

Report No. 103433-JO

Hashemite Kingdom of Jordan

Promoting Poverty Reduction and Shared Prosperity

Systematic Country Diagnostic

February 2016

Middle East and North Africa Region
The World Bank Group



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Abbreviations

ACI	Adaptive Capacity Index	KwH	Kilowatt Hour
ANS	Adjusted Net Savings	LNG	Liquefied Natural Gas
ASEZA	Aqaba Special Economic Zone	LPG	Liquid Petroleum Gas (bottle)
BOO	Build Own Operate	LPI	Logistics Performance Index
BOT	Build Own Transfer	MDGs	Millennium Development Goals
BRIC	Brazil, Russia, India and China	MENA	Middle East and North Africa
BRT	Bus Rapid Transit	MOE	Ministry of Education
COED	Cost of Environmental Degradation	MOPH	Ministry of Public Works and Housing
CPF	Country Partnership Framework	MOPIC	Ministry of Planning and International Cooperation
CSP	Concentrated Solar Power	MSME	Micro Small Medium Enterprise
DPL	Development Policy Lending	NafKE	National Assessment for Knowledge Economy
EFF	Extended Fund Facility	NCHRD	National Center for Human Resource Development
EPI	Environmental Performance Index	NEPCO	National Electric Power Company
ERfKE	Education Reform for the Knowledge Economy	NES	National Employment Strategy
E-TVET	Employment - Technical and Vocational Education and Training Fund	NPL	Non-Performing Loans
EU	European Union	OECD	Organization for Economic Cooperation and Development
FDI	Foreign Direct Investment	PCP	Parent-Child Packages
FDs	Field Directorates	PER	Public Expenditure Review
GAM	Greater Amman Municipality	PIMI	Public Investment Management Index
GCC	Gulf Cooperation Council	PISA	Program for International Student Assessment (OECD)
GDP	Gross Domestic Product	PM	Prime Minister
GHG	Greenhouse Gas	PPP	Public-Private Partnership
GIC	Growth Incidence Curve	QIZ	Qualified Industrial Zones
GNI	Gross National Income	RSCN	Royal Society for the Conservation of Nature
GOJ	Government of Jordan	SBA	Standby Arrangement
HIPC	Highly Indebted Poor Country	SCD	Systematic Country Diagnostic
HOI	Human Opportunity Index	SME	Small and Medium Enterprise
ICS	Investment Climate Survey	SOEs	State-Owned Enterprises
ICT	Information and Communications Technology	TFP	Total Factor Productivity
IMF	International Monetary Fund	TTL	Task Team Leader
IT	Information Technology	UNEP	United Nations Environment Programme
JD	Jordanian Dinar	UNESCO	United Nations Educational, Scientific and Cultural Organization
JLMPS	Jordan Labor Market Panel Survey	USAID	United States Agency for International Development
KAFD	King Abdullah Fund for Development	USD	United States Dollar
KG	Kindergarten	WBG	World Bank Group

Acknowledgements

This Systematic Country Diagnostic was led by Kevin Carey (Lead Economist, Bank), Ahmed Attiga (Principal Country Officer, IFC) and Paul Barbour (Senior Risk Management Officer, MIGA) with a core team comprising the active Task Team Leaders (TTLs) across the main operational sectors for the WBG in Jordan. Muna Salim supported the team coordination and logistics processes.

The core team relied substantially on sector-specific expertise from across the World Bank Group's units, global practices (GPs) and Cross Cutting Solutions Areas (CCSAs) and country operations and dialogue knowledge from the Country Management Unit (CMU). The table below identifies team members representing each of these units, GPs, and CCSAs, with specific knowledge of and experience in Jordan who played an important role in providing expert input throughout the SCD process.

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Executive Summary

Context

This Jordan Systematic Country Diagnostic (SCD) represents the considered assessment by the World Bank Group (WBG) of the most important constraints to Jordan’s sustainable achievement of the twin goals of absolute poverty reduction and improved welfare of the lower 40 percent of the income distribution. The SCD was prepared during 2014-15 and benefitted from interaction with a concurrent blueprint exercise being undertaken by the Government of Jordan, the *Jordan 2025* strategy. From the vantage point of the WBG country operational model, the SCD provides the analytical base for the design of the WBG’s next Country Partnership Framework (CPF) for Jordan, which will cover the period 2017-2022. From the vantage point of the Government and its external partners, the SCD seeks to offer a comprehensive assessment of developmental constraints which is available to everyone for use in designing their own interventions. Indeed, given the wide scope of the SCD, it is virtually inevitable that alleviating some binding constraints will be beyond the scope of the WBG.

It is important to note that as a WBG diagnostic, the SCD incorporates the private sector oriented insights of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), as well as the International Bank for Reconstruction and Development (IBRD) i.e. the WBG’s operational and advisory services arm for interactions with the government. In addition to this broad base, the SCD is intended to reflect analytical insights gained from interaction with a range of stakeholders during consultations, including with ministries, the Parliament, academia, and the Jordanian diaspora.

A Risk-Rents Equilibrium

The starting point of the SCD is recognition of Jordan’s exceptionally high exposure to exogenous shocks, arising from its location and historical role in the MENA region, which is encapsulated in the Syrian crisis. These shocks arise through spillovers from regional conflict, most recently from Syria and Iraq, commodity prices, and shifts in geopolitical relations. The shocks have magnified effect when absorbed in Jordan due to its small size and proximity to major disturbances: when some relief valves are closed, others have to carry even more weight. Jordan’s location and endowment also give rise to slower-to-develop vulnerabilities in areas such as water resources and climate change.

The first critical point of the SCD’s macroeconomic assessment is to recognize that this high exposure to negative shocks has not resulted in below average economic outcomes for Jordan. In fact, relative to its tumultuous experience of the 1980s, Jordan could be considered a success story. During that decade, a prolonged period of low oil prices and a high fiscal burden resulted in the fiscal and exchange rate crisis of 1988-89 which mutated into severe domestic political tensions in response to austerity measures and the outdated representative structure of the then parliament. However, since 1990 (to 2014), real GDP growth averaged 4.9 percent, associated with per capita GDP growth of 2.2 percent. Political institutions are far deeper than they were in the 1980s, and society has proven resilient to several waves of difficult reforms and shocks since then.

So if the issue is not generating an apparently adequate level of growth, what is it? As a practical matter, growth during the next 5 years is projected to be in the 3-4 percent range i.e. a slowdown relative to the pre-2011 average, and barely enough to generate per capita growth. In fact, growth in 2015 has been even slower, as the complete closure of trade routes to the north and east took its toll. Even for the previous higher average, this needs to be placed in global context: per capita growth of around 2 percent is precisely the long-run global country average identified by Pritchett and Summers (2014). This rate of growth may be sufficient to generate prosperity if sustained for a very long period of time. But with the crisis of the 1980s having set back Jordan's GDP level for some time, an inability to generate sustained growth accelerations since then, and some risk of economic crisis relapse (such as surfaced in 2011), even a quarter century of solid growth is not enough to have enabled a "Tiger" like transformation of Jordan's economy.

A striking feature of growth in Jordan is that it has not led to significant private sector job creation of positions held by nationals. The employment elasticity of growth dropped from 1.16 during 1990-99 to 0.53 during 2000-09. Increases in productivity which occurred in few emerging knowledge-intensive sectors (ICT, health, financial services, etc.) have proved difficult to scale up, and are certainly not big enough to absorb the youth bulge. Productivity remained low in labor-intensive sectors, leading to the creation of low-wage low-skills jobs that do not appeal to Jordanians and were filled by foreign workers (refugees or migrants from poorer neighboring countries).

The SCD's macroeconomic, poverty, and sustainability assessments reinforce the perspective that business-as-usual economic performance will not be enough to regain past performance, let alone reach the 7.5 percent growth in the targeted scenario of Jordan 2025. SCD findings include an inability to sustain growth accelerations, a very small export base, persistent fiscal and external balances, and bottlenecks contributing to a trend decline in investment as a share of GDP. The public debt has risen through several "red lines" and its scope for any further buffering of shocks is gone, especially with the financing needs arising from the Syrian crisis. Regarding poverty, the assessment emphasizes the fragility of Jordan's low headcount poverty (around 14 percent): one third of the population experiences transitions into poverty during a year, and lower quintile household expenditures will be squeezed by (needed) adjustments in energy and transport costs. Furthermore, although access to social sector services is high, there is considerable variability in quality due to financing and delivery mechanisms, especially in health.

Strains on social sustainability, deepened by the Syrian crisis, are at the confluence of these difficulties. The fiscal burden of the existing socio-political bargain is increasingly challenging. But if that socio-political bargain is revisited, for example in terms of its access to public sector jobs and subsidies as key elements of the government-citizen relations, then fissures in society will become harder to contain. Elements of this can already be seen in alienation of youth, especially in the lagging regions of the country outside Amman.

The critical point is that, as with most types of risk, the risks facing Jordan are associated with opportunity: the possibility of gain. For Jordan, the possibility of gain arises from a demonstrated ability to mobilize around some reforms and its distinctive role in the Middle East as a country that has remained politically stable despite having to absorb spillovers from shocks originating in its neighbors. The interest of western countries in underpinning stability and helping Jordan mitigate spillovers has generated sizable grant and below-market debt financing for the government, which can be deployed to ease the cost of

needed economic reforms. In addition, to Jordan's south, in the GCC, is the world's most oil-rich region. The development of oil wealth in the GCC has created beneficial effects for Jordan in terms of remittances, consumption and investment flows, and official grant support.

Historically, Jordan has defined the opportunity arising from its regional role in terms of access to financial flows from abroad. The key implication of these flows is that Jordan is earning geopolitical rents: a financial return to its status and stability role in the region which far exceeds the cost of any economic activities associated with that status. These flows are thus analogous to a natural resource rent in that they will permit a level of expenditure that can persistently exceed the output of economic activities within Jordan. In fact, since a portion of these flows originate in the GCC and are thus financed by oil, Jordan is an indirect recipient of a classic natural resource rent.

Although these rents are of course beneficial to Jordan, the standard side effects will apply. Income from rents will be spent in various sectors, including non-traded goods, the price of non-tradables will rise, and there will be a real exchange rate appreciation which will impede the competitiveness of the traded goods sector. The essential point: Jordan receives inflows based on an intangible and volatile but highly valuable asset and is located in a resource rich region which values that asset. Thus we should expect to see elements of rentier behavior and Dutch Disease.

