



Hashemite Kingdom of Jordan

Ministry of Finance



FISCAL DECENTRALIZATION IN JORDAN

STRENGTHENING THE ROLE OF GOVERNORATES IN IMPROVING PUBLIC SERVICES



Fiscal Reform and Public
Financial Management Activity (FRPFM)

Letter from the Prime Minister

The current decentralization initiative comes as part of the comprehensive reform process led by His Majesty King Abdullah II since taking the reins of leadership. The royal vision has focused on directing successive governments on the importance to empower citizens in the governorates to participate in decision making process through implementing decentralization and enabling local communities to identify their development needs.



As an important step to achieve this vision, each governorate must have a council that is directly elected by the citizens of these governorates, so that this council, along with local and municipal councils, to determine their governorates development priorities, then develop plans and programs accordingly rather than limiting this task to the decision-makers at the center. Citizens of the governorate are aware of their interests and are better able to determine their needs.

The implementation of decentralization puts the Kingdom at an important turning point. We will witness increasing popular participation in the decision-making process that will yield improved governorates capacity for development and planning for a better future. Governorates, through their elected councils, will also be held accountable before the central government and the citizens in a way that will strengthen the basis of monitoring and evaluation of the implemented projects and programs aiming at improving services for citizens.

Decentralization will be implemented through a phased approach that will take several years, accompanied by comprehensive reviews and improvements of laws and legislations, the transfer of some government functions and services to the governorates, rearranging national objectives, priorities, and mechanisms in order to prepare, execute, and monitor budgets. Administrative frameworks will be established to help with the implementation process. Moreover, a platform will be established to enhance citizen participation in development-related decision-making at the local level. This, of course, requires the government to make steps, plans, and do its best in a smooth coordination of the transition to decentralization in order to avoid any disruption or obstruction of government services to citizens.

As an important step towards this goal, successive governments have formed several ministerial and executive committees in order to develop perceptual, proposal, legislative, regulatory, and procedural measures to achieve the necessary requirements for decentralization as follows:

1. Adoption of the Decentralization Law, based on which the first governorates councils' elections were held on 15 August 2017.
2. Preparation of the necessary regulations to support the implementation of the Decentralization Law (the governorate councils' rules of procedure, the modified system of the governorate councils' constituencies, and the governorate councils' fiscal system).
3. Preparation of a number of manuals to assist the governorates in carrying out their tasks (the guide to procedures for developing the needs manuals, the annual development plan for the governorate, and the governorates' budget preparation manual). Work is under way to complete the remaining necessary manuals relevant to budget execution and monitoring.

These achievements, though important, are only one step towards achieving decentralization in Jordan. The government will continue to work toward expanding this initiative in the coming years, in line with efforts to strengthen the capacity of the governorates in the fields of development, planning, and resource management.

This paper represents the government's roadmap and vision to implement the comprehensive concept of fiscal decentralization in the coming years. Its importance stems from providing the necessary information to citizens to enable them to express their opinions and participate with the government in the planning process to develop this initiative according to the vision and aspirations of His Majesty King Abdullah II.

Dr. Hani Al-Mulki
Prime Minister

Letter from the Minister of Finance

Considering the changing economic reality, and based on the best global practices aimed at promoting development in its comprehensive sense, managing the development processes should not be confined to the center. It is necessary to involve citizens in their regions in the development planning processes to achieve the goals set at the local and national levels.



It is time for the Kingdom to move to a decentralized system that meets the requirements of governance at the national and local levels, and promotes citizen participation in the decision-making process at the governorate level. This is one of the main objectives of the government's 10-year economic stimulus plan, which includes supporting the implementation of decentralization and reinforcing the participation of local communities in the preparation and execution of the state budget in an integrated manner with the system of macroeconomic policies. This will result in having the Ministry of Finance expend additional and intensive efforts to move the preparation, execution, and control of the state budget from the center to the various governorates of the Kingdom.

The Decentralization Law, which was adopted in 2015, and the regulations and instructions issued thereunder, in addition to the responsibilities of the Ministry of Finance in the management of public finance, are the basic pillars of the move towards the implementation of fiscal decentralization in the Kingdom. The Ministry of Finance is thus responsible for accelerating the process of developing and modernizing the government's financial management systems, in addition to the relevant legislation, instructions, manuals, and procedures. The Ministry will take all necessary steps to manage this change and meet this challenge. It will do this through capacity building toward implementing fiscal decentralization, re-engineering of financial operations systems, dissemination of knowledge, and the training of relevant entities working in the financial field. In order to facilitate the successful implementation of fiscal decentralization, governorates must be empowered to plan and implement their budgets effectively in accordance with drawn-up plans.

Through the Executive Committee for Decentralization, the Ministry has managed to implement a number of important requirements that will pave the way for the implementation of fiscal decentralization in the Kingdom, which include:

Completion of the governorate budget preparation manual.

Establishment of the basis for determining the governorates' annual budget ceilings and the mechanisms of their execution, control, and follow-up.

Preparation of a roadmap (the Policy Paper) for the implementation of fiscal decentralization in the Kingdom.

This paper provides the government's vision and roadmap for fiscal decentralization. Further it identifies the areas that the ministry will focus on in the next steps of carrying out fiscal decentralization in full coordination with other entities of the Government of Jordan.

The Ministry of Finance is aware that decentralization is new to the Kingdom and realizes its impact on financial resources. It believes that this paper provides citizens, stakeholders, and donors with information about the government's vision and direction regarding the implementation of decentralization within the overall framework of decentralization.

In conclusion, the Ministry of Finance looks forward to receiving your comments and opinions on the ideas contained in this paper and asserts that it will pay sufficient attention to them. Through this endeavor, we seek to realize the visions and aspirations of His Majesty King Abdullah II Bin Al Hussein to increase the participation of all citizens in making development-related decisions across the governorates of the Kingdom.

Omar Malhas
Minister of Finance

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Executive Summary

Introduction

Over the last decade, Jordanian citizens increased by 40.3% from 4.71 million in 2004 to 6.61 million in 2015. This growth has put a strain on the government's ability to respond to the needs of the citizens in the various governorates of the Kingdom. Further, the disparity in capital expenditures across the 12 governorates requires a more equitable distribution of resources and elevating the living standard to achieve welfare, stability, and development to citizens based on their economic, social, and intellectual needs. With the ratification of the Decentralization Law in December 2015, Jordan entered a new phase of political and economic reform to improve public service delivery to all citizens. The Governorate Councils elections, which was held on 15th August 2017 is the first step in the implementation of decentralization in line with the requirements of the Decentralization Law number 49 for the year 2015.

The Government of Jordan's seeks to implement decentralization mainly to achieve the best interest of the citizens. As a first step, the government created a Ministerial Committee and a central committee of which seven committees emerged, to cover all the aspects required for implementing decentralization. These aspects include:

1. Legislations
2. Institutional and organizational structure and manuals and procedures.
3. Institutional Capacity
4. Finances
5. Local development and services
6. Public awareness
7. Information technology

The Decentralization Law introduces a new level of decision making at the governorates' level. The governorates will take on the tasks of planning and ratifying the prioritized development projects and will prepare and ratify the governorates' budgets.

Over time, decentralization will aim to give the governorates more financial and administrative powers so that they can implement programs and projects at the governorate level and provide selected government services. The focus of the governorate's executive council will be to ensure that the executive directorates in the governorate respond to and implement the priorities and programs defined by the governorate council.

The implementation of decentralization will require an active role for the Ministry of Finance to ensure fiscal decentralization is managed effectively in the governorates. Financial responsibility and authority will be transferred to the governorates, making them responsible for budget planning and preparation, as well as controlling and monitoring budget execution in a phased approach.

The main goal of this white paper is to establish the government of Jordan's approach towards developing and implementing fiscal decentralization in Kingdom's governorates.

Changing Roles of Government

Some roles related to strategic planning, monitoring, and implementation will be gradually transferred to the governorates. Naturally, this will require making some changes of the role of the central government in the process of planning and executing programs and projects and the delivery of public services.

The Ministry of Finance, in cooperation with the General Budget Department, will carry out all the necessary changes needed to meet the challenges resulting from the implementation of fiscal decentralization. In this regard, a Fiscal Decentralization Unit has been created in order to coordinate and oversee all fiscal decentralization activities and build the capacity of the ministries and the governorates in the field of fiscal decentralization.

The roles of the ministries will evolve over time from service delivery toward preparing policies, strategic plans, and regulatory

functions. This will lessen duplication in responsibilities and roles between the ministries and the governorates and will make the governorates closer to the people and more responsive to development priorities.

Attending to priority needs of the citizens will require governorates to develop the capacity to collect and analyze data at the governorate level that is needed for policymaking and communicating needs through the executive councils.

Governorates' responsibilities will be distinct from those of the municipalities and ministries. A clear distinction will enable the central government to adapt to its changing role and focus more on policymaking instead of focusing on service delivery.

Collaboration at the Highest Level within the Government

Achieving the overall goals of decentralization requires the effective collaboration of the respective ministries through the Ministerial Committee, which was established based on Cabinet decision number 161 on 16 June 2016 in cooperation with the General Budget Department to implement fiscal-related decisions, such as expenditures on the functions and services that will be transferred to the governorates. These include conducting an analysis of the financial effect of the transfer processes. The Ministry of Finance and the General Budget Department will seek to ensure that governorate budgets are based on equitable, transparent, and predictable criteria.

Core Building Blocks of Fiscal Decentralization

During the early years in the implementation of decentralization in Jordan, and since the governorates lack the capacities to execute their budgets, the line ministries will be responsible for planning and preparing budgets, based on the Decentralization Law for 2015. With time, the governorates will gradually be granted powers enabling them to carry out some functions, which the government will decide to move out of the center. Until then, the ministries will remain responsible for executing and monitoring the budgets.

Decentralization is implemented in a phased approach. There will be a direct role for the Ministry of Finance and the General Budget Department in setting the ceilings for the governorates (funding), in addition to setting the general framework for budget planning, execution, and financial audit and control. The Cabinet will decide which areas of expenditure (services / activities) will be transferred to the governorates in the future within the context of executing the budget at the governorate level.

Within the framework of fiscal decentralization, the Ministry of Finance and the General Budget Department will focus on implementing in a phased and measured process the four building blocks of fiscal decentralization.



Figure 1: Four building blocks for fiscal decentralization

Through this phased approach, the capacities and competencies of the Ministry of Finance, General Budget Department and Governorates in fiscal decentralization will be progressively built. This approach which focuses on the four main building blocks that must be addressed to establish the policy foundation and define the systems for fiscal decentralization at the Governorate level.

