasibility study and drafts FCCL report
   - Recommendation by Minister of Finance after review of FCCL report and TCFC recommendation
   - CoM reviews pre-feasibility study and approves funding to proceed with feasibility study and hiring TA
   - Approval or disapproval of feasibility study and FCCL report by CoM through Ministerial Committee

2. **PPP Preparation**
   - CA prepares and implements tender documents and process
   - CA negotiates contract
   - Recommendation by Minister of Finance after review of FCCL report and TCFC recommendation
   - Recommendation by Ministerial Committee and contract approval or disapproval by CoM
   - CA signs and executes PPP contract

3. **PPP Tendering and Procurement**
   - Contract review and recommendations by PPP Directorate and TCFC (update of report on FCCL)
   - Recommendation by Minister of Finance after review of FCCL report and TCFC recommendation
   - Recommendation by Ministerial Committee and contract approval or disapproval by CoM

4. **PPP Implementation**
   - CA manages PPP contract, monitors PPP and FCCL, and reports data for FCCL in database and to MoF
   - PPP Directorate is custodian of PPP project data and PPP pipeline database
   - Official registration of project in NRIP

Note: CA = contracting authorities; CoM = Council of Ministers; FCCL = fiscal commitments and contingent liabilities; MoF = Ministry of Finance; NRIP = National Registry of Investment Projects; PFM = public financial management; PIM = public investment management; PIP = public investment project; PMO = Prime Minister’s Office; PPP = public-private partnership; TA = technical assistance; TCFC = Technical Committee on Fiscal Commitment.
The policy framework is directed by the guiding principles of fairness, transparency, and competitiveness, and is specifically intended to:

- Ensure implementation of priority investment and infrastructure projects are aligned with the government’s development objectives, national priorities, and needs;
- Promote priority projects and partnerships that are affordable for the government and end-users, representing value for money;
- Provide a standard PIM approach to facilitate identification, selection, appraisal, and project registration in the National Registry of Investment Projects (NRIP);
- Outline a PPP project cycle that is rooted in the PIM process;
- Establish a structured, institutionalized, uniform, and predictable approach to PPPs that will help enhance the country’s international competitiveness and attractiveness for private sector investments;
- Ensure transparency in the structuring, procurement, and implementation of PPP projects;
- Support the development of viable and feasible projects as PPPs that offer reasonable returns to the private sector, while also protecting the government from fiscal risks;
- Clearly delineate the defined roles, responsibilities, and accountabilities of government stakeholders throughout the lifecycles of investment projects; and
- Establish technical and other support arrangements, including a Project Development Fund (PDF), to facilitate the selection, evaluation, structuring, and procurement of PPPs.

The Central PIM Unit, located in the Ministry of Planning and International Cooperation, is the central expert body for PIPs. It is expected to assist the contracting authorities in providing oversight and conducting technical and economic analyses of projects. The newly created NRIP is expected to represent the exclusive information system designed to support the PIM system in five ways. Each investment initiative will be registered by assigning a single, unambiguous identification number, which will accompany the project throughout its entire life cycle. Second, a database will be provided of PIPs at the national, subnational, and municipal levels, and for each sector. Third, the lifecycle of each project will be reflected and tracked using data and performance indicators designed and continuously updated by contracting authorities in consultation with the PPP Directorate. The NRIP will also facilitate aggregate or specific analyses of public investments, and lastly, facilitate project evaluation.

The PPP Directorate will be established within the Prime Minister’s Office under the amended PPP law. The Ministerial Committee will be the directorate’s focal point for advancing projects along the PPP project life cycle. The Ministry of Finance will have strong oversight when assessing and managing PPP-related fiscal commitments and contingent liabilities (FCCL). According to the amended PPP law, the Minister of Finance will announce the fiscal affordability ceiling for PPPs at the beginning of each fiscal year.

A PDF, to be operated under the amended PPP law, would focus on facilitating the selection, prioritization, tendering, and evaluation of PPPs. As such, it would fund preparatory studies (for example, feasibility studies and FCCL reports), transaction advisory services, and capacity-building measures. Importantly, this initiative also incorporates best international practice. To ensure its success, national authorities now need to develop robust, professional government arrangements as well as a suitable business plan to allow the PDF to become self-financing in the future.

**MFD SUSTAINABILITY**

According to the 2019–2021 MFD strategy, the sustainability of the MFD agenda requires attention to the distributional impact it may have on vested interests and the most vulnerable members of the society, as well as its perceived fairness and inclusion. Thus, an assessment of the MFD agenda would need to take into consideration the potential “winners and losers.” It should also contribute to developing wider societal communications to highlight the positive welfare effects of private investment in the infrastructure and social sectors, including measures to mitigate any social risks. Effectively tackling these distributional factors will be essential to the success of the new model of social contact offered by the MFD agenda.

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4 To become a module of the Government Financial Management Information System, the National Registry of Investment Projects will be managed by the Central PIM Unit of the Ministry of Planning and International Cooperation with the technical support of the Prime Minister’s Office and the PPP Directorate, which is responsible for PPP-related arrangements.
REFERENCES