However, Jordan is not simply a passive recipient of rents and absorber of shocks. The country has a complex and nuanced domestic political equilibrium which is partly a product of past shocks, but also a means of coping with them. This political equilibrium goes back to Jordan's post-1948 compact between incumbent citizens and the subsequent waves of migration. Part of the coping strategy was a large public sector which provided needed services to forced migrants while public sector jobs, including in the security sector, were used to insulate host communities. This led to a tacit job segmentation between incumbent citizens in the public sector, while migrants sought livelihoods in the private sector. As a result of a rigid business climate and the presence of dominant family trading companies in commercial sectors, these latter opportunities were often in the informal sector.

Over time, fiscal constraints made it infeasible for the public sector to absorb all incumbent Jordanians, while the emerging private sector proved resilient to volatile economic conditions, yet constrained by factors to be discussed later in the SCD. The result is that the society's original occupational segmentation between two different groups has given way to an amorphous middle class including public sector workers, especially in the administrative layer, employees and proprietors of smaller firms in the business sector, and longer-term migrant residents (1948 and 1967 refugees and most recently from Iraq and Syria) who have built livelihoods in the country. The dynamics of this social composition are imposing increasing strain on the traditional social compact, not least because the grievances of the new "median voter" are a mix of issues. Indeed, a sense of lack of meaningful choice over critical issues, despite the growing power of Parliament, has given rise to political apathy which, for the case of youth, risks deteriorating into alienation.

Having laid out the political economy of rents and social structure in Jordan, the SCD then builds up two hypotheses which structure the analysis of constraints. The first hypothesis is that Jordan does not manage risk as effectively as it could, at the level of government, households, or firms. The second is that

there are major distortions in the functioning of markets for labor and capital, which impede the economy's ability to create high productivity job opportunities. Each hypothesis is founded in the preceding discussion of rents and risk, and deepened by mobilizing the World Bank sector knowledge.

Hypothesis 1: Management of risk

The first hypothesis is the counterpart to the SCD's focus on Jordan's coping mechanisms for the shocks that it faces. It postulates that because of an overreliance on government access to official flows and below-market debt to manage volatility, Jordan has experienced negative consequences from shocks that could have been avoided, and has failed to fully capitalize on positive opportunities associated with these shocks. Since risk is not offset or efficiently shared, households, firms, and the government are bearing excess risk.

The SCD argues that this excess risk and associated caution is pervasive and provides a unifying explanation for why problems tend to persist despite progress in certain areas such as the energy sector and privatization. Decision makers at most levels of government are prone to a short-term and tactical approach; firms are reluctant to invest; banks are cautious to lend; households are reluctant to seek economic participation options besides a public sector job. Yet other economies, including in MENA, do succeed in taking decisions that enhance growth or efficiency, even if these actions have downside risks. Jordan's risk appetite seemed to worsen around the time of the global financial crisis (whose knock-on effect had a large impact on property prices and fiscal revenues) and escalated with the onset of the Arab Spring.

Why does Jordan exhibit more policy inertia than most? The SCD argues that the answer is rents. These rents are like a natural resource flow in terms of their domestic economic and political effects, including by reducing the incentive for taxation and accountability. But they also resemble state-contingent payments to Jordan, where the events that trigger the payments are somewhat beyond Jordan's control – major events in other countries in the region, altered geopolitical calculations, and the price of oil. Indeed, these payments are a type of insurance: as a rule, they increase when Jordan's circumstances are worse. As such, these payments are a disincentive to take complete protective actions against predictable risks (“moral hazard”).

The fundamental cost of the way that rents and the socio-political bargain have reinforced each other is through a reactive approach to shocks. The relationship between Jordan and its partners – as a relationship between sovereign states – does not permit precise micro-management and measurement of the type and cost of shocks which hit Jordan. It is therefore intrinsic to the quasi-insurance characteristic of these payments that Jordan does not have the incentive to minimize the total cost of adverse events, because “insurance” will bear some of the cost. At the level of policy, this means the postponement of reforms which could help reduce exposure to the impact from negative shocks in expectation of *ex post* partner financial support. These reforms are in any case difficult due to the domestic political compact discussed above. But whereas in other countries, the cost of non-reform may rise to a point where action becomes the preferred option (e.g. with an incipient fiscal crisis), Jordan's access to external support precisely in the case of adverse events weakens this weighting of the cost of pre-emptive action compared to *ex post* adjustment smoothed by grants.

However, the risk management perspective goes beyond the influence of rents on national strategy. At the government level, the electricity sector provides a stark example of how foreseeable risks from lack of diversification of fuel sources were superseded by an opportunistic approach based on near-term fuel pricing. The consequence was the disruption in gas supply from Egypt resulting in a publicly guaranteed debt crisis at the electricity distribution company, NEPCO. Macroeconomic risks could also be managed through financial instruments, many of which are increasingly seen as part of the standard toolbox for debt management agencies. Yet in Jordan, the main focus of debt management activities was on meeting the immediate needs of the funding calendar, especially through instruments insulated from sovereign risk (e.g. US guarantees).

For households, the ability to manage risk is impaired by a social safety net that was largely designed around categorical transfers and universal price subsidies, though it is evolving towards targeted subsidies and transfers. However, access to finance remains a major challenge for lower-income households, and with it, access to instruments which could help them cope with risk. Thus there is a close link between balanced risk management and equity. In the private sector, excess risk has limited firms' willingness and ability to invest, for instance, for capital expenditures or expansion plans, which would help firm growth and potentially create new employment opportunities. The presence of geopolitical rents also distorts risk management mechanisms employed by the private sector firms, especially during times of crisis and shocks.

It is also important to draw out the link between risk management and sustainability. As the SCD shows, Jordan faces an unusually wide configuration of sustainability risks, from macroeconomic (especially external balance), water, and social stresses exacerbated by the Syrian refugee influx. A strategic approach to risk would ensure that these sustainability issues are managed at the highest level of government and in turn that associated policy responses permeate throughout the administration. In fact, although government strategies do a commendable job of analyzing these risks, most recently Jordan 2025, it is not clear that a systematic and integrative approach to sustainability informs daily government business in guidance from the leadership to an empowered middle management.

Hypothesis 2: Functioning of markets.

Regarding the performance of factor markets, two essential signals of structural impediments are the low level of investment, especially private investment, and deep labor market segmentation between the public and private sectors, formal and informal sectors, and the respective roles of Jordanian males, females, and migrants in the labor market locally and regionally.

The level of investment lacks buoyancy and investment surges have not been sustained. Looking first at public investment, the general pattern has been for fiscal consolidations to come at the expense of the public capital program. With the public sector payroll and subsidies (before 2011) seen as rigid, the main room for budget cuts has been with public investment. However, there are two important qualifications to this general trend of lower public investment. There are indications that operations and maintenance (O&M) expenditures have been pared particularly severely to make room for other items. Furthermore, since the government has the option of donors willing to fund capital projects, it has been possible to mobilize ring-fenced grant funding for selected projects in the capital program. However, these two factors – inadequate

O&M and donor funding of capital projects – interact negatively with each other. The capital budget does not provide comprehensive reporting of O&M expenditures, and the apparent attractiveness of donor-funded projects comes at the cost of programming for long-term O&M of the associated assets. The fact that the budget is constructed on a line item basis and cannot be matched to a register of assets makes it very difficult to manage existing and prospective public assets properly. As a result, there is a double cost to the way that the public investment program is run: the space for new projects, and especially projects with diffuse benefits is limited, but the existing asset stock is deteriorating even as more recurrent cost obligations accumulate for projects that do get through the system.

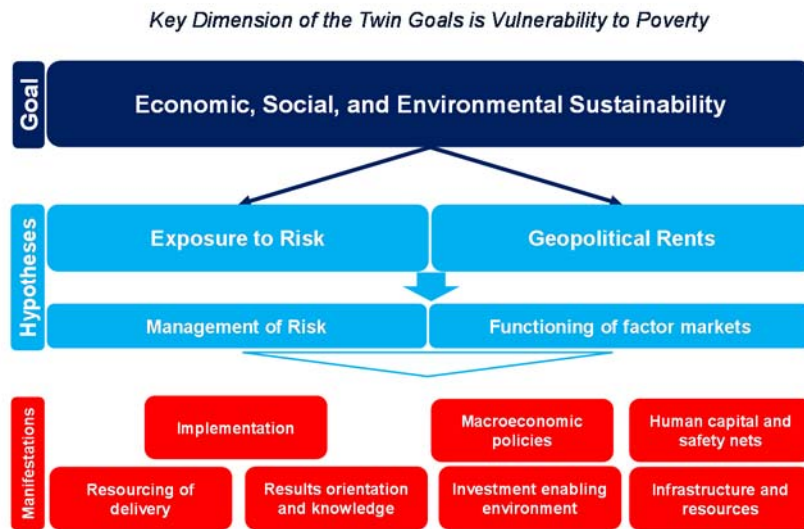
As for private investment, this is characterized by a general weakness in domestic private investment and occasional surges in FDI which peter out. The most recent such surge was during 2004-2008, which was undermined by the belated effect in Jordan of the global financial crisis. The determinants of this surge are an illustration of Jordan’s regional exposures. A wave of economic reforms related to privatization had begun in the 1990s, but investor response accelerated after the resolution of the fate of the Saddam regime in 2003, the uncertainty about which had previously held back confidence. The positive environment was reinforced by the oil price boom, which contributed to the pool of investment money in the GCC looking for regional opportunities. Remittances also underpinned a local investment boom. A fragmented investment promotion strategy involving multiple agencies as well as a zones commission was unable to maintain the momentum of promising surges.

The successful PPP for Queen Alia International Airport represented the confluence of effective reform implementation, a favorable regional environment, and investor mobilization. By late 2008, these factors had run their course and the slowdown in investment flows associated with the global financial crisis had a severe impact on the economy and fiscal position. Coupled with disruptions in the energy sector, these weaknesses culminated in a nascent fiscal crisis in 2011, the correction of which has been the focus of the successfully completed IMF SBA and the Bank’s DPL.

This lack of sustained investment has its counterpart in structural shortcomings in the labor market: low labor force participation, especially among women (around 12 percent), persistent unemployment, a combined expectations/skills gap, and deep labor market segmentation. This segmentation involves rationing of public sector jobs – both by numbers and salary – a lack of alignment of skills and expectations in the private sector labor market, and simultaneous flows of more skilled Jordanians to the GCC while lower skilled migrants flow into Jordan.