Implementation of fiscal decentralization will take several years and it will be executed in a clearly planned and phased manner to ensure no disruption takes place in terms of financing, budget execution, and service delivery to citizens.

The first building block consists of defining Expenditure Assignments for the services and activities which will be gradually transferred to the governorate so that the governorates carries them out instead of the central governorate.

The second building block, Funding, focuses on the sources of funding for the governorates' budgets, the mechanism for determining the total ceiling of the expenditures of the governorates, and the partial spending ceilings for each of these governorates, which are derived through an equation that takes into account a number of economic and social criteria.

The third building block will focus on a Budget Planning mechanism that enables the governorates to define their priorities and select their needed development projects.

Lastly, the fourth building block will develop Budget Execution protocols to ensure that each governorate is capable to execute and monitor its budget in a timely manner according to established policies and procedures.

Key Fiscal Decentralization Milestones

The Ministry of Finance has defined specific milestones for the coming years in its action plan for the implementation of Fiscal Decentralization:

Fiscal Year 2017

1. Establishment of the Fiscal Decentralization Unit at the Ministry of Finance and appointment of qualified staff to it (Completed).
2. Adoption of the criteria for determining the ceiling of total capital expenditure and the partial ceilings of the governorates. (Completed)
3. Determination of the governorates' capital budget ceilings through fair and clear criteria and formula by the Ministry of Finance / General Budget Department. (completed).
4. Preparation of «Manual of the Procedures for Developing the Needs and Annual Development Plan for the Governorate,» and the manual for draft budget preparation at the governorate level for the year 2018. (Completed)
5. Enabling the governorates to determine their needs and approving the governorate's draft budget for the capital projects for 2018 by the governorate council within the ceiling set by the Ministry of Finance / General Budget Department and within the concept of the project at the governorate level and the national level.
6. Adopting a plan to monitor and record all current and capital expenditures at the governorate level by the ministries.
7. Working to raise the level of coordination between governorates and municipalities through the Ministry of Finance in cooperation with the Ministry of Municipal Affairs and the Ministry of Interior in order to avoid duplication of funding and implementation of projects between the governorates and municipalities and ensure the effectiveness in determining the governorates' needs for development projects.
8. Adoption of the policies that will be implemented in the transfer of activities from the center to the governorates and including them within the 2019 budget and making the necessary legislative amendments.
9. Determining the scope of the activities whose execution will be transferred from the center to the governorates throughout the 2019 budget.
10. Determine the mechanism and tools for the implementation of the activities of the new areas of expenditure to be transferred to the governorates, including the dissemination of the GFMS system and the necessary resources in coordination with the Ministry of Interior.
11. Training the relevant authorities in the governorates on the procedures of preparing their draft budgets. (Initiated)
12. Holding meetings with the governorate councils to inform them of the mechanism of preparing the governorate budget according to the approved manuals.
13. Continuing the process of implementing the governorates' capital budgets for the year 2018 in accordance with the provisions of the financial regulations and instructions in force by the ministries in the center until the training of cadres is completed and the necessary regulations are amended to enable the governorates to carry out the activities that the Cabinet decides to transfer from the center to the governorates.

Fiscal Year 2018

1. Holding meetings with the governorate councils to inform them of the concept of fiscal decentralization and expected future developments.

2. The Governorates will continue shouldering the responsibility of determining their development needs and selecting their capital projects for the year 2019.
3. Governorate councils will approve the 2019 budget within the ceilings approved by the Ministry of Finance /General Budget Department that will incorporate expenditures related to the governorate administration, capital projects budget, and new expenditures on activities whose execution the government will decide to transfer to the governorates.
4. Preparation of the general budget for the year 2019 incorporating the detailed budgets of 12 governorates, including the financial statements of the activities of new expenditures that were transferred to the governorates.
5. Expanding the range of activities and new expenditures that will be transferred from the center to the governorates.
6. Reviewing and developing the equation on which the distribution of the governorate's expenditure ceiling is based to take into account the activities of new expenditures that were transferred to the provinces governorates.
7. Providing the necessary capacity for data collection and analysis, budget planning and implementation, and following up on the implementation of priority capital expenditure projects in cooperation with the relevant authorities.
8. Adopting a comprehensive plan to train the relevant authorities in the governorates to implement budgets and control them.

Fiscal Year 2019

1. Continuing to review and develop the equation on which the distribution of the governorate expenditure ceiling was based to take into account the activities of the new expenditure areas that were transferred to the governorates.
2. Continuing to expand the range of activities and new expenditure areas that will be transferred from the center to the governorates for subsequent years.
3. Implementation of the procedures of control and internal audit on the execution of the budget in the governorates in 2019.
4. Governorate councils will approve the budget for 2020, while taking into consideration new expenditure assignments that were transferred to the governorates and the suggested mechanisms and tools to fund these expenditure assignments and send them to the Ministry of Finance / General Budget Department.

The Challenges Ahead

a. Transformation of the Governorate from Singular to Dual Accountability

One of the most important challenges that will face the process of fiscal decentralization is to give the governorate administrative and financial powers necessary to implement programs and projects at the level of the governorate to have the ability to provide selected government services, because the governorate in this case will be responsible to the citizens who elected the governorate council on the one hand and responsible to the central government on the other. In order to implement the concept of fiscal decentralization successfully, the government should make the necessary efforts to build capacities in the governorates and provide qualified and trained human cadres.

b. Integrative Work of Government Entities

The success of fiscal decentralization will also require strengthened relationships and integrative work between the institutions of the central government, the governorate administration and the governorate councils.

c. Building Governorates' Institutional Capacity

To ensure a smooth transition to decentralization, the necessary institutional capacity must be built in governorates, governorate councils and local development departments.

d. Phasing Implementation of Decentralization

DECENTRALIZATION GOALS

- Broaden responsibilities of local administrations
- Increase citizens' participation and empower them to identify their priorities
- Distribute development gains more equally and effectively

His Majesty King Abdullah II, Speech from the Throne, 3rd Ordinary Session of 17th Parliament, 15-11-2015

The hurry to implement fiscal decentralization in its comprehensive form without taking into consideration building the capacities of the governorates, training the staff, and amending the regulations and financial systems is a major challenge that needs to be given attention.

To meet this challenge, the government has prepared a work plan divided into gradual stages of time through which the responsibilities of the different ministries and governorates will be defined and coordinated.

e. Raising Awareness

Decentralization requires the strengthening of coordination between all stakeholders, governmental and non-governmental, donor institutions, national (central government) and local (governorates), and involving citizens, civil society organizations, and private sector institutions during dialogue processes.

The Government's plan is to implement a detailed awareness strategy based on a transparent transition to decentralization, through which stakeholders' views will be taken to improve transition procedures.

Fiscal decentralization will continue to evolve over several years, requiring a systematic review of the methodologies followed and what has been achieved at each stage of implementation. Citizens and stakeholders will have to be involved to adjust methodologies to suit the needs of Jordan and the citizens.

Introduction

This document sets out a broad range of reforms that government plans to introduce to help institutionalize fiscal decentralization. It aims to accomplish the following:

1. Provide a comprehensive overview of the current situation and possible actions that the government may consider for implementing fiscal decentralization.
2. Provide a means to stimulate central and local level dialogue and consensus building on what actions can be implemented to support fiscal decentralization efforts in Jordan.

This White Paper examines the main areas of fiscal decentralization and offers an assessment of the current situation and main areas that must be focused on. These issues are addressed in the following key sections.

1. Background on Decentralization
2. Fiscal Decentralization
3. Decentralization in Jordan
4. Fiscal Decentralization roadmap
5. Capacity building to implement Fiscal Decentralization
6. Citizen's engagement
7. The Challenges Ahead

Background on Decentralization

What is Decentralization?

Decentralization is the transfer of authority and responsibility for public services from the central government to local administrations because they are closer to citizens and are more aware of their priorities and needs, making it in a better position to support sustained development and elevate the benefits and services offered at the local level, in addition to the overall reinforcement of transparency and accountability. Based on the territorial organization of Jordan, decentralization may be implemented at the smallest unit of local administration – municipalities – as well as at the intermediate regional level -the governorates.

Decentralization rests on three building blocks:

- **Political decentralization**, which is concerned with defining the political system, the form of the regional councils, the mechanism of their election, and their number.
- **Administrative decentralization**, which defines the structure and setup of the required local administration. It also defines the organizational relationship, powers and responsibilities of all administrative structures.
- **Fiscal decentralization**, which establishes the fiscal authority its role in the preparation of policies and planning, as well as the appropriate allocation of available funds to effectively carry out activities and spending.

De-concentration: Central government disperses some powers and administrative and fiscal responsibilities to the organizational units in the governorates (the directorates and departments) under the supervision of the central government, which is the adopted style in Jordan.

Delegation: Central government transfers responsibility for decision-making and administration of public functions to local administrations, which are accountable to the central government, with some moderate local control of administrative tasks.

Devolution: Central government transfers all decision-making powers in finance, administration, and management to the local authority.

Providing the governorate with the necessary administrative and financial powers to implement programs and projects at the governorate level and provide selected government services for the benefit of the citizens of the governorate is not an easy process and needs many years. Accordingly, the government will decentralize gradually to ensure achieving the overall objective of improving the level of services provided to citizens and increasing their participation. The first phase of decentralization will



include the delegation of powers to identify and select new capital projects from the center to the governorates, and in the subsequent stages, other powers will be transferred to the governorates gradually.

How Does Decentralization Bring Value to Citizens?

Over the past decades many countries have institutionalized fiscal decentralization at the level of municipal and regional governments.

Local administrations – governorates and municipalities - are closer to the people, have better knowledge and information about their priorities and needs. Thus, they are more able to achieve development and identify areas where the quality and mechanism of delivery of government services should be improved.

Through the implementation of the Decentralization Law No. 49 (2015), citizens in governorates will be able to effectively participate in the decision-making process. Jordan’s decentralization goals include:

- Increasing community participation: this means that the local community participates in the priority projects and these projects are effectively implemented, increasing popular engagement¹.
- Best utilization of available resources: managing public money through preserving the distribution of the limited resources in the best manner within the various priorities.
- Justice in distributing resources: to ensure the welfare, stability of the citizens in line with their needs and their economic, social, and intellectual abilities.
- Improving local government capacity: the knowledge and capacity of elected and administrative officials will increase over time as their responsibilities increase and they will successfully implement locally-identified priorities.
- Improvement of the quality of public services: the quality of public services in the governorates is bound to show a marked improvement through the implementation of priority projects and the gradual transfer of responsibilities and functions to the governorate.

Achieving these results requires the development of appropriate legislative and financial frameworks, working on building and developing the capacity of governorates, as well as providing human and financial resources and supportive administrative systems.

Decentralization Models

As the government noted during the development and preparation for the Decentralization Law, there is no single way to implement decentralization. Each country – including Jordan – has adopted a different model for political, administrative and fiscal decentralization that meets each country’s needs and requirements for each stage.

There is a distinction between unitary and federal states. A unitary state structure, such as the Hashemite Kingdom of Jordan, incorporates a certain degree of decentralization. Most countries in the Organization for Economic Cooperation and Development (OECD) and countries in North Africa are originally unitary countries. However, different degrees of change occurred in the responsibilities of the local administrations in these countries, whereby the local administrations gained various degrees of authorities that enable them to manage their regions based on their citizens’ local needs and requirements.

It is important that the rules which define the specific role, authorities, and scope of decision-making of decentralized entities, are clearly set out. The systems in place should be coherent to ensure the achievement of the overall objectives of implementing decentralization.

International practices indicate that implementing decentralization varies from one country to another based on the political system in place, development required to be achieved in that country. The chart below shows the extent of the variation in the implementation of decentralization among the countries of the OECD where the share of local

¹ Ministry of Interior, The General Framework for the Implementation of Decentralization, 2016 (Presentation made by Governor Dr. Khaled Al Armouti, November 2016).

revenue (local total) of the national total varies from almost 5% in Greece to over 50% in Canada, while the share of local expenditures (which are related to the executed activities at the local level) of the total expenditures varies from 5% in Greece to over 60% in Denmark and Canada. Between the above-mentioned limits, the decentralization of revenues and expenditures in most OECD countries ranges from 10-25% in terms of revenues and 15-40% of expenditures.² This means that local administrations can carry out the tasks entrusted to them only within the funding available to them.

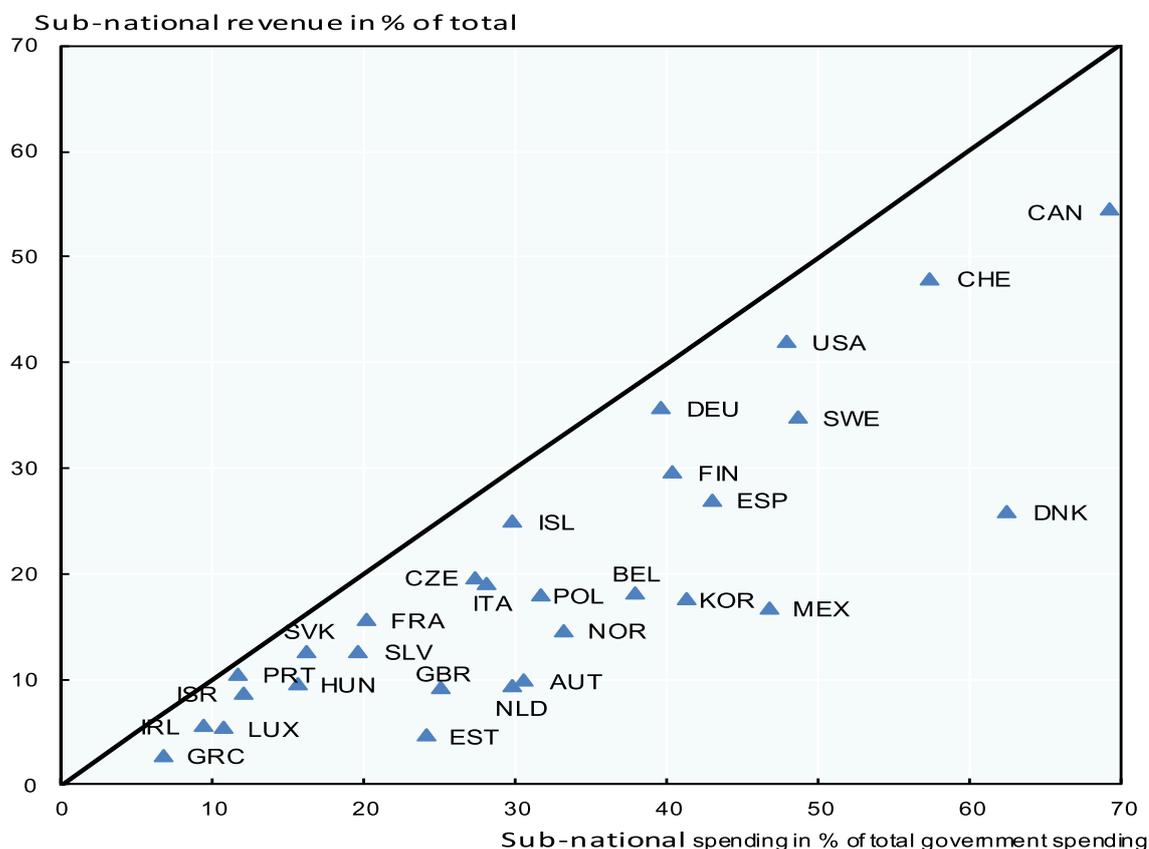


Figure 2: Proportion of local-level revenues and expenditures of total revenues and expenditures in OECD countries (2014)

Forms of decentralization have developed in many countries throughout the world. A comparison across several countries and shows that, over time, decentralization evolves at different speeds. A study of the evolution of decentralization over the period from 1995 to 2014 concluded that, some OECD countries have strengthened decentralization and moved more fiscal power to the local administrations, such as France, Finland, and Italy, but other countries have recentralized over the same period, such as Hungary, the Netherlands, and Norway³.

The structures of decentralization vary based on the history, values, geography, local needs, and the expectations of each country. The governorate will become a decentralized entity headed by a governor and supported by an executive council and an elected governorate council. In the case of Jordan's decentralization reform and comparing it with international experience, we can observe that decentralization of the governorates is a gradual process of transformation in which the governorates gradually gain more administrative and financial authorities until their capacities to execute projects and provide selected public services is built.

This process may go through several phases, starting with a dual role of "local state administration" and "local government", as was common for the transition phase in many countries of central Europe and the former Soviet Union during the 1990s.

² Fiscal Federalism 2016, p. 16

³ Blöchliger, Hansjörg, ed. Fiscal Federalism 2016 – Making Decentralisation Work (OECD and the Korea Institute of Public Finance), p.17.

In these examples, the intermediate tier of administration was transformed, with the establishment of elections (indirect or direct), setting up hybrid entities with an appointed governor and an elected governorate council. The governor, as the representative of the central government, ensures that laws that are related to government duties at the national level are respected, while the works of the local council focuses on the bases that are related to the duties of the local government and the decisions and policies at the local level.

An example of the above is Tunisia, which has also established a similar hybrid system, where there is an appointed governor – wali – and consultative -shura- council, which is responsible for economic, cultural, social, and health development, as well as supervision of the municipalities.

Some examples of regional subnational competencies include:

- Regional planning and economic development
- Roads and transport infrastructure
- Regional water management and supply
- Vocational / technical education

Fiscal Decentralization

What is Fiscal Decentralization?

Within an overall decentralization framework, fiscal decentralization represents the budget and public financial management, which enables the implementation and ensures the viability of political and administrative decentralization pillars. Fiscal decentralization is the transfer of financial responsibility and authority to the local government.

The local government must have the internal capacities to formulate policies, to plan and to manage their responsibilities. Subnational government must have access to adequate revenues in order to carry out their decentralized functions effectively.

Fiscal Decentralization within Current Legislations

From the review of the legal framework, it is clear that the basic elements are in place and have provided the main features of a system that would support fiscal decentralization in Jordan. There are, however, there is a need to amend existing laws and regulations or adopt new laws that address the governorates' financial affairs and the gradual development of their role, in addition to defining the authorities they have and its organizational structure, and determine their tasks and duties in a clearer manner. Additionally, there is a need to draft a national level strategy for decentralization needs to be written and approved by the Cabinet, which sets the direction of the decentralization framework with all the political, fiscal, and administrative pillars of decentralization.

Current legislation clearly handles one of the four aforementioned building blocks, which is the process of general budget planning and enabling the citizens in the governorates to select the projects to be funded through the general budget. Therefore, reviewing the legislation should take into consideration applying all building blocks of fiscal decentralization; expenditure assignment, budget planning, funding, and budget execution and financial audit. Consequently, a starting point for assessing and improving the efforts toward fiscal decentralization should begin with a review of the legal framework in Jordan.

Decentralization Law

The Decentralization Law No. 49/2015 defined the governorate council as a legal personality with financial and administrative independence, and defined its roles and duties, in addition to defining the role and duties of the Executive Council. In order to fully implement fiscal decentralization as outlined in the four building blocks, the financial laws and bylaws should be reviewed and further developed in order to elaborate on the following:

1. Define the governorate as an entity with clear functions and roles
2. An extent to regulate the relationship between the governorates and municipalities

3. Right of ownership and to carry out economic activities in the governorates
4. Right to collect and spend income necessary to exercise governorates' functions
5. Rules for sources of revenue and funding mechanisms
6. Rules for expenditure assignments that will be transferred to the governorates
7. Rules to manage the finances of the governorates, and governorate council
8. Rules to define the relationship between the governorates as an entity with the line ministries and their directorates in the governorates
9. Rules for budget planning and preparation
10. Rules for budget execution via a phased approach
11. The structure of the governorate, and clearly defining the functions of all its departments
12. Rules for financial control, internal audit, external audit; and relationship with the Audit Bureau and the House of Representatives.
13. Rules for the fiscal transfers, ceilings, and formulas of funding expenditures

What are the Building Blocks to Implement Fiscal Decentralization?

To ensure the successful implementation of the Decentralization Law, a phased approach should be adopted. Such approach primarily aims to progressively build the capacities and competencies of the Ministry of Finance and the governorates to manage the challenges of fiscal decentralization. At the same time, the approach should develop the supporting systems (bylaws, regulations, procedure manuals, systems and templates) for the Governorates and the Governorate Councils.

The proposed approach focuses on four main building blocks to establish systems for fiscal decentralization at the governorate level.



Figure 3: Four Building Blocks of Fiscal Decentralization

1. Expenditure Assignments

The expenditure assignments for the public services that will be transferred from the center to the governorates must be clearly defined. It will be the responsibility of the Cabinet to decide the public services/functions that will be gradually executed by the governorates. The transfer or allocation of these public services/functions must be decided only after conducting a thorough due diligence analysis taking into consideration current public service, the cost and impact on budget, role of municipalities in public services, and the ability of governorates to execute these services and activities.

2. Funding

An appropriate system must be created to fund expenditures and define the governorates' budget ceilings through transparent and clear criteria. Presently, intergovernmental transfers are the vehicles for funding since the current legal framework does not give the governorates the right to raise their own revenue, nor does it give them the power to borrow. Going forward, the governorates' ability to raise revenue or borrow can be addressed with revisions to the relevant laws and regulations, and as the governorates develop a stronger ability to manage their resources.