From the job creation side, Jordan has the “missing middle” syndrome also seen in other countries with a relatively sparse density of medium-sized firms between micro and small enterprises on the one hand and well-established large firms with limited contribution to net job creation on the other. Promising sectors such as ICT, pharmaceuticals, and health tourism have shown what can be done, but these sectors have faced challenges in scaling up and are under continual competitive pressures especially from within the region (e.g. Dubai).

Figure ES 1: Jordan SCD Conceptual Framework



The issues at the sector level

The SCD shows how these hypotheses are both aggregations of sector level issues while also constituting somewhat autonomous factors that manifest themselves at the sector level. Figure ES1 illustrates the cascading logic of the SCD moving from sustainable achievement of the twin goals to the SCD hypotheses and then in this section to the manifestations of the hypotheses in terms of implementation and sectoral constraints.

Consider first the business climate. Jordan’s exposure to regional shocks has had adverse effects on investor confidence since 2008, but this has been compounded by policy, regulatory, and administrative uncertainties which are due to shortcomings in public sector performance, as outlined in Jordan 2025. These erode confidence in the investment framework and confront entrepreneurs with concerns about access to credit, skilled labor, and a level playing field.

Due to inflexibilities in the functioning of formal markets, informality is prevalent and has disproportionate impacts on the poor. Indeed, one of the challenges in coping with the Syrian refugee influx is that a significant part of the non-fiscal response burden is borne by the informal sector, through additional supply of informal labor and enterprise by refugees. For Jordanians, this deepens the wedge between formal and informal employment, while shifting more economic activity outside the tax base and so undermining fiscal sustainability.

Governance provides an essential lens for understanding the complex role of the public sector in Jordan: the public sector is at once intrinsic to the social compact, through the provision of jobs and

services, but its role has often been stifling, not least because the size of the public sector dilutes its ability to incentivize good performance. The upstream issues relate the interaction of geopolitical rents and domestic politics, discussed earlier. This tends to divert ministry and agency effort into seeking influence and legitimacy through roles in the allocation of partner financing flows, which are the most discretionary item in the budget. But this comes at the expense of a more standard role for Parliament and the budget policymakers in determining the spending envelope and priorities for the overall budget, i.e. a coordinated allocative process from a single pot of money comprising both domestic and partner funding.

In terms of the functioning of the public policy process and public institutions, there is serious fragmentation at all levels; besides impeding a strategic perspective in government, the impact of otherwise worthy transparency and accountability initiatives is diluted. Public investment management (PIM) has lacked any standardized practice of the “must have” PIM functions. And there are incentives to keep things this way, because the fragmentation allows the individual players to broker their own informal relationships and protocols, undermining citizen confidence (Jordan 2025).

The energy sector story is one of several phases of strong reforms that was derailed by a combination of shocks in 2011. Specifically, a successful unbundling of the electricity sector and attraction of investment to power generation had given Jordan a fairly modern sector structure by 2008. But this model contained a huge embedded risk in its growing reliance on a single fuel source, namely natural gas. When this was interrupted in 2011, precisely at a time of domestic political fragility, the government did not want to pass high costs through to electricity consumers and a fiscal crisis (cumulating up to 20 percent of GDP) ensued.

However despite the fiscal difficulties, the overall reform response of the energy sector has been very strong. Energy price adjustments have begun and are embedded in a multi-year trajectory towards cost recovery. The operational LNG terminal will diversify the fuel mix, and renewable investment commitments have been scaled up dramatically – the point where Jordan has electricity export potential.

Water, the environment, and climate present a set of existential issues for Jordan. Jordan does not have the groundwater resources to meet demand projections even at conservative levels of per capita usage. Although there has been some progress in adjusting tariffs towards economic cost, the fiscal burden from water utilities is growing. Attention has increasingly shifted to large and complex investment projects, including desalination, as part of the solution. But the fragmentation of roles makes it more difficult to identify the operational elements of the overall water strategy. Similarly, climate change represents a major but slow-moving risk to Jordan that will require a complex multi-sector response which the public sector will struggle to deliver.

The common theme to the numerous job market challenges is segmentation and distorted market signals which compartmentalize the labor market rather than harmonize it. In fact, the job market seems to exhibit corner solutions both vis-à-vis the labor market status of various groups and with linkages to other sectors. Examples include: educational choices that seem unresponsive to labor market demands, massive queuing for positions in the public sector, a very large gap between formal and informal sector earnings and between reservation wages and prevailing wages in the most available occupations, and perhaps most strikingly, one of the world’s largest gaps in male-female labor force participation.

Furthermore, there are significant gross flows in the labor market, of skilled Jordanians out to the GCC and further afield, and lower skilled migrants, mostly from Arab countries, into Jordan.

There are multi-faceted contributors to this situation on both the supply and demand side. On the supply side, issues include the wage-hours expectations-setting role of the large public sector, negative labor participation impact of unearned income sources such as remittances, subsidies and transfers, and social security taxes associated with formalization. The minimum wage is set in monthly terms (JD 190 or around US\$270) and therefore can be binding precisely in jobs likely to attract less experienced women, especially those interested in part-time employment. All these factors are reinforced by cultural and social expectations. On the demand side, Jordan has, like other MENA countries, a “missing middle” regarding firms i.e. a small number of large and well-established trading companies and a densely populated micro and small enterprise sector which has difficulty making the transition to mid-size.

There are two particularly discouraging elements of the Jordan labor market picture. First, a solid government analysis of all the above issues and more is already in place in the form of the National Employment Strategy (NES). But NES implementation has devolved into a set of small mostly donor-funded projects. Second, the problems seem to be getting worse over time. Interestingly, one source of alleviation has been the Syrian refugee influx, as this has brought additional labor supply at both the low and high skills end of the market; the latter is important given the competition for Jordanian skills in the GCC.

The social safety net is an area of comparative success for Jordan. The use of cash transfers as compensation for the 2011 removal of fuel subsidies was an ambitious reform, yet the government was able to carry through with the scheme while maintaining the commitment that the transfer would only be active when oil prices were high. The information base for an extensive means-tested safety net is now in place, and this will be further strengthened by the completion of the National Unified Registry.

Regarding the social sectors (education and health), Jordan has historically performed very well in both education and health outcomes, with broad access and a reputation in the region for good quality delivery. The problem now is increasing inequality in provision and erosion of quality and major system stressed due to the Syrian influx. The health sector has a two-tier or even three-tier provision system and the education system has struggled to maintain standards at all level, especially tertiary. A very constrained spending and administrative environment has locked in an outdated delivery model while leaving little discretion for innovation or returns to good performance. A key exception is health tourism – where the private sector was able to find a role – but even this segment is not static and new competitive pressures are emerging, including from increased use of remote healthcare delivery facilitated by the Internet.

A final set of constraints are usefully grouped under economic and political geography. These pertain to transport and decentralization. The urban poor experience large costs in terms of time and money from inadequate public transport. And while the road network is substantial, there are concerns about inadequate operations and maintenance expenditures and the difficulty in implementing more complex projects (e.g. intermodal or those that would support objectives like regional integration). Jordan’s intergovernmental delegates selected designated powers to lower tiers of government, which has, for example, limited the ability of local jurisdictions to address service gaps in lagging regions or respond quickly to the Syrian

influx. The combined effort of the transport and decentralization issues is to distort population flows in the country, as people move to the urban areas to have better access to jobs and services.

Prioritization

The prioritization exercise for Jordan requires considerable tailoring to the current context: a substantial reform agenda is already unfolding, albeit at different pace across different sectors. The key example is the energy sector. A SCD written in 2010 would most likely have identified the energy sector as the top constraint in terms of risks, fiscal impact, threats to energy supply, and overall urgency. In 2011, the risks that would have been embedded in such an assessment were realized, and a long-discussed move to cost-reflective electricity tariffs and diversification of the energy mix are now under phased implementation, while liquid transport fuel subsidies have already been eliminated. As this SCD has shown, water is now the “next frontier” for such an adjustment, and depletion concerns heighten the importance far beyond fiscal costs. An associated reform program is currently under discussion with the government within the framework of a new programmatic DPL.

Implementation is a binding and cross-cutting constraint that needs to be tackled in parallel with the remaining constraints identified below. As experience shows, implementation constraints can be overcome. This is illustrated when there is a widely understood mandate, originating from the King, and ministers who are empowered to resource reform teams with high capacity and motivated members. By contrast, initiatives have languished when they are left to technical committees without clear criteria for escalation and when reform teams have experienced staffing and operating constraints (sometimes rationalized on grounds of a hiring freeze).

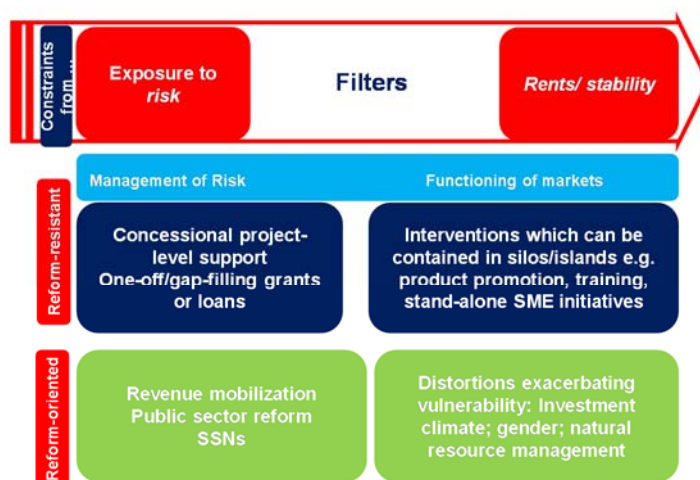
Fundamentally, these divergent implementation outcomes reflect policymaker incentives towards inaction: they see adverse consequences to acting given unclear signals about the authorizing environment. Furthermore, Jordan’s development partners unwittingly enable this stasis, because fragmented projects offer the appearance of addressing important structural challenges (with associated “nameplate” benefit for donors) while actually postponing action. There is also a risk that accountability initiatives have unwittingly heightened the risk of attracting attention by pushing issues forward.

A second element of the implementation constraint arises from the absence of a strategic management approach in government. At first sight it seems unusual that a country with so many strategic documents should lack a strategic management approach. But in fact, the operational implications of the findings of strategy exercises are often not absorbed. Even where profound sustainability issues are identified, such as in water or climate change, it has been difficult to get line of sight on how these priorities are being absorbed in the government apparatus or how they are being monitored and coordinated. Donors have made this problem worse by cherry-picking the most easily “projectized” elements of strategy, so that the policy component is left as a shell.

The struggles with implementation call for a high level prioritization filter looking at whether a particular intervention is reform-resistant or reform-oriented. Reform-resistance means prone to dilution and reinforcement of the status quo. Reform-oriented means targeting sufficiently deep factors that it could shift policy to a more pro-active stance. The lack of urgency around many areas of implementation

is ultimately linked to the moral hazard associated with the insurance element of geopolitical rents. The public sector contains a large number of organizational entities, which makes a whole-of-government unified approach difficult. Teams charged with implementing reforms often find themselves inadequately resourced and operating in a vacuum regarding a path to expected results and sharing of knowledge. Interventions which contribute to fragmentation or are confined to the project level reinforce this problem; examples include product-specific export promotion, isolated SME support, and vocational training. A strong example of an intervention with more sweeping potential is gender, since factors related gender underlie a range of issues from poverty to labor market dynamics. Investment climate is another area, since deep and comprehensive opening to new investment would shift the policy focus away from rents and towards efficiency of the investment framework. Figure ES2 illustrates how various priorities could be positioned in terms of this high-level filter.

Figure ES 2: Prioritization



Despite the recent positive steps on subsidy reform, addressing Jordan’s fiscal and debt profile represents a precondition for achievement of the twin goals and sustainability. When combined with the undiversified export base, the fiscal situation embeds a “sudden stop” risk in terms of reliance on external inflows to finance the structural savings-investment gap. On the expenditure side, achieving more fiscal space is linked to the sector priorities discussed further below, notably on private sector job creation and social safety reform, to reduce the reliance on the public budget for jobs and subsidies. On the revenue side, there has been considerable analysis of the scope for revenue mobilization and several efforts at streamlining tax exemptions and broadening the base of the income tax. Implementation constitutes the major impediment to effectiveness of these measures, a precondition for which is building consensus with stakeholders about the need for them. Overall, achieving the objectives of the government’s fiscal and economic reform program provide a strong framework for addressing this constraint.

With responses to energy and water constraints already part of an emerging consensus in policy discussion, the remaining constraints lie in the domain of implementation and citizen participation.

Energy and water pricing are at a stage where although there is a technical consensus around the need for adjustment, there is much less agreement around the modalities, especially in water. Since any adjustment will involve tariff increases, a lack of confidence of the public in the motivation for or impact of pricing reforms could seriously undermine reform momentum. Complexity in cost structure is inevitable for major utilities like NEPCO and the Water Authority of Jordan (WAJ), for example in the relationship between profits on electricity generation and distribution. In many countries, the regulator plays an important role in improving the transparency of electricity and water pricing. A lack of transparency can undermine the rationale for price adjustments, especially in terms of a perception of asymmetric price adjustment (i.e. tariffs adjust upwards when energy costs increase but not downwards when energy costs decline). Plans to boost water supply (through the Red-Dead link and ancillary projects) are very complex in terms of their infrastructure and environmental implications. This makes a participatory approach to generating support for these projects more critical but also more challenging.

In other sectors, the reform agenda is at an earlier stage, and the prioritization filters are very useful to determine sequencing:

Jordan's Vision 2025 ambition of sustaining high levels of growth while absorbing significantly more labor will require significant improvement in the business climate and irreversible structural reforms to unleash the potential of private sector investment, trade and innovation, increase productivity and enlarge its small export base. A top priority therefore is providing investors, domestic and foreign, with confidence that they will face a stable and effectively administered regulatory environment throughout the life cycle of their investments, and that is implemented and enforced in the same way for everyone. Important strides are needed to improve regulations for businesses, but the creation of a level-playing field to all investors is key. Strengthening the dialogue between the Government and the private sector will be equally important.

In parallel, Jordan needs to reap the benefits of trade integration. Additional entry of small and medium enterprises on its own will not be transformative; more SMEs engaged in production of non-traded goods and services will be inherently limited by the size of their local markets. Jordan's export performance for new products and new markets is poor, and it has not sustainably increased its exports as a result of trade agreements or export promotion programs. The government should develop a more concentrated industrial policy (i.e. avoiding dilution by having too many "priority" sectors and enclave economic zones), and play an active role in fostering foreign technology transfers matched to human capital, as was achieved in the pharmaceutical sector. The government should also improve innovation policy and strategy to focus on competitiveness enhancement policies, not just in knowledge-intensive sectors, but also in labor-intensive sectors, which, if coupled with an increase in working conditions, can appeal again to young educated Jordanians and migrants.

A related cluster of issues concerns the financing and management of investment. For this constraint area, complementarity provides a strong filter because it directs attention to the multiple determinants of the total stock of physical capital in Jordan and the resulting need for multiple entry points depending on the nature of the capital. For public capital, getting an effective public investment management (PIM)

system operational will enable a comprehensive perspective on existing assets, operations and maintenance thereof, and a vetted project pipeline to which Jordan's partner financing inflows can be allocated. Technical work on the PIM system is already underway. Given the political influence that comes with control of the capital program, operation of a good practice PIM system will be especially prone to the implementation constraint.

If one particular area of PIM should be selected as a priority, it is integration of the capital program into the multi-year budget strategy. This will bring the needed coordination between the allocation of partner financing resources, domestic revenue mobilization, comprehensive budgeting for new capital projects, and internalization of incentives which currently contribute to a proliferation of projects.

Structured finance for infrastructure is another area where progress is already being made, due to the current efforts to build on earlier PPP successes and operationalize the recent PPP law. Because of Jordan's risk exposure and complex project needs in certain sectors (e.g. renewable energy), having an investment framework that attracts high capacity investors is important. These investors will be looking to share risk with partners in the country (most likely the government) and with fellow investors. In this setting, the role of a "first mover" investor in signaling good prospects and resolving uncertainty is strongly warranted. A solid PPP framework provides clear "rules of the game" for such coordination, but other modes of investment (e.g. loan syndication) may be equally viable depending on the circumstances.

Access to finance for smaller firms and households is not amenable to quick improvement; indeed to push too far in this direction would lead to proliferation of micro-enterprises with no hope of expansion and pose risks to financial stability. The priority here is not a single initiative, but rather phasing of a set of reforms that will alleviate different constraints over different horizons. The current banking sector structure with two large banks in stable and conservative business lines and major gaps in credit market infrastructure will struggle to promote access in the short-term. Over time, reduced fiscal deficits should reduce the appeal of financing the government, and growing experience in the SME sector should increase the banks' capacity for the SME segment.

But even with overdue improvement in credit market infrastructure centered on insolvency and creditors' rights, banks alone cannot respond with the scale, speed, or scope needed to make the financial sector more dynamic. This will require better-functioning securities markets, enabled through improved corporate governance and transparency and disclosure requirements on the Amman Stock Exchange. Financial markets would be more diversified through the participation of venture capital and private equity – but these players will want to see good prospects that promising projects can actually move to implementation and profitability.

Another cluster of issues is around social safety nets (SSNs), education, and health. In fact these are all part of helping households manage shocks at various horizons and in response to various random and life-cycle events (income loss, unemployment, health, and livelihood opportunities).

The first key message here is that Jordan has already done a lot to put the technical prerequisites for strong social sector performance in place, but these need to be completed urgently so that policy design which relies on them can be activated. The fuel subsidy removal cash transfer compensation

scheme showed the ability to scale up the safety net when the right conditions are in place. The ongoing construction of a National Unified Registry (NUR) will offer a comprehensive platform for SSNs and social service delivery. In particular, the NUR provides a path to universal coverage in healthcare, and thus is a foundational initiative for implementation of Jordan's National Health Strategy. In the long-term, universal coverage will complement labor market dynamism by weakening the distorted preference for public sector employment as a means of accessing healthcare.

The direction of SSN policy reform also needs to be maintained. The labor market diagnostic indicates that the categorical basis and lack of activation measures in the current SSN creates disincentives for labor market participation. While a realistic time horizon for responding to these shortcomings is long, this policy area scores highly because of its complementarity with other reforms and, ultimately, its strong link to the twin goals.

Constraints related to gender ultimately pertain to the ability of women for autonomous participation in society. Obstacles to women exercising agency in Jordan are caused by a combination of the treatment of women versus men under applicable legal frameworks, with gaps further widened by restrictive social norms that can govern women's behavior and regulations which disadvantage school-to-work transitions for young women. Recent legislative and regulatory reforms, if implemented effectively, have the potential to increase women's agency through expansion of rights and improvements in service delivery.

The education sector illustrates the point that the issue is not whether the overall sector is a priority – it is – but the sequencing of reforms within it. For example, although skills gaps will have to be narrowed from both the supply and demand side, which will take time, several types of reform can be frontloaded:

First, high quality general purpose skills will be needed even if some portion of near-term cohorts of young Jordanians will be looking for jobs in the region rather than at home. Every day that these issues are not addressed, the pool of difficult-to-employ youth is growing.

Second, the education sector needs more autonomy to be able to flexibly manage core operational issues such as teacher assignments and implementation of a modern curriculum which fosters critical thinking and innovation. At the tertiary level, the public universities have a very constricted expenditure envelope, while private colleges have expanded within a deficient regulatory framework which has adverse effects on quality. Clear signals can be sent in the short-term to instill confidence in education quality and relevance at all levels.

The transport sector is at the nexus of several reform areas. The necessary price adjustments in energy have nonetheless exacerbated constraints to mobility, especially in urban areas. Relaxing constraints in transport thus scores highly on improving functioning of the labor market. But it also goes directly to the ability to meaningfully participate in the economy and society. When low income households experience daily access and quality problems in modes of transport and basic regulatory and planning shortcomings (e.g. pedestrian facilitation), it contributes to the gap between the general public's assessment of progress and the technocratic orientation of policy reforms.