3. Budget Planning

A budget planning system must be developed at the governorate level to enable them to define their priorities and development needs based on predefined national policies and standards through coordination with other government entities. Budget planning will also be conducted through a phased approach. At the beginning, the executive council will plan only for the capital budget of the governorate. In subsequent years, the council will plan the budget for the governorate, which will include

governorate administration, capital budget, and new expenditure assignments that will be transferred from the center to the governorates.

4. Budget Execution and Financial Audit

Budget execution is the process of controlling and authorizing expenditures and funds that are provided for specific and defined uses. Budget execution will go through a phased approach until the governorates have the capacities to execute the budgets and the proper systems and resources are at place. This will require many years of planning and development to ensure minimal disruption in terms of funding and delivering services to the citizens.

In order to enable the governorates to execute their budgets that will be transferred gradually from the center, it is required first to amend the financial legislations and set the proper automated financial system for processing payments and financial auditing. In addition, achieving this goal requires reviewing the chart of accounts, and continuing to develop the needed procedural and organizational manuals, and develop the capacities of the human resources at the governorates.

Decentralization in Jordan

Development and Demographic Conditions in the Governorates

Over the last decade, Jordanian citizens increased by 40.3% from 4.71 million in 2004 to 6.61 million in 2015. The population of Governorates varies greatly with deep disparities in population density. More than half of Jordan's population lives in the center, including Amman, Zarqa, and the nearby cities, making this area the hub for most economic activities. (Annex 2 details the main economic and demographic indicators at the national level and each governorate's level. Figure 4 illustrates the demographic distribution by governorate during the period from 2004- 2005 according to the 2015 census).

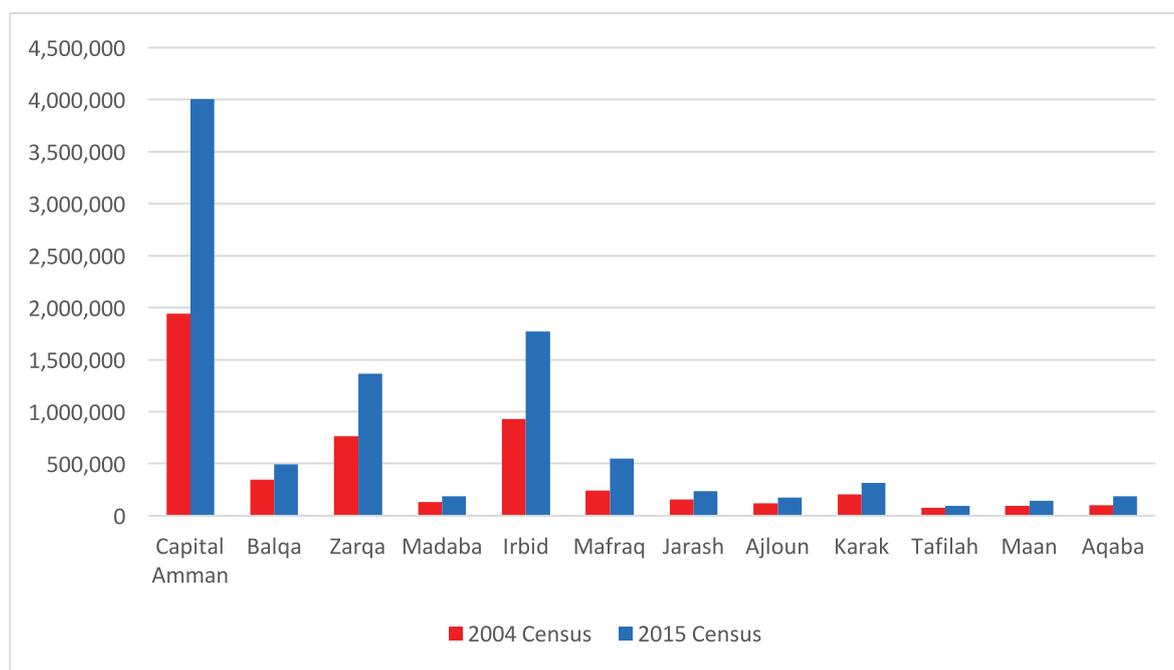


Figure 4: Population of Governorates (2004-2015)

In light of the government's efforts via decentralization to enable citizens to determine their development needs, the figures shed light on the priority areas that can be proposed to the governorate council to choose their projects in a manner that helps to address the existing imbalances, such as providing adequate school facilities or the asking the Ministry of Education to improve the quality of education to raise success rates in secondary schools⁴. The analysis of some economic and social indicators shows differences or variations from one governorate to another in the level of the services they provide. These services include indicators related to education and health care. This disparity reveals a weakness in infrastructure facilities in some governorates and a failure to cope with large changes in population over the past ten years.

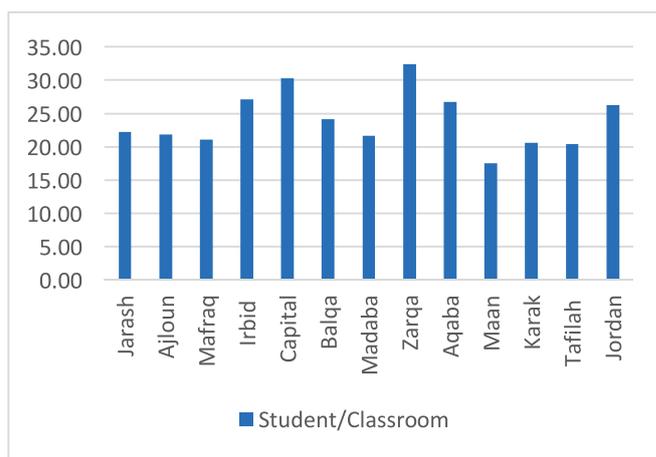


Figure 5: Students per classrooms at governorates

In the health sector, the average number of beds in hospitals was 14 beds per 10,000 inhabitants. This number varies from one governorate to another as shown in Figure 6, where the figure shows that a number of governorates have a lower capacity than the general average. These findings suggest that the future elected provincial council may prioritize the health sector and negotiate the provision of new facilities with adequate staff⁵.

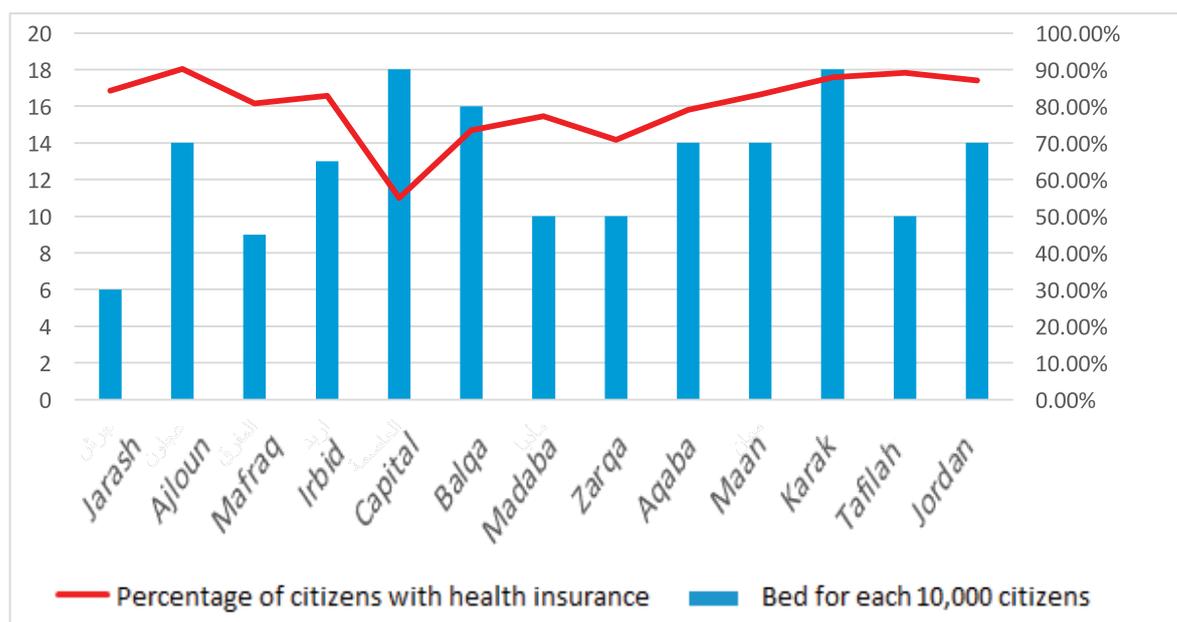


Figure 6: Beds per 10,000 inhabitants & percentages of citizens with health insurance per governorate

4 Source: Governorates' Development Plans

5 Sources: Governorates Development Plans, Ministry of Health 2016 report

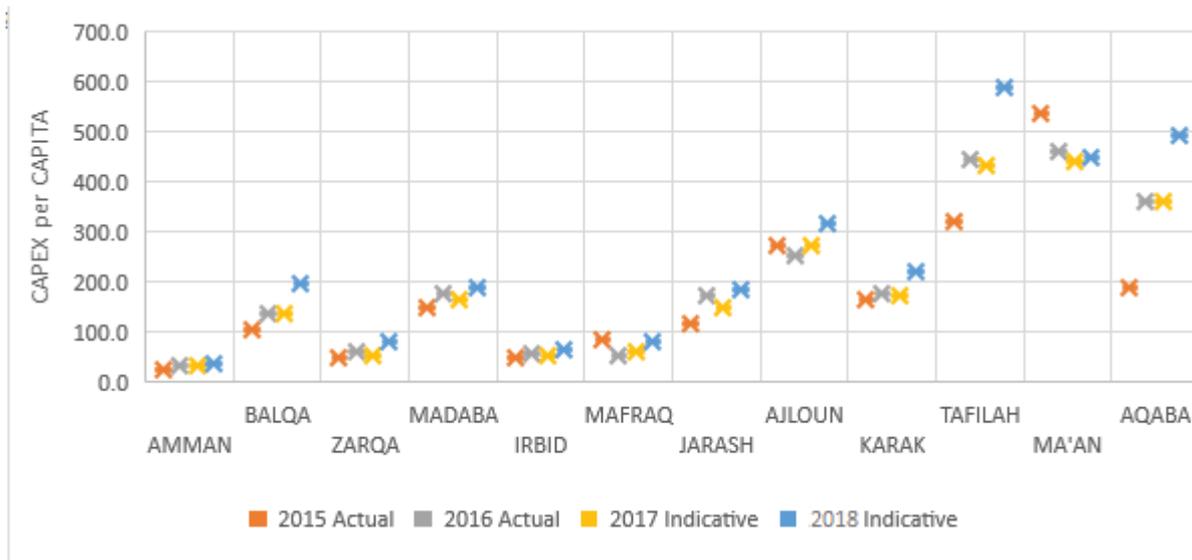


Figure 7: Capital Expenditures for governorates per capita 2015-2018

As for the per capita share of public capital expenditure, the per capita share of government capital expenditure varies from one governorate to another during the period of time, as shown in Figure 7. Naturally, this disparity leads to gaps in economic development between governorates, which affirms the need to strengthen the systematic planning process in the distribution of capital expenditure on a fair and transparent basis⁶.