Public sector reform is perhaps the single most challenging area to prioritize. Some simplification of this large agenda is achieved by recognizing that certain constraints that normally fall within this domain have been extracted as cross-cutting implementation constraints, already discussed above. But even with this reduction in scope, the public sector remains a common element to numerous constraint areas: fiscal (because of its size and rigid cost structure), labor market (distorted wage setting), and social and administrative service delivery (performance management). However, the track record of public sector reform efforts in Jordan is dismal, despite the existence of a dedicated ministry for this purpose. This most likely reflects that public sector employment is intrinsic to the socio-political bargain, undercutting the feasibility of this reform. Yet it may be that while a direct large-scale approach to public sector reform would fail, well-targeted modifications within the current structure might have relatively large impacts. This would involve a sustained on-the-ground dialogue and learning-by-doing with the upper and middle management layer in ministries, possibly with a pilot reform for demonstration effects.

The Syrian refugee crisis provides further impetus, using the framework of the Jordan Response Plan, to address these long-standing constraints in the economy. Overlaps between a developmental approach to coping with the refugee influx and the aforementioned constraints include the following: First, enabling investment to allow for higher productivity employment growth that will then absorb the refugees as well as local workers without lowering wages; this will also help broaden the tax base. Second, strengthen local service delivery so that additional students and patients do not stretch the health and education systems to breaking point. Third, as accountability improves, shift funding down the chain (to municipalities and facilities) increasing flexibility to respond to local demand. Fourth, the emerging experience with cash transfers to refugees can over time converge with SSN reforms for nationals to create a resilient social protection system which will improve labor market functioning. And finally, strengthen financial markets which can more effectively intermediate refugee assets along with local savings and galvanize investment.

Introduction

Jordan is an upper middle income country which has proven remarkably resilient despite decades of turmoil in its neighborhood. The economy has absorbed recurrent population influx, high vulnerability to energy and food import prices, and a lack of natural resources. It has generated sustained growth and low headcount poverty coupled with generally low inflation and a credible exchange rate regime. Jordan has managed a unique balancing act in the MENA region in terms of maintaining domestic stability despite the persistence of conflict on its doorstep.

Even with economic stability in the face of massive shocks, the Jordanian government – reflecting the views of the population – has made clear the need for improvement in the current growth trajectory. There is considerable public dissatisfaction with the risk of poverty, the lack of job market dynamism, and the cost of living. More generally there is a popular sense that Jordan should be doing better in terms of attracting foreign investment and exploiting its human capital, location, and history. Even the vulnerability to shocks has brought with it a substantial grant inflow from the Gulf Cooperation Council (GCC) countries, Europe, and the USA and with it a perception of unexploited opportunities from those funds to transform the economy.

Public dissatisfaction coalesced around a perception, which the government acknowledges, that previous reform efforts had struggled with implementation, while discretionary decisions and unequal opportunities remain entrenched. Government, stakeholders and partners alike are quick to note that Jordan has an overload of previous diagnostics and strategies which have not proceeded to effective implementation. Just over the last decade, the country has had a National Agenda, a poverty reduction strategy, and National Employment Strategy, and numerous reviews and country strategies undertaken by external partners. These strategies have in turn spawned varied project-level interventions across many sectors of the economy. Likewise, personalized decision-making including widespread *wasta* is seen as a fact of life in Jordan despite various efforts to crack down on it.

In response, the government is moving to the implementation phase of its Jordan 2025 strategic blueprint, a new ten-year strategy formally launched in May 2015. During the design phase of the Blueprint, the government undertook significant consultative exercises which drew consistent feedback from the private sector and citizens about fatigue with another strategic exercise given the poor track record of implementation of previous ones. As a result, Jordan 2025 – which is frank about implementation failures – has placed particular emphasis on strengthening implementation mechanisms, especially at the center of government. Implementation of the Vision will unfold through three executive development plans over the next ten years, the first of which is already being finalized.

The Bank's Systematic Country Diagnostic (SCD) is therefore unfolding at a critical inflection point for the government. While the regional picture remains as fraught as ever, external partner support and the fall in oil prices provide a rare transformational opportunity for economic and social policy. Recent policy adjustments within the framework of the IMF Standby Arrangement (SBA) and the Bank's programmatic Development Policy Loans (DPLs) have already achieved a significant reconfiguration of fiscal and sector policies towards energy sector structural reforms, a shift from universal price subsidies to targeted transfer programs, improvements in the business climate, and a broadening of the revenue base. A

new IMF program (most likely under the Extended Fund Facility) and a DPL covering energy and water are envisaged to be active over the coming year. The SCD can provide a platform for the government, the World Bank Group (WBG), and external partners to work towards agreed priorities from the substantial body of reviews and reports, and to support alignment of external partners' programs with the government's Blueprint.

Given existing reform momentum around the energy sector and investment, the substantive engagement of the Bank Group and other development partners, the SCD will seek added value by providing an integrative and concise perspective on what Jordan can do to better meet the expectations of its citizens. The SCD thus builds on the 2011 Development Policy Review (DPR), existing analyses of poverty and unemployment based on household and labor force surveys, and insights gleaned from projects in key sectors such as transport, education, and private sector development. These are complemented by other major reviews and assessments such as for privatization, employment, and gender and cluster-level analyses for sectors such as pharmaceuticals, tourism, and ICT.

As a multi-sector evidence-based diagnostic, the SCD relies upon consistent and integrated analysis of data from various sources. This requires maintaining a benchmark for timeliness of information. For the sector analyses in the SCD, all data is as of the period that internal World Bank corporate review of the report took place, which is end-June 2015. Selected more recent data is referenced when essential to the storyline as of September 2015, when the draft was shared with the government.

Chapter 1 Context

External shocks have been especially formidable since the beginning of the millennium. The most severe of these shocks include the US-led invasion of Iraq in 2003, the global financial crisis of 2008 and the ongoing “Arab Spring” turmoil that commenced in 2011. In each of these cases, the economy experienced significant growth deceleration, exacerbating already prevailing macroeconomic vulnerabilities. Limited policy space deprived the authorities from macroeconomic tools for countercyclical measures, forcing the government into increased dependence on external aid from political allies and multilateral institutions.

Jordan has particularly strong exposures to the Arab Gulf (GCC) countries. Macroeconomic conditions are significantly impacted by the external environment. To begin with, the country is well placed on the international and the regional tourist map and earns substantial tourism receipts, which averaged 11.8 percent of GDP since 2000. GCC nationals are prime visitors to the country, both in terms of numbers and their propensity to spend. An increasingly strong political alliance with the GCC governments renders Jordan a beneficiary of generous grants and selected foreign direct investments (FDI) from the region. As the SCD will elaborate, these flows can be interpreted as rents to Jordan’s status and location. In fact, Jordan is one of the world’s largest recipients of grants relative to the size of its economy; from 2000 to 2014, Jordan received an average of 6.2 percent of GDP in grants, mostly from the US and GCC.

Compared to countries of similar characteristics and income levels, Jordan enjoys relatively high human development indicators. The population’s access to education and health services is amongst the highest in the region which points to high levels of “ability” amongst the population. But access is being eroded by uneven quality and the commitment to equal access does not always readily translate into equality of opportunity and so possibilities of exclusion exist due to a range of barriers related to gender, geography, origin etc. In addition, high levels of education have not translated into dynamic labor market outcomes as unemployment rates are particularly elevated for higher educated youth and women. The Social Progress Index highlights areas beyond core human development indicators where Jordan faces challenges.¹ Jordan’s score is lowest (43.29) on the opportunity dimension (93rd in rank). It scores poorly (28.16) on the category of “personal rights” measured by indicators related to political rights, freedom of speech and freedom of movement. It also scores poorly on the tolerance and inclusion dimension (38.32) which includes a low score on “tolerance of immigrants”.

Jordan is in the very small class of countries exposed to short-term exogenous demographic shocks which have permanent effects. Regarding human resources, Jordan has both relatively high natural population growth and an exposure to regional shocks which result in substantial jumps in its total resident population. Major influxes include from the Palestinian territories (notably following the Arab-Israeli wars of 1948 and 1967), Iraq (1991 onwards), and Syria (since 2011). This generates substantial short-run frictions between the demand for and supply of housing, social, and infrastructure services, and the demand and supply for labor. The history of Jordan has been for a substantial proportion of each influx to remain in the country for the medium or even long-term. Thus part of the development challenge for the country is to

¹ <http://www.socialprogressimperative.org/data/spi/countries/JOR>

effectively mobilize this human capital in a non-disruptive fashion while coping with inevitable frictions and mismatches along the way.

Jordanian youth constitute a significant segment of the working age population – a demographic gift but also a challenge. The youth, defined as those aged 15-24, forms around 22 percent of the Jordanian population. The youth bulge was due to the relatively high fertility rates which were around 7 in the 1980's until they declined to 3.3 in 2012. Jordan will continue to experience growth in its youth population in the coming years as currently 34 percent of its population is below the age of 15, while only 3.5 percent are above 65 years old. It is predicted that the working age population will increase from 3.4 million in 2004 to 4.4 million in 2020 to 6 million in 2030 (NES 2011-2020). The youth bulge can be a demographic gift and a valuable resource to the economy if more of the working age population is activated and enough jobs are created for them, but equally a wellspring of alienation if opportunities are not forthcoming.

The SCD takes on board the overarching challenge of sustainability which has emerged from other assessments. Other than some minerals (and potential shale hydrocarbons), the country has extremely limited water and arable land. Most food and fuel is imported. Desertification is an ever-present risk, and climate change will exacerbate existing environmental stresses. Regional politics complicates the joint management and planning of water resources in the Dead and Red Seas and Jordan River. As many countries have found, urbanization is a double-edged sword in terms of environmental outcomes: density can enable efficient and land-conserving growth, but with the wrong policy mix (especially on urban planning, access to land, and energy subsidies), it can instead result in sprawl and environmental depletion.

The sustainability focus is needed to highlight risks that might be neglected given the day-to-day preoccupation with exogenous shocks. While many countries could present a list of challenges and endowments somewhat similar to the above, there are few countries that feature the intensity and breadth of these risks – and arguably none that are not considered fragile. Vulnerability manifests itself for individuals as episodic poverty and job loss and for firms as discretionary administrative treatment, rising costs of, and differential access to, infrastructure and energy, and disruptions in trade. For the country, vulnerability originates in commodity prices, regional turmoil, and climate shocks. There is also a high level vulnerability that comes from being on political and economic fault lines: an upper middle income country next to the high income GCC and (as an eastern Mediterranean country) the EU, but also not far from much poorer countries in north and east Africa.

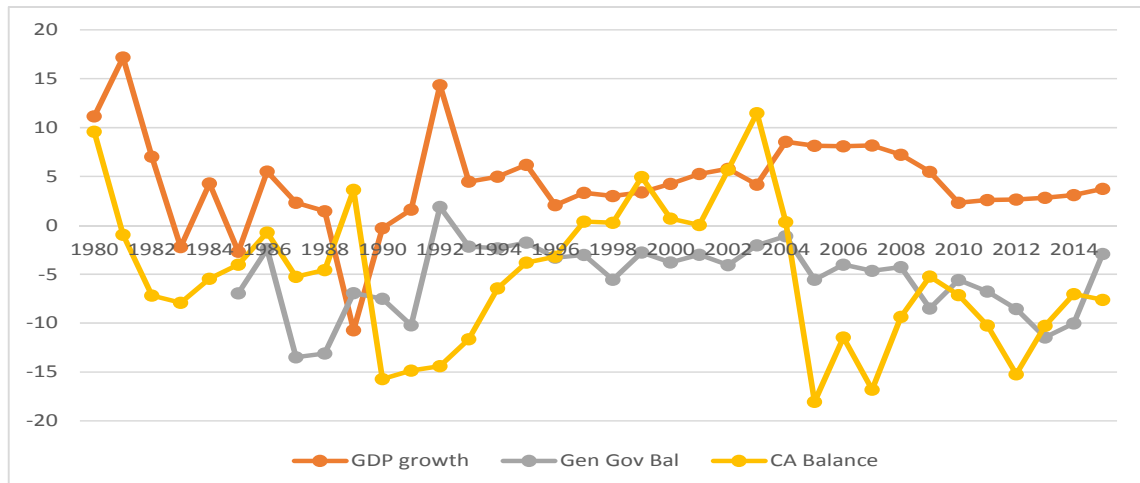
Regional developments for 2015 offered at best partial relief from the cumulative strains of shocks since 2008. On the one hand, the near-50 percent decline in oil prices greatly eased the import bill for electricity generation and transport fuels, and narrowed the gap between generation and end user costs in the electricity sector. The same trend however highlights sustainability concerns about GCC grant and remittance flows. In the energy sector, the mismatch of generation capacity designed for natural gas with disruptions in the supply thereof will continue, while the lack of a diversified transport system locks in reliance on liquid fuels for motor vehicles. In terms of regional developments, there is no sign of resolution of the Syrian civil war, with the result that the large refugee population and trade disruption will continue. Meanwhile, the crisis in Iraq, having already closed off land trade routes and low-cost oil imports, could worsen in 2016 as the Baghdad government attempts to reestablish control in areas of northern and western Iraq lost to ISIS in 2014.

Chapter 2 Major features and emerging challenges

Jordan suffers chronic imbalances in its internal and external accounts. Persistent fiscal deficits are generated from a relatively small tax base that needs to fund a large public sector, the most costly element of which is a large military (7.5 percent of GDP) – seen as the ultimate guarantor of national security in a volatile region. This has led to an accumulation of a large public debt, whose servicing exacerbates the fiscal strain. A period of high growth (2004-2008) helped facilitate considerable improvements in Jordan’s debt ratios. Additionally, recent fiscal consolidation measures, motivated by the IMF Stand-By Arrangement (SBA) program, led to the elimination of expensive fuel subsidies during a politically sensitive period. Externally, a large trade deficit at around 30 percent of GDP necessitates sizable inflows to meet balance of payments needs. At times, these inflows have been insufficient, leading to exchange market pressures. To relieve internal and external imbalances, Jordan depends on international aid, making it one of the largest middle-income country recipients of foreign grants in the world.²

Growth has become markedly less volatile since the early 1990s but the current account is prone to major swings around a chronic deficit. The improvement in growth performance in the 1990s from the 1980s is clearly visible in Figure 2.1, which also shows that the current account and fiscal balances continued to be volatile. This illustrates their role in absorbing shocks while their average values (both around -5 percent of GDP over the full period) is indicative of the dependence on these flows even in “normal” times.

Figure 2.1: Jordan: Growth, Fiscal and Current Account Balances, 1980-2015 (% of GDP)



Source: IMF WEO

Since the turn of the century, growth in Jordan has been brisk but volatile. Real GDP increased by an average of 5.2 percent during the period 2000-2014, which is close to the post-1990 average. Nevertheless, this growth was subject to large variations around the mean, characterized by a one-standard deviation of 2.3 and ranging from a high of 8.6 percent in 2004 to a low of 2.3 percent in 2010. Relative to a group of

² Aid defined as grants, excluding technical cooperation (balance of payments, current US\$).

comparator countries³ that were selected based on a similar nominal GDP per capita in the year 2000, real GDP growth in Jordan performed modestly (Figure 2.2).⁴ As illustrated, Jordan's growth trajectory specifically steepened between 2004 and 2008.

Fluctuations in growth since the beginning of the millennium were largely induced by external shocks. A better examination of growth dynamics can be accomplished by scrutinizing three sub-periods (Figure 2.3).

1. From 2000 until 2003, average growth was 4.9 percent, which is largely considered close to potential for Jordan. This period began with a recovery that was interrupted by the US invasion of Iraq, which dragged growth down by 1.6 percentage points (pp) in 2003.
2. IMF-motivated reforms⁵ involving economic liberalization and privatization intensified through 2008, pushing growth beyond previous estimates of potential to an average of 8 percent for the period 2004-2008. During this phase, Jordan followed international advice and privatized many of its state-owned assets (SOEs), including Royal Jordanian Airlines as well as the country's lucrative mineral companies, Jordan Phosphate Mining Company and Arab Potash Company. Simultaneously, the real-estate sector was on the receiving end of sizable FDIs, mostly emanating from the Gulf Cooperation Council (GCC) region, helping to boost private demand.
3. The global financial crisis marked the end of the high growth era when second degree effects reached Jordan. As the crisis spread to the GCC countries in 2009, Jordan suffered from a decline in foreign investment and remittances, causing growth to decline from 7.2 percent in 2008 to 2.3 percent in 2010.⁶ While sustained growth remained elusive in the aftermath of the global recession, signs of a recovery were emerging in 2010. The Arab uprisings, however, quickly ensued in early 2011, undermining consumer and investor confidence. Since 2009, growth has averaged 3.1 percent, significantly below potential.

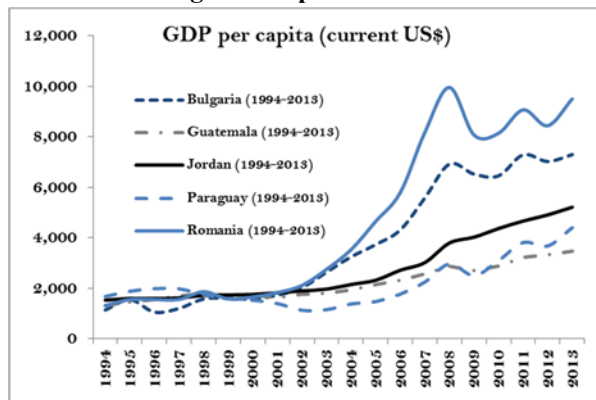
³ To select the group of comparator countries, we used the Find My Friends database and applied the following filtering criteria: (a) non-high income countries, (b) non-BRIC, non-OECD and non-OPEC countries, (c) not an island state, (d) not a highly indebted poor country (HIPC), (e) population below global average and (f) a nominal GDP per capita ranging from \$1500 to \$2000 in year 2000. This generated the following comparator countries for Jordan: Bulgaria, Guatemala, Former Yugoslav Republic of Macedonia (FYR Macedonia), Paraguay and Romania. FYR Macedonia was then disregarded since data do not go back before its 1991 secession.

⁴ Jordan's GDP per capita in 2000 was \$1742.

⁵ Until 2005, IMF programs included three Stand-By Arrangements (SBAs) (approved in 1989, 1992, and 2002), and three Extended Fund Facility (EFF) arrangements (approved in 1994, 1996, and 1999).

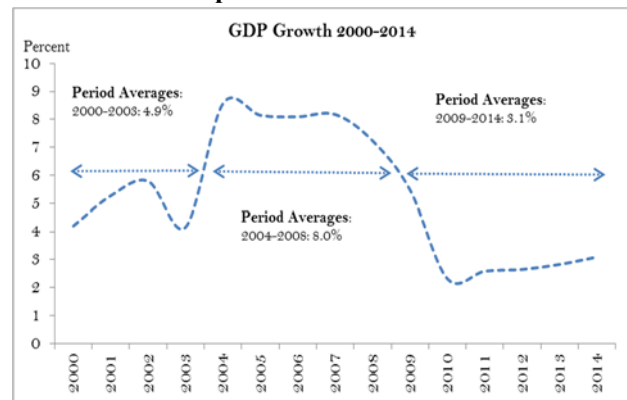
⁶ Jordan has a large expatriate work force in the GCC countries.

Figure 2.2: Jordan per capita growth within range of comparator countries



Source: World Bank staff calculations

Figure 2.3: Growth dynamics idiosyncratic to three sub-periods since 2000



Source: World Bank staff calculations

Economic Structure

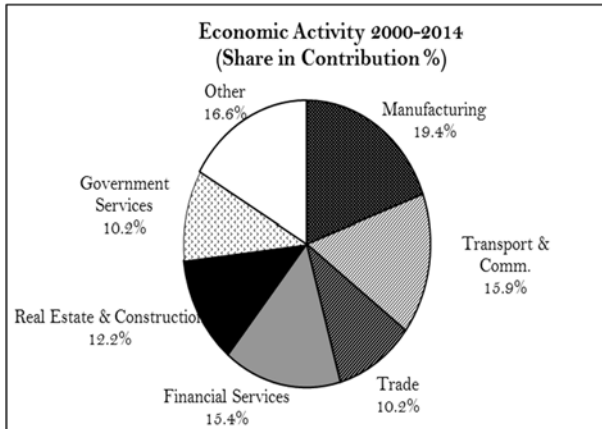
Jordan is primarily a service economy with a significant dependence on the public sector. Comprising mainly of small enterprises, the manufacturing sector accounted for an average of 19 percent of real GDP growth during the 2000-2014 period. There is very little heavy industry, as the only raw materials available in Jordan are phosphates and potash, which are processed for use as fertilizers.⁷ Other leading sectors included, transport and communication, contributing 15.9 percent of real GDP growth during the same period, financial services (15.4 percent) and real estate and construction (12.2 percent) (Figure 2.4). Driven by the tourism sector, trade, restaurants and hotels contributed around 10 percent of GDP. Government services also constituted 10 percent of GDP, with empirical evidence pointing to a positive and significant impact on growth.⁸

The manufacturing sector's share of growth has been on a downward trajectory, from an average of 25.9 percent for the period 2000-2003, to 21 percent during 2004-2008, and then to 13.8 percent from 2009 to 2014. This retrenchment was largely counterbalanced by the financial sector, whose share of growth expanded from 11.4 percent to 16 percent to 17.5 percent, respectively for these same periods. Furthermore, the share of government services saw a decline during the high growth era (2004-2008), replaced by private sector activity, only to pick up again during the most recent slowdown. The Jordan 2025 Vision clearly indicates the government's wish to increase the manufacturing share of the economy to 27 percent by 2025, but the means to achieve this will only become apparent in the executive development plans of Jordan 2025.