Further, the latest census results indicate that the poverty rate is higher in the governorates with a high rate of unemployment. Unemployment rates for 2016 show an increase in the number of unemployed citizens. The rate jumped to 15.3%, from 14.4% in 2014. The current Syrian crisis, the closing of nearby export borders, political unrest in nearby countries have added to the strain on the economic development of Jordan.⁷

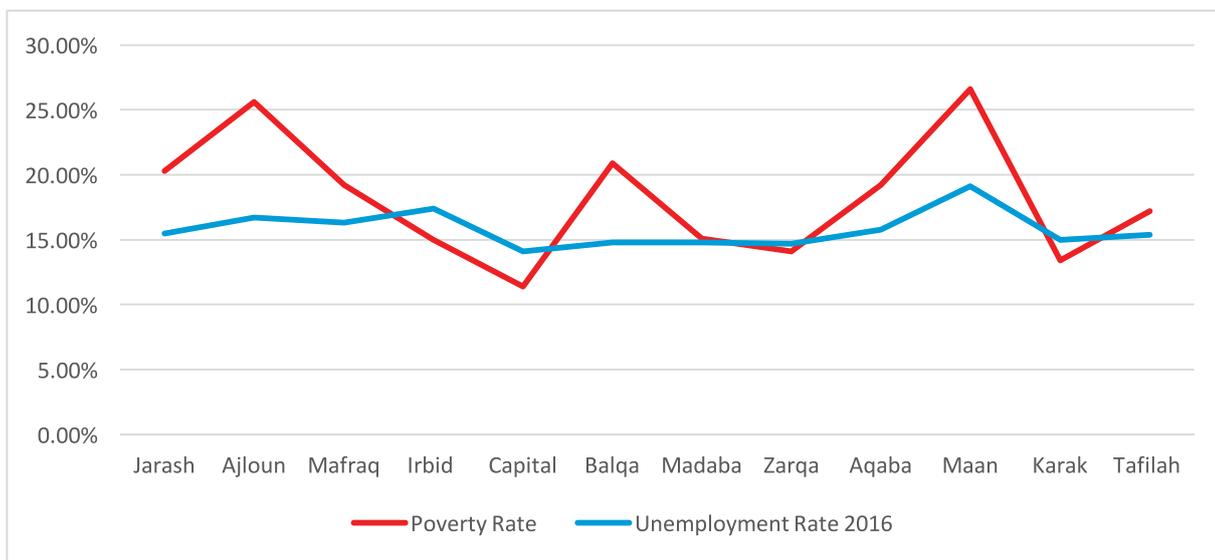


Figure 8: Poverty & unemployment rates in the governorates

⁶ Sources: 2017 Budget and 2015 Census results

⁷ Sources: Governorates Development Plan and Department of Statistics 2016

The ability to make effective decisions at the governorate level will be crucial for the success of the decentralization project. Governorates must have reliable, updated, and timely data and analysis that they can rely on to evaluate alternatives and make informed choices necessary for strategic planning, budgeting, policy and decision-making.

Governorate structure in Jordan

Governorates are part of the Ministry of Interior, and each governorate is headed by a governor (Muhafez) designated by the Cabinet based on the recommendation of the Minister of Interior, provided that the decision is accompanied by a royal decree. The governor is the head of the public administration in his governorate and has the highest executive authority in it. He tops all the state employees in the governorate. One of the governor's main roles is to handle public security and stability and coordinate with all governmental departments on the delivery of public services in the governorate. He ensures the execution of government projects within the governorate in close collaboration with the line ministries.

A governorate's executive council, which is headed by the governor, includes the directors of all government departments in the governorate, who meet periodically at the governor's request to discuss and coordinate the governorate's main issues. By implementing the Decentralization Law, the role of both the governor and the executive council will evolve with the election of the new governorate councils.

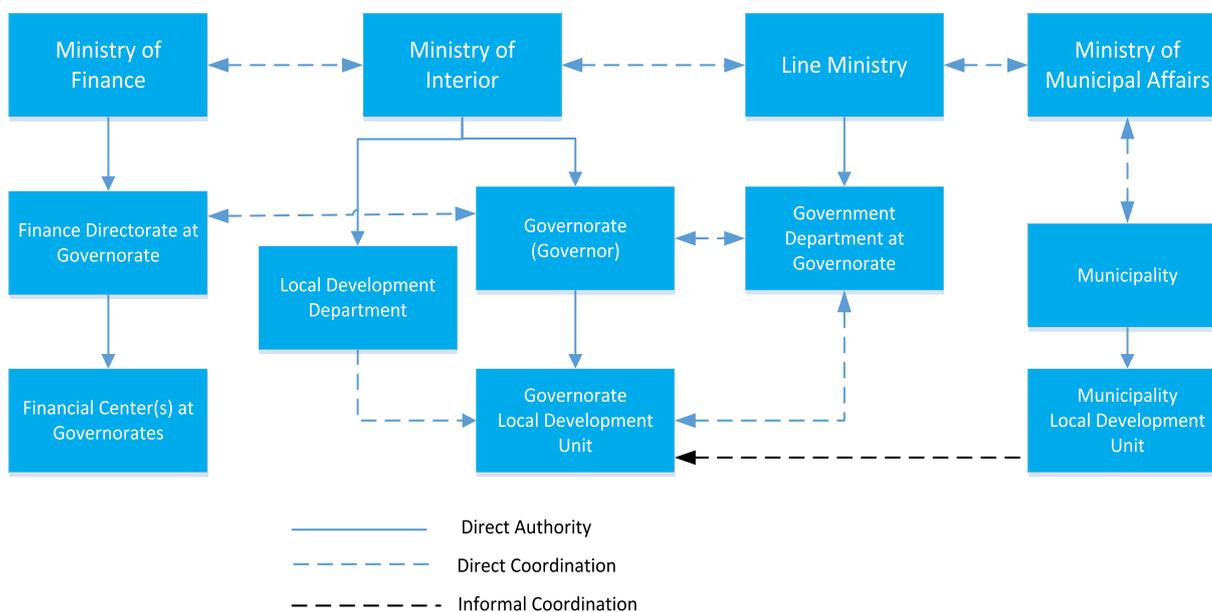


Figure 9: Government Relations and Governance at the Local Level

Key Elements of the New Decentralization Law

The Decentralization Law provides a new mechanism for the decision-making process at the governorates' level. The governorates will handle the duties of planning and approving the new development projects based on priorities, in addition to the preparation and approval of their budgets based. The role of the existing Executive Council will take on greater importance, as it will seek to ensure better coordination and improved service delivery and focus on strategic planning in the governorate.

The term of the elected governorate council shall be four years and shall have a legal personality of financial and administrative independence.

The governorate council will contribute to the selection of priority development projects for the entire governorate. It is expected that the governorate council and governor, through the government departments in the governorate, to

Key Roles of the Governorate Council

- Planning, Budgeting, Oversight
- Approve governorate strategic and action plans
- Approve governorate draft budget
- Approve service, capital, and development projects
- Oversee implementation of governorate's projects

ensure the improvement of the quality of services in the governorate. The elected governorate council will be accountable to citizens.

The role of the governor will be to ensure the implementation of the decisions of the governorate council and provide the best services to citizens in coordination with the governorate council and executive council. The smooth functioning of each of these institutions will have a positive impact on financial management and the effectiveness of the governorate council.

New roles of Government Deriving from the Decentralization Law

Over time, decentralization will aim to give the governorates more financial and administrative powers so that they can implement programs and projects at the governorate level and provide selected government services. The focus of the governorates' executive board will be to ensure that the executive directorates in the governorate respond to and implement the priorities and programs identified by the governorate council.

Roles and Responsibilities of Central Government

The implementation of decentralization will incorporate changes in the role and responsibilities of the central government. The roles of the line ministries will evolve over time from focusing on service delivery toward policy and regulatory functions. This will lessen duplication in responsibilities and roles of the ministries and the governorates and will make the governorate closer to the people and more responsive to their development priorities. The central government will be responsible for the preparation of national policies and standards that must be followed and executed in the governorates to ensure serving and sustaining national priorities and strategic plans.

Role of the Executive Council - Planning & relations with Municipalities

- Draft strategic plans & action plans
- Align governorate plans with municipal council plans
- Draft a manual on the development and service project needs of the governorate, including municipalities' needs
- Review reports from the municipal councils and take appropriate decisions

Certain roles will be transferred in a phased approach from the central government to the governorates; such as governorates' budget preparation, planning, and implementation.

The Ministry of Finance, along with the General Budget Department will carry out all the necessary changes resulting from the implementation of the Decentralization Law. In this regard, a Fiscal Decentralization Unit has been created at the Ministry of Finance in order to coordinate and oversee all fiscal decentralization activities and build the capacity of the ministries, governorates, in the field of fiscal decentralization.

Roles and responsibilities of Governorates

The governorates' responsibilities will be distinct from those of the municipalities and line ministries. A clear distinction will enable the central government to adapt to its changing role, by focusing on policy development more than service delivery.

Roles and responsibilities of the municipalities and Ministry of Municipal Affairs

The Ministry of Municipal Affairs is, and will continue to be, a key player, but its role will be different. Relations between the municipalities and governorates will become stronger through feedback the municipalities will provide when they prepare the governorates' strategies and executive and development plans. Over time, the role of the Ministry of Municipal Affairs will evolve to become strategic, in addition to its continuation to provide the direct support to the municipalities in terms of capacity and resources.

Importance of Linking Municipalities to the Governorates

The municipality, a civic jurisdiction institution with financial and administrative independence and functioning as devolved entity, has existed in Jordan for several decades. A municipality is administered by a mayor and a municipal council that are elected for a four-year term. Municipalities derive their authorities and organization from the revised Law on Municipalities (No.

41/2015).

While the Ministry of Municipal Affairs has played a key role in many issues concerning municipalities. However, based on the Decentralization Law No. 49/2015, it is anticipated that multiple links for planning and coordination will exist between the governorates and the municipalities in terms of planning and coordination.

Among the members of the governorate's executive council there will be a "three executive directors from the municipalities to be named by Ministry of Municipal Affairs," based on Art.A.4, of the Decentralization Law No. 49).

The governorate council will also support municipalities to identify and select priority development needs. In the coming years, new responsibilities will be assigned to governorate councils, in addition to the formulation, planning, and execution of their budgets.

The challenge will be to avoid the overlapping of responsibilities between these entities and ensuring a clear mechanism for coordination and collaboration between the governorate and municipal councils.

With the implementation of the Decentralization Law, the municipalities will have a greater and more effective engagement with the newly-elected governorate councils. At the same time, they differ from the governorate in that they have specific defined competencies for local service provision (see box for key municipal functions) and dispose of their own resources.

An analysis of Greater Amman Municipality expenditure performance indicates that:

- Municipality including the Greater Amman Municipality expenditures increased from JD 465.8 million in 2011 to 640 million in 2016.⁸
- Current expenditures represent 61% of total expenditures, while capital expenditures (capex) represent 39%.
- 48% of total expenditures or 79% of current expenditures are allocated to salaries and contribution to Social Security Corporation.
- Most of the capital expenditures are allocated to roads and "possessions and compensations" accounting for 59% of capital expenditures.

Municipality revenues, including the Greater Amman Municipality, consist mainly of land and buildings taxes collected locally, as well as fees, fines and fuel revenues, which are determined through a formula that includes several criteria.

Other municipal revenue sources include fines, grants, and capital project returns. Municipalities may borrow from the Cities and Villages Development Bank with the approval of the Ministry of Municipal Affairs. Recent financial performance data refer to:

- Total municipal revenues including the Greater Amman Municipality increased from JD 407.8 million or 1.5% of Jordan's GDP in 2011, to JD 663.3 million or 2.5 of GDP in 2016.

Some Key Duties of Municipalities

- Organizing vocations and industries
- Planning towns and roads
- Establishing rain water drainage
- Regulating public markets
- Establishing & organizing the parking lots
- Establishing gardens and parks
- Establishing museums and libraries
- Establishing slaughterhouses
- Licensing advertisements and billboards

Tax Distribution Criteria/ Joint Municipalities Taxes

1. Category of the municipality
2. Surface area
3. Population
4. Geographical location and nature
5. Municipality's contribution to collecting revenues
6. The extent of need for development projects
7. Excellence in the performance of tasks and duties

⁸ The Ministry of Finance Bulletin, Volume 19, Issue no. 6, July 2017.

- Around 67.2% of the total revenues comes from: fuel revenues (24%), fees and fines (24.1%) and land and construction taxes (19.1%).

The Law on Municipalities No. 41 (2015) stipulates the establishment of a new level of authority, or a “local council” which is directly elected by the people, in addition to the municipal council. The local council aims to communicate with citizens to understand their development needs and requirements at the local level and to communicate these priorities to the municipal council.

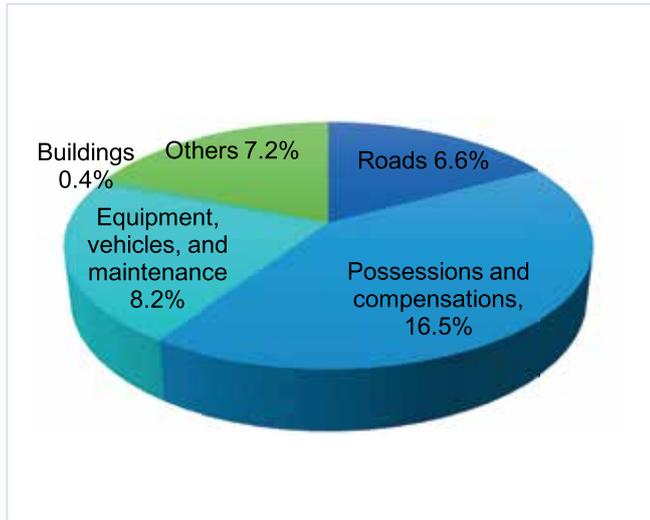


Figure 10: Capital Expenditures 2016

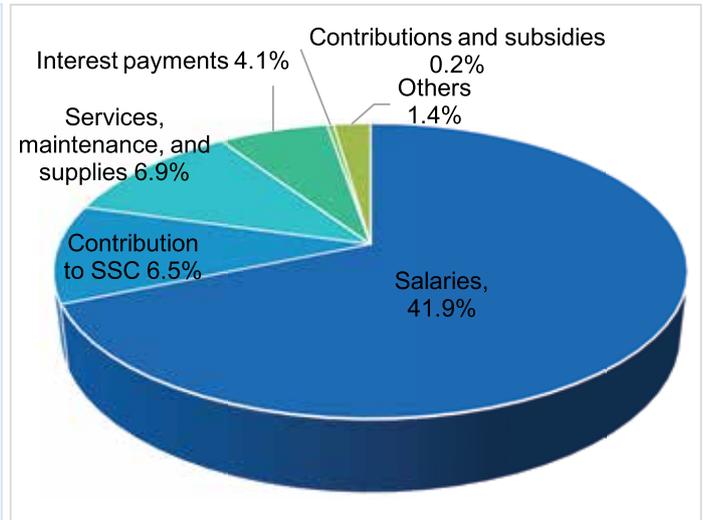


Figure 11: Current Expenditures 2016

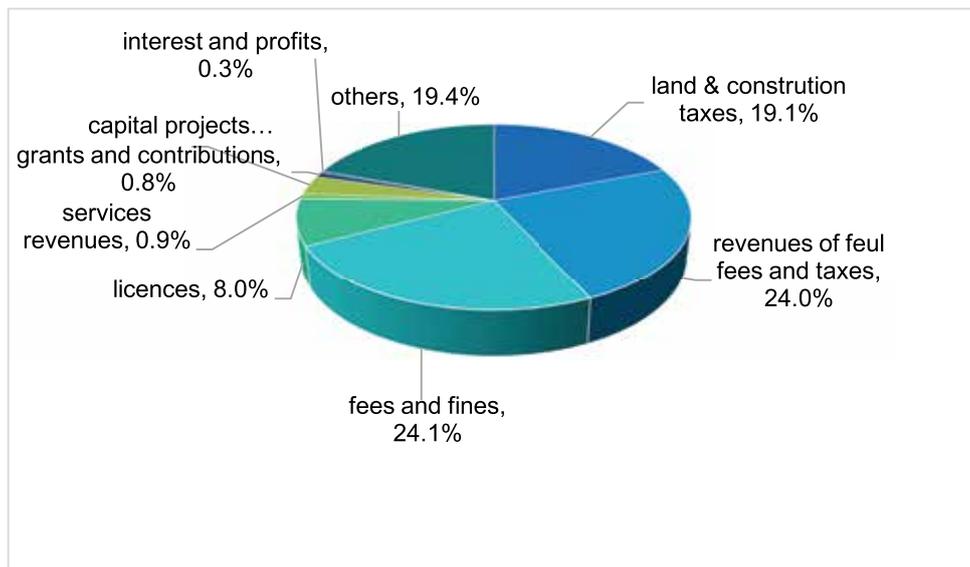


Figure 12: Revenues of Municipalities 2016

Fiscal Decentralization Roadmap

The Ministry of Finance recognizes that many key issues need to be taken into consideration when passing on new tasks to the governorates and tasking them with providing public services. Through its leadership of the fiscal issues, in addition to working with analysts and experts in the new Fiscal Decentralization Unit, the Ministry will ensure that:

- The right public finance management framework is in place for governorates and governorate councils to make the best use of available resources.
- Adequate public financial management processes are in place, including planning, preparation, and execution of the budget, in addition to general financial functions and internal audit.
- The process of determining and distributing the governorate budget is based on an allocation formula with transparent criteria to ensure equitable financing among governorates.
- The necessary laws and bylaws are drafted and amended for the transition to decentralization.
- The necessary fiscal systems, procedures, and policies are in place and enforced in the governorates.
- The governorates have the capacities to address fiscal and financial issues.
- Clear definitions are in place addressing personnel, buildings, and equipment at the governorate level.
- Adequate authority is transferred for the governor to coordinate with government directorates of the line ministries in the governorate.
- Full transparency in the allocation of line ministry budgets in the governorates for both current and capital expenditures is in place.

To address these issues, the government will take into consideration the structure and governance of the governorates, the economic and social landscape of Jordan, and the role of municipalities in the governorates.

It is essential that the Ministry of Finance and the General Budget Department ensure that the financial implications of decentralization are addressed in a timely manner so that the elected governorate councils are able to carry out their tasks.

The Ministry of Finance in late 2016 developed a detailed phased action plan for fiscal decentralization at the governorate level, covering the period from 2017 to 2019.

Key Goals and Timetable for the Phased Implementation Plan

The main goals of fiscal decentralization are to:

- Develop institutional capacities in Jordan's governorates in the planning, management, and implementation of a specific set of public services and programs at the governorate level.
- Ensure an adequate level of funding to finance the governorate councils' priority projects and ensure the functioning of the governorate councils.

Achievement of the overall goals of decentralization require the effective collaboration of the respective Ministries through the Ministerial Committee for Decentralization and its Executive Committee. Within this process, the Ministry of Finance and the General Budget Department will focus on implementing the four building blocks of fiscal decentralization in a systematic and planned process.

Challenge To transform the governorates from administrative units, which are only accountable to the center and are mainly responsible for public security, to elected local administrative units with accountability to citizens and the central government – and responsibility for ensuring the quality of services offered in the governorate.

Through this approach, the capacities and competencies of the Ministry of Finance, General Budget Department, and the governorates in fiscal decentralization will be progressively built.

This approach focuses on the four main building blocks: 1) Expenditure Assignments, 2) Funding, 3) Budget Planning, and 4) Budget Execution and Financial audit, which must be addressed to establish the policy foundation and define the systems for fiscal decentralization at the governorate level.

Action Plan for the Upcoming Years

Over the transition period, the first building block, **Expenditure Assignment**, will focus on government activities and services which will be transferred to the governorates gradually in the future. The focus will be on the following:

- The future governorate expenditure assignment and service delivery responsibilities will be defined through due diligence to analyze and select the expenditure and service delivery responsibilities to be transferred to the governorates.
- The role of each institution in public service delivery (policymaking, regulating, financing, and service delivery) must be revised, including the role of municipalities.
- The due diligence process will clearly define how personnel, buildings, equipment and budget should follow service delivery.
- The public financial management processes, from budgeting, budget execution, accounting, reporting and internal audit will be reviewed for consistency and robustness as the functions are transferred.