⁷ Source: Ramachandran (2004)

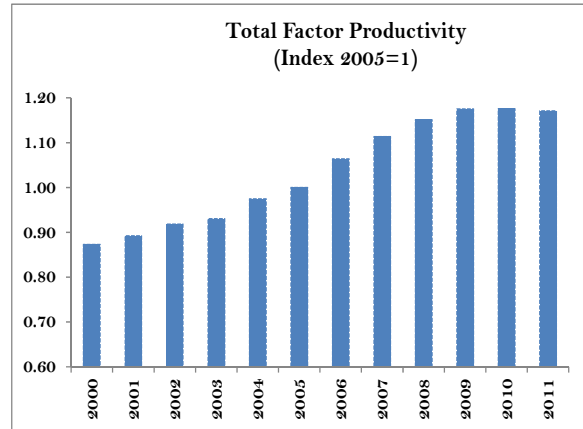
⁸ Dandan (2011) and Al-Shatti (2014).

Figure 2.4: Economic activity has been diverse



Source: World Bank staff calculations.

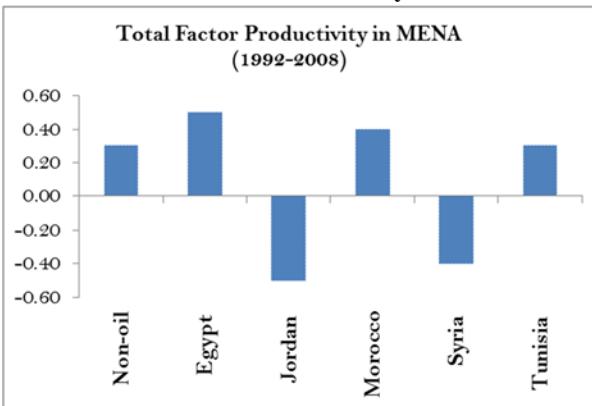
Figure 2.5: TFP rose steadily until 2009



Source: Penn World Table version 8.0

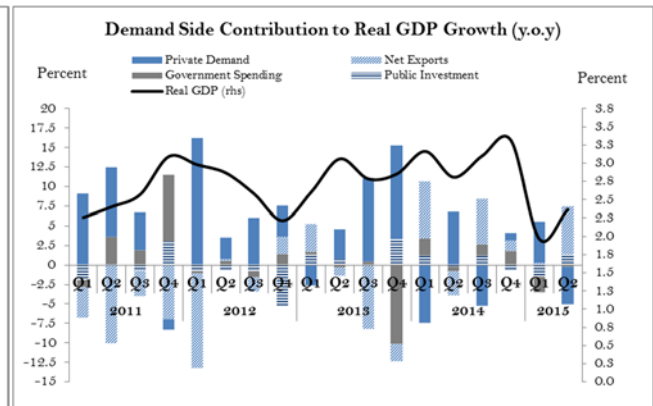
Total Factor Productivity (TFP) was growing, reflecting an efficiency component to the mid-2000s growth surge, until the recent slowdown. The rising trend was most pronounced during the 2004-2008 period when the private sector developed a more prominent role in the economy (Figure 2.5). This trajectory, however, was halted and even reversed starting in 2010. IMF (2012) also estimates TFP for MENA countries during the period 1992-2008 and discerns that Jordan has a lower TFP than any other country in the region, other than Bahrain and Iraq (Figure 2.6). The study also concludes that countries with the highest output per worker—Saudi Arabia, Iran and Egypt—are those with the highest productivity and highest capital stock. Jordan, Yemen and Syria, on the other hand, have the lowest output per worker, with Jordan producing less than most countries in the region except for Bahrain and Yemen. More importantly, productivity gains were only linked to few small knowledge-intensive sectors (ICT, health, financial services), but remained low in labor-intensive sectors.

Figure 2.6: Jordan has lower TFP than any other non-oil MENA country



Source: IMF (2012).

Figure 2.7: Private demand leads growth since 2011



Source: World Bank staff.

Recently, growth has been sluggish as mounting disruption of trade routes and risk perceptions in sectors including tourism and inward investment take a heavy toll. A retrenchment in private investment and tourism, left private demand as the principal driver for recent growth in real GDP (Figure

2.7), reinforced by the large influx of Syrian refugees and Jordanian consumption. Public investment has fluctuated between two offsetting factors. On the one hand, it has been supported by a large increase in external grants, sourced from the GCC countries and directed toward capital expenditures. On the other hand, it is subject to headwinds stemming from a large fiscal consolidation program within the framework of the IMF SBA. Although the SBA itself did not call for cuts in capital spending, the government has partially accommodated slow progress on the revenue mobilization side by cutting capital expenditures to keep the fiscal balance on track.⁹ Additionally, fiscal consolidation measures have transformed public consumption from a positive contributor to real GDP growth to a negative contributor.

The inability to sustain growth surges is linked to the inability of Jordan’s factor markets in directing resources to high productivity traded sectors. This was a key finding of the 2011 Development Policy Review, which used the McMillan-Rodrik methodology, and has been reconfirmed in the recent MENA *Jobs or Privilege* report. This is part of the explanation for why Jordan can cite some promising commercial sectors such as ICT, pharmaceuticals, health services, and renewable energy: the economy indeed has potential and presence in these sectors, but it has proven difficult to scale them up.

Scale-up obstacles in turn pertain to severe investment climate problems (Doing Business in 2015 rank of 117). In a 2013-14 enterprise survey, a set of eight core investment climate factors were collectively ranked by close to 50 percent of firms¹⁰ as the largest obstacles to their operation. This ranking was the same for all firm sizes and ages and for firms in both manufacturing and services sectors. One consequence is the presence of a large informal sector. Informality is a way of avoiding the rigidities of formal laws and regulations, and is also tied to the high presence of migrants, most of whom work in the informal sector. But it also impedes the building of assets and market infrastructure to enable investment.

The merchandise export base is very narrow; a particular anomaly is the absence of a strong labor intensive export composition despite Jordan’s labor abundance. Of merchandise exports, the top five products are calcium phosphates (11 percent), potassic fertilizers (6.0 percent), pharmaceuticals (5.6 percent), mixed mineral or chemical fertilizers (3.4 percent), and textiles (3.2 percent). Import composition is indicative of lack of participation in global value chains other than for pharmaceuticals, with the top imports being refined petroleum (13 percent), crude petroleum (11 percent), cars (4.0 percent), petroleum gas (2.3 percent), and pharmaceuticals (2.1 percent). Also, Jordan did not fully reap the benefits of trade integration. Despite the multiple trade agreements and export promotion programs, the National Export Strategy 2014-2019 confirms that export performance for new products and new markets remains poor.

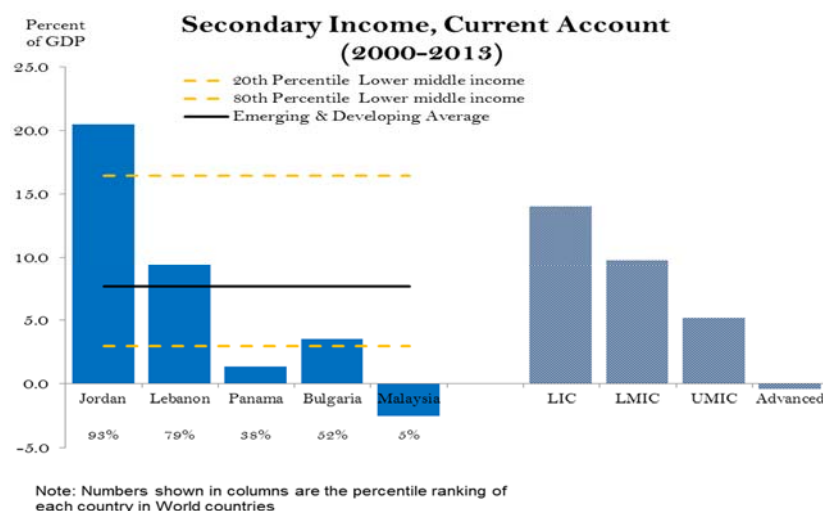
Remittances from a large expatriate population, much of which is based in the GCC region, are an important source of transfers, alleviating external financing constraints. Inflows of remittances have average 16 percent of GDP since the turn of the century. Official transfers and remittances place secondary income in Jordan in the top eight percentile for emerging and developing countries and in the top seven

⁹ The latest IMF program was signed in 2012.

¹⁰ World Bank Group\EU\EBRD sponsored Enterprise Survey 2013-14. The eight investment climate factors are (i) licenses and permits; (ii) access to land; (iii) customs and trade regulations; (iv) tax rates; (v) tax administration; (vi) courts; (vii) practices of the informal sector

percentile globally, surpassing by a large margin all other comparator countries.¹¹ Overall, external income, much of which emanates from the Gulf countries, provides a considerable boost to domestic demand.¹² In fact, while Jordan is an importer of energy, a surge in oil prices can have a positive effect on the economy as it would generate larger inflows from the Gulf. Evidence toward this effect is presented by Mohaddes and Raissi (2011).