The second building block, **Governorate Funding**, will seek the development of an appropriate process to define governorates' budget appropriations, including the budget ceiling (pool of funding) and the allocation criteria to distribute these funds among the governorates through clear and transparent criteria.

The governorate funding system will be implemented in stages. Consideration should be given to the preparation of criteria and a formula for determining the spending ceilings of the governorates for new capital projects. The Council of Ministers approved the criteria and formula to determine the capital allocations of the governorates within the 2018 budget as follows:

- 30% of the total ceiling available for 2018 capital budget was distributed equally among all governorates.
- The remaining 70% of the ceiling was distributed through a formula that consists of the following criteria:
 1. 25% for poverty rate
 2. 25% relative for the unemployment rate
 3. 35% for population in the area
 4. 5% for the size of governorate's area
 5. 10% for the number of economic establishments in the governorate

The formula and criteria must be reviewed on a yearly basis to reflect progress in the implementation of decentralization.

- Over time, when expenditure assignments are transferred to the governorates, the budget ceilings and allocation criteria will be reviewed to reflect progress and the need for more allocations for service delivery.
- Financial transfers will be the main funding source for the governorates since the governorates do not have the power to raise their own revenues in the current legal framework. At later stages, in the development of the governorates' role, self-financing sources for the governorates can be identified to support intergovernmental transfers.
- The third building block focuses on establishing a budget-planning system to enable the governorates to define their priorities and adopt their budgets based on clear ceilings within the set timeframe.
- When the execution of budgets is done at the governorates' level, the chart of accounts must be modified to incorporate the new changes.
- Budget planning for the governorates. The Council of Ministers agreed that the budgets of the capital governorates for 2018

should be planned and financed by the general budget. A project concept has been adopted at the governorate level so that it is the responsibility of the governorate to plan the new capital projects within this concept. In the future, according to the decisions of the Council of Ministers, budgets will be planned for the governorates, which will include the governorate administration and the new expenditure tasks that will be transferred to the governorates.

- The governorate development program prepared by the Ministry of Planning and International Cooperation should be integrated with the governorates' budget planning. Adequate tools should also be developed to assist the governorates in their strategic planning, and on the prioritization of their projects based on development needs.
- Governorates shall have adequate capacities to screen all capital projects funded by the General Budget or through donor and supporting agencies.
- Adequate support and budget planning training should be provided to the governorates and governorate councils' staff.

The fourth building block, **Budget Execution**, ensures that each governorate is capable of executing and accounting for its budget in a timely manner and in conformity with established policies and procedures. There is a need to:

- Establish a governorate financial affairs unit and a governorate internal control unit with clear roles and structures. Initially, these may be part of the already existing Finance Directorates in the governorates.
- Determine the budget execution and accounting systems to be implemented and the processes to be followed.

Key Fiscal Decentralization Milestones

The Ministry of Finance has defined specific milestones for the coming years in its action plan for the implementation of Fiscal Decentralization:

Fiscal Year 2017

1. Establishment of the Fiscal Decentralization Unit at the Ministry of Finance and appointment of qualified staff to it (Completed).
2. Adoption of the criteria for determining the ceiling of total capital expenditure and the partial ceilings of the governorates. (Completed)
3. Determination of the governorates' capital budget ceilings through fair and clear criteria and formula by the Ministry of Finance / General Budget Department. (completed).
4. Preparation of «Manual of the Procedures for Developing the Needs and Annual Development Plan for the Governorate,» and the manual for draft budget preparation at the governorate level for the year 2018. (Completed)
5. Enabling the governorates to determine their needs and approving the governorate's draft budget for the capital projects for 2018 by the governorate council within the ceiling set by the Ministry of Finance / General Budget Department and within the concept of the project at the governorate level and the national level.
6. Adopting a plan to monitor and record all current and capital expenditures at the governorate level by the ministries.
7. Working to raise the level of coordination between governorates and municipalities through the Ministry of Finance in cooperation with the Ministry of Municipal Affairs and the Ministry of Interior in order to avoid duplication of funding and implementation of projects between the governorates and municipalities and ensure the effectiveness in determining the governorates' needs for development projects.
8. Adoption of the policies that will be implemented in the transfer of activities from the center to the governorates and including them within the 2019 budget and making the necessary legislative amendments.
9. Determining the scope of the activities whose execution will be transferred from the center to the governorates throughout the 2019 budget.
10. Determine the mechanism and tools for the implementation of the activities of the new areas of expenditure to be transferred to the governorates, including the dissemination of the GFMS system and the necessary resources in coordination with the Ministry of Interior.

11. Training the relevant authorities in the governorates on the procedures of preparing their draft budgets. (Initiated)
12. Holding meetings with the governorate councils to inform them of the mechanism of preparing the governorate budget according to the approved manuals.
13. Continuing the process of implementing the governorates' capital budgets for the year 2018 in accordance with the provisions of the financial regulations and instructions in force by the ministries in the center until the training of cadres is completed and the necessary regulations are amended to enable the governorates to carry out the activities that the Cabinet decides to transfer from the center to the governorates.

Fiscal Year 2018

1. Holding meetings with the governorate councils to inform them of the concept of fiscal decentralization and expected future developments.
2. The Governorates will continue shouldering the responsibility of determining their development needs and selecting their capital projects for the year 2019.
3. Governorate councils will approve the 2019 budget within the ceilings approved by the Ministry of Finance /General Budget Department that will incorporate expenditures related to the governorate administration, capital projects budget, and new expenditures on activities whose execution the government will decide to transfer to the governorates.
4. Preparation of the general budget for the year 2019 incorporating the detailed budgets of 12 governorates, including the financial statements of the activities of new expenditures that were transferred to the governorates.
5. Expanding the range of activities and new expenditures that will be transferred from the center to the governorates.
6. Reviewing and developing the equation on which the distribution of the governorate's expenditure ceiling is based to take into account the activities of new expenditures that were transferred to the provinces governorates.
7. Providing the necessary capacity for data collection and analysis, budget planning and implementation, and following up on the implementation of priority capital expenditure projects in cooperation with the relevant authorities.
8. Adopting a comprehensive plan to train the relevant authorities in the governorates to implement budgets and control them.

Fiscal Year 2019

1. Continuing to review and develop the equation on which the distribution of the governorate expenditure ceiling was based to take into account the activities of the new expenditure areas that were transferred to the governorates.
2. Continuing to expand the range of activities and new expenditure areas that will be transferred from the center to the governorates for subsequent years.
3. Implementation of the procedures of control and internal audit on the execution of the budget in the governorates in 2019.
4. Governorate councils will approve the budget for 2020, while taking into consideration new expenditure assignments that were transferred to the governorates and the suggested mechanisms and tools to fund these expenditure assignments and send them to the Ministry of Finance / General Budget Department.

Capacity Building for Fiscal Decentralization

Building the capacity for Governorates is a vital factor for having a successful transition of authority that will ensure Governorates can meet their new mandates and responsibilities within the decentralization framework. Having an effective and efficient Public Financial Management system at the Governorates is core for implementing decentralization since all public financial responsibilities will be transferred in a phased approach including planning, budgeting, execution, and oversight.

An effective Public Financial Management system along with competent government cadres helps promote sustainable economic growth in the governorates adding to a comprehensive growth in Jordan. This will require the central government to invest heavily in capacity building and training needed to develop the desired workforce and the necessary governing systems at governorates.

Human resources development will be a priority in the capacity development process. Individuals in the governorates will be equipped with the proper set of knowledge, skills, abilities, and access to information that enables them to effectively carry out their tasks. One of the early tasks that will be managed by the Ministry, for instance, is to support the new elected governorate councils in understanding budgeting principles, including results oriented budgeting and strategic planning to promote a culture that supports sustainable growth, performance, and achieving results. Thus, citizens will feel this impact in improving their living standards.

The Ministry of Finance will provide capacity-building support to governorate staff and elected governorate council members in macroeconomic and sectoral analysis and the General Budget Department will provide support in the preparation of the main budget.

Establishing and implementing financial administrative and monitoring systems in the governorates is crucial to ensure that decisions regarding planning, investment, and execution of budgets are compliant with the national laws, policies, and standards.

The Ministry will support building the capacities of the governorates that are necessary for budget planning. The following training topics will be developed for the Local Development Unit at Governorates as it will be tasked with budget planning and preparation for the governorate:

- Results oriented budgeting
- Gender-based budgeting
- Government financial laws and regulations
- Financial planning
- Cost-benefit analysis
- Feasibility analysis
- Project management
- Risk management
- Strategic planning
- Performance management and key performance indicators.

Further capacity-building activities for the Finance Directorates will be developed to address:

- Results oriented budgeting
- Gender-based budgeting
- Budget planning
- International Public-Sector Accounting Standards (IPSAS)
- Public financial management.
- Internal audit

The Ministry of Finance will develop curricula for the executive council committee members, and the governorate council committee members in:

- Results oriented budgeting
- Gender-based budgeting
- Budget planning
- Strategic planning
- Government Financial laws and regulations
- Financial planning

- Public Financial Management
- Internal audit

Citizens' Engagement

Citizens' Role within the Fiscal Decentralization Framework

One of the key objectives of the government in implementing decentralization is to increase citizen participation in political life, decision making, and to improve public service delivery by creating an elected entity at the governorate level that will coordinate between the lower municipal level and the deconcentrated governmental directorates of line Ministries at the governorates. Thus, the government will develop a framework wherein citizens can have more say and influence in defining and selecting priority projects and actions in their governorate, and thereby begin to reduce the distance between them and governorate officials. For the first time, elected officials will represent citizens at the governorate level.

Citizens' Role During Budget Planning - Promoting Transparency & Accountability

Citizens' engagement is the first step toward having a successful implementation of decentralization. It ensures that they elect for the appropriate candidates to represent them in the elected governorate council, and ensures they share their views and interventions to contribute to achieving real development in the governorate, and promote the principles of transparency and accountability at the governorate level.

Public and Private Dialogue to Achieve Transparency in Fiscal Decentralization

Public-Private Dialogue is an effective engagement mechanism between the private and public institutions to ensure more inclusive and sustainable policy reforms through participatory work.

Fostering a dialogue between two sectors enhances transparency and accountability and helps citizens better understand decentralization. It also gives the private sector a perception to of challenges of decentralization in general and fiscal decentralization in particular. This is a participatory mechanism to create innovative solutions for sustainable reforms in decentralization, which builds on the acquired knowledge supports governorate prosperity.

The Challenges Ahead

a. Transformation of the Governorate from Singular to Dual Accountability

One of the most important challenges that will face the process of fiscal decentralization is to give the governorate administrative and financial powers necessary to implement programs and projects at the level of the governorate to have the ability to provide selected government services, because the governorate in this case will be responsible to the citizens who elected the governorate council on the one hand and responsible to the central government on the other. In order to implement the concept of fiscal decentralization successfully, the government should make the necessary efforts to build capacities in the governorates and provide qualified and trained human cadres.

b. Integrative Work of Government Entities

The success of fiscal decentralization will also require strengthened relationships and integrative work between the institutions of the central government, the governorate administration and the governorate councils.

c. Building Governorates' Institutional Capacity

To ensure a smooth transition to decentralization, the necessary institutional capacity must be built in governorates, governorate councils and local development departments.

d. Phasing Implementation of Decentralization

The hurry to implement fiscal decentralization in its comprehensive form without taking into consideration building the capacities of the governorates, training the staff, and amending the regulations and financial systems is a major challenge that the needs to be given attention.

To meet this challenge, the government has prepared a work plan divided into gradual stages of time through which the responsibilities of the different ministries and governorates will be defined and coordinated.

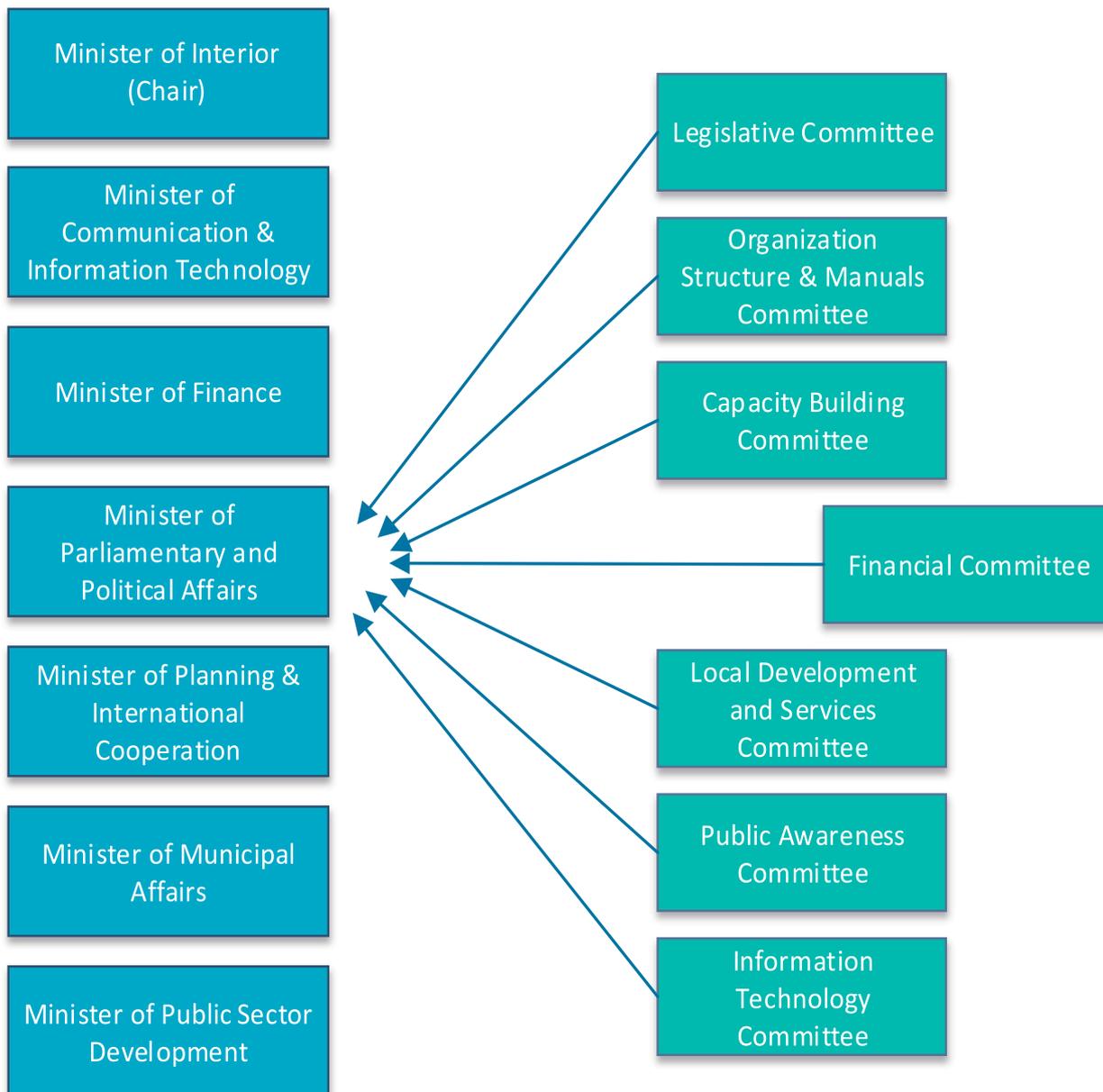
e. Raising Awareness

Decentralization requires the strengthening of coordination between all stakeholders, governmental and non-governmental, donor institutions, national (central government) and local (governorates), and involving citizens, civil society organizations, and private sector institutions during dialogue processes.

The Government's plan is to implement a detailed awareness strategy based on a transparent transition to decentralization, through which stakeholders' views will be taken to improve transition procedures.

Fiscal decentralization will continue to evolve over several years, requiring a systematic review of the methodologies followed and what has been achieved at each stage of implementation. Citizens and stakeholders will have to be involved to adjust methodologies to suit the needs of Jordan and the citizens.

Annex 1: Decentralization Committee Structure



Financial Committee Duties

- Develop manuals for needs assessment and prioritization
- Develop manuals for preparing draft budgets at the governorate level
- Identify the basis for determining budget ceilings for each governorate
- Develop governorates' annual budgets, spending, monitoring, and control mechanism
- Any other matters deemed relevant by the committee

Annex 2: Jordan's Economic and Social Landscape

a. Demographics Indicators⁹

| No | Governorate | Jordanians | Non-Jordanians | Total | non-Jordanians percentage from total |
|----|-------------|------------|----------------|-----------|--------------------------------------|
| 1 | Capital | 2,554,923 | 1,452,603 | 4,007,526 | 36.25% |
| 2 | Balqa | 396,939 | 94,770 | 491,709 | 19.27% |
| 3 | Zarqa | 923,652 | 441,226 | 1,364,878 | 32.33% |
| 4 | Madaba | 156,787 | 32,405 | 189,192 | 17.13% |
| 5 | Irbid | 1,316,618 | 453,540 | 1,770,158 | 25.62% |
| 6 | Mafrq | 314,164 | 235,784 | 549,948 | 42.87% |
| 7 | Jarash | 167,751 | 69,308 | 237,059 | 29.24% |
| 8 | Ajloun | 157,162 | 18,918 | 176,080 | 10.74% |
| 9 | Karak | 272,449 | 44,180 | 316,629 | 13.95% |
| 10 | Tafilah | 90,108 | 6,183 | 96,291 | 6.42% |
| 11 | Ma'an | 127,989 | 16,093 | 144,082 | 11.17% |
| 12 | Aqaba | 135,045 | 53,115 | 188,160 | 28.23% |
| 13 | Jordan | 6,613,587 | 2,918,125 | 9,531,712 | 30.61% |

b. Health and Education Indicators¹⁰

| No | Governorate | Education Indicators | | Health Indicators | | |
|----|-------------|------------------------|--|------------------------------------|-----------------------------|-----------------------------|
| | | Students per classroom | Students passing high school (Tawjihi) (%) | Citizens with health insurance (%) | Beds per 10,000 inhabitants | Citizens per health centers |
| 1 | Capital | 30.30 | 40.30% | 54.90% | 26.8 | 34,548 |
| 2 | Balqa | 24.11 | 31.10% | 73.50% | 17.3 | 6,925 |
| 3 | Zarqa | 32.41 | 38.80% | 70.90% | 9.5 | 31,020 |
| 4 | Madaba | 21.63 | 30.60% | 77.30% | 11.3 | 6,524 |
| 5 | Irbid | 27.10 | 38.90% | 82.80% | 16.9 | 16,240 |
| 6 | Mafrq | 21.05 | 23.10% | 80.70% | 10.9 | 6,321 |
| 7 | Jarash | 22.23 | 35.60% | 84.30% | 8.7 | 8,780 |
| 8 | Ajloun | 21.86 | 30.00% | 90.20% | 8.5 | 5,680 |
| 9 | Karak | 20.60 | 28.70% | 87.90% | 16.5 | 5,026 |
| 10 | Tafilah | 20.44 | 24.60% | 89.10% | 11.3 | 3,320 |
| 11 | Ma'an | 17.49 | 26.70% | 83.20% | 16 | 3,792 |
| 12 | Aqaba | 26.76 | 28.20% | 79.00% | 14.9 | 7,840 |
| 13 | Jordan | 26.26 | 36.60% | 87% | 18 | 16,519 |

⁹ Source: Department of Statistics 2016

¹⁰ Source: Governorates development programs 20162018-

c. Poverty, unemployment and capital expenditure

| No. | Governorate | 2016 Actual Capital Expenditure(JD) ¹¹ | CAPEX/Capita (JD) | 2016 Unemployment Rate (%) ¹² | Poverty Rate (%) ¹³ |
|-----|-------------|---|-------------------|--|--------------------------------|
| 1 | Capital | 133,740,298 | 33.4 | 14.10 | 11.40 |
| 2 | Balqa | 69,456,800 | 141.3 | 14.80 | 20.90 |
| 3 | Zarqa | 81,750,037 | 59.9 | 14.70 | 14.10 |
| 4 | Madaba | 43,175,500 | 228.2 | 14.80 | 15.10 |
| 5 | Irbid | 96,693,633 | 54.6 | 17.40 | 15.00 |
| 6 | Mafraq | 46,248,932 | 84.1 | 16.30 | 19.20 |
| 7 | Jarash | 43,540,259 | 183.7 | 15.50 | 20.30 |
| 8 | Ajloun | 45,488,206 | 258.3 | 16.70 | 25.60 |
| 9 | Karak | 56,035,612 | 177.0 | 15.00 | 13.40 |
| 10 | Tafilah | 43,052,400 | 447.1 | 15.40 | 17.20 |
| 11 | Ma'an | 81,525,223 | 565.8 | 19.10 | 26.60 |
| 12 | Aqaba | 67,451,600 | 358.5 | 15.80 | 19.2 |
| 13 | Jordan | 986,816 | 122.5 | 15.30 | 14.40 |

¹¹ Source: 2016 General Budget Department actual data. JD 323,770,500 was distributed to Center, making total capital expenditure JD 1,310,599,000

¹² Source: Department of Statistics

¹³ Source: Governorate development program 2016-2018



The Government of Jordan