Figure 2.8: Jordan’s current account transfers in the top 7 percentile globally



Source: Find My Friends using the IMF World Economic Outlook

Inflows are vital to meet persistent current account deficits, and retrenchment can cause a balance of payments crisis. Jordan has a capital and financial account surplus that averaged 5.0 percent of GDP during the period 2000-2014. This has been used to run a current account deficit that averaged 6.2 percent of GDP during the same period. While Jordan’s current account deficit ranks in the bottom 37 percentile globally¹³, it remains lower than those for the comparator group of countries, other than Malaysia (Figure 2.9).¹⁴ The deficit is largely a consequence of sizable trade in goods deficit, reaching an average of 30

¹¹ To select this group of comparator countries, we used the Find My Friends database and applied the following filtering criteria: (a) non-high and non-low income countries; (b) non-BRIC, non-OECD and non-OPEC countries; (c) non-land locked countries; (d) not an island state; (e) not a small state; (f) not a highly indebted poor country (HIPC); (g) does not have a floating exchange rate regime; (h) population below global average; and (i) imports of goods and services above global average. This generated the following comparator countries for Jordan: Bosnia and Herzegovina, Bulgaria, Georgia, Lebanon, Malaysia and Panama. Bosnia and Herzegovina and Georgia were then disregarded as they do not have comparable data for the 1980s.

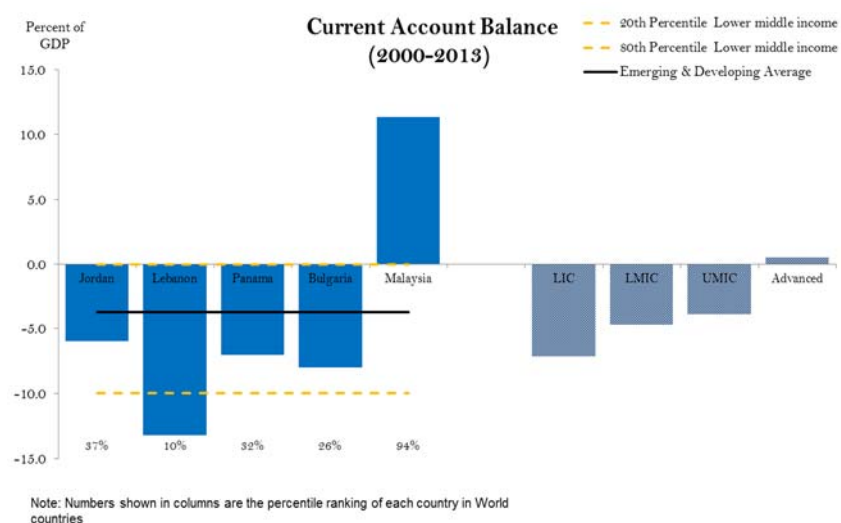
¹² Mohaddes and Raissi (2011) estimate that external income, measured as the sum of remittances, grants and FDI, contribute to real output through the accumulation of capital.

¹³ Thirty seven percent of observed countries have a worse deficit.

¹⁴ Those are again Bulgaria, Lebanon, Malaysia and Panama.

percent of GDP since 2000. The trade in goods deficits more than offset surpluses in the services and income accounts, predominantly generated by the tourism sector and remittances, respectively.

Figure 2.9: Jordan’s current account deficit in line with other low income countries



Source: Find My Friends using the IMF World Economic Outlook.

The Syrian crisis influx exacerbated pre-existing concerns about deprivation and unequal access to services. Much of the dissent of 2011/2012 seems to have waned – a phenomenon generally explained in terms of the population’s fear of security breakdowns similar to those in neighboring countries. This has had a subsequent cost in terms of apathy of the population since support for status quo is partly driven by a fear of alternatives. Simmering concerns continue to exist in areas outside the capital and, most commonly, in the southern and northern parts of the Kingdom. Rising tensions in the Northern governorates are partially linked to the large influx of Syrian refugees and the resulting pressure that this has placed on already stretched services. Surveys conducted in those areas point to a high level of community dissatisfaction with availability of water, adequacy of sanitation and solid and waste water services, rising cost of living and increase in competition for jobs (REACH Surveys contracted by World Bank, DFID and others), all factors seen as contributing to social tensions in those communities. Despite efforts to address those needs through donor-funded programs, there does not seem to be a strategy for addressing this situation in the longer-term.

The successful post-2011 fiscal consolidation was anchored in the elimination of retail petroleum product subsidies. The unsustainably large fiscal costs of petroleum price subsidies, and their regressive nature, led the GoJ to implement substantial reforms in November 2012: the complete elimination of subsidies on gasoline, diesel and kerosene resulting in price increases ranging from 14 to 33 percent. While subsidies on LPG gas cylinders, used mainly for cooking were not fully removed, their prices rose by 54 percent. To prevent the re-occurrence of subsidies over time, the GoJ also reinstated the monthly automatic petroleum products price adjustment mechanism that had previously been in place until December 2010.

To compensate for large price increases on petroleum products, the GoJ simultaneously introduced a cash transfer scheme for households, contingent on the price of oil.¹⁵ Aside from generating fiscal space, the shift from subsidizing petroleum subsidies to a means-tested cash transfer significantly improves the progressivity of public spending.

However, losses at the National Electric Power Company (NEPCO) far outweighed savings from subsidy reform. Pipeline attacks beginning in 2011 led to interruptions in gas supplies from Egypt, which fueled 80 percent of Jordan's power generation, forcing Jordan to run its (gas-designed) power plants on diesel fuel instead, which is a less efficient and more costly process. The GoJ's initial decision not to pass-through the higher input costs to final consumers resulted in a significant increase in NEPCO's operational costs (and external deficit). Consequently, NEPCO has been running deficits of around 5 percent of GDP since 2011. Financing these deficits initially did not directly impact the central government as this was done by borrowing from banks under a government guarantee. In 2013 and 2014, however, the budget directly paid NEPCO's debt servicing costs since banks stopped lending in order to limit their exposure to the company. Nonetheless, NEPCO's debt, as it is sovereign guaranteed, is entirely accounted for in Jordan's public debt stock, which includes government-guaranteed debt. The resulting transfers to NEPCO since the crisis erupted exceed the capital budget, and gross public debt and gross financing needs have risen rapidly. NEPCO reverted to commercial bank borrowing and debt service in 2015 thanks to a significant improvement in its financial standing (reflecting a combination of reforms, policy measures, and lower oil prices). NEPCO is thus no longer impacting the fiscal balance but its debt is government guaranteed. Gross public debt is projected to reach 89 percent of GDP at end-2014 (of which 64.5 percent is domestic) and is expected to increase in 2015 before declining in 2016.

The medium-term energy strategy foresees returning NEPCO to cost recovery by 2017 while diversifying fuel sources. A medium-term electricity/energy strategy to that effect was announced in October 2013. Electricity tariff increases and energy sources diversification are key elements of this plan. The first tariff increases occurred in August 2013 while the new LNG terminal in Aqaba, operational since July 2015, and the completion of renewable projects would enable Jordan to achieve a major diversification of its energy sources by the end of 2015. In the meantime, new regulations to improve domestic energy efficiency have been introduced.

¹⁵ Households earning less than JD 10,000 annually were since eligible for an annual cash transfer of JD 70 per household member for a maximum of six members, provided the price of oil is above \$100 per barrel. The third tranche of cash transfers aimed at compensating households for the removal of fuel subsidies, was not be disbursed in December 2014, as earlier proposed, given that international oil prices were below \$100 a barrel for more than two months. In 2014, the government improved its targeting criteria by proxy means testing looking at asset indicators as opposed to only wage income.

Table 2.1: Jordan: Key Macroeconomic Indicators, 2012-2017

	2012	2013	2014	2015	2016	2017
	Act.	Act.	Act.	Proj.	Proj.	Proj.
Real sector	(annual percentage change, unless otherwise specified)					
Real GDP	2.7	2.8	3.1	2.5	3.7	4.0
Real GDP per Capita	0.4	0.6	0.8	0.4	1.4	1.7
Agriculture (share of GDP)	3.3	3.1	3.3	3.3	3.3	3.4
Industry (share of GDP)	25.1	25.0	25.2	25.6	25.6	25.8
Services (share of GDP)	71.5	71.9	71.5	71.1	71.1	70.8
Money and prices	(annual percentage change, unless otherwise specified)					
CPI Inflation (p.a)	4.5	4.8	2.9	-0.1	2.9	2.7
Money (M2)	3.4	9.7	6.9	6.4	7.5	6.2
Investment & saving	(percent of GDP, unless otherwise specified)					
Total Investment	26.9	28.1	28.0	27.4	28.0	28.7
Gross National Savings	11.7	17.8	21.2	20.3	21.2	22.5
Government finance	(percent of GDP, unless otherwise specified)					
Total revenues and grants	23.0	24.1	28.6	26.7	28.0	28.0
Domestic Revenue (excluding grants and privatisation)	21.5	21.5	23.7	23.9	24.4	24.4
o/w. tax revenue	15.3	15.3	15.9	16.0	16.3	16.5
Foreign Grants	1.5	2.7	4.9	2.8	3.6	3.5
Total expenditure and net lending	32.0	35.6	37.7	31.0	30.9	31.1
Current*	28.9	31.3	33.2	27.3	26.3	26.2
o/w wages and salaries	5.0	5.0	4.9	4.9	4.9	4.9
o/w interest payment	2.7	3.1	3.6	4.5	3.3	3.6
o/w Transfer to utilities (NEPCO and WAJ)	0.3	5.9	7.0	0.0	0.0	0.0
Capital & Net Lending	3.1	4.3	4.5	3.8	4.6	4.9
Overall balance (deficit (-), excl. grants)**	-10.5	-14.1	-14.0	-6.9	-6.3	-5.5
Overall balance (deficit (-), incl. grants)	-9.0	-11.4	-9.1	-4.1	-2.7	-2.0
Primary Balance (deficit (-), excl. grants)	-7.8	-11.0	-10.3	-2.4	-2.9	-1.9
Primary Balance (deficit (-), incl. grants)	-6.4	-8.3	-5.5	0.5	0.6	1.6
External sector	(percent of GDP, unless otherwise specified)					
Current Account	-15.2	-10.3	-6.8	-7.1	-6.8	-6.3
Net Exports	-28.0	-29.5	-25.9	-20.6	-19.7	-18.3
Export FOB	46.2	42.5	43.3	37.9	40.1	42.4
Import FOB	74.3	72.0	69.2	58.5	59.8	60.7
Net Income and transfers	12.8	19.2	19.1	13.5	12.9	12.1
Net Private Investments (FDI and Portfolio)	6.3	10.5	7.9	7.0	7.7	8.4
Gross Reserves (Months of Imports GNFS***)	3.4	5.9	6.8	8.3	7.1	6.9
Total Debt	(in million US\$, unless otherwise specified)					
Total Debt Stock	24,864	29,192	31,983	34,161	34,826	35,483
Debt to GDP Ratio (%)****	80.2	86.7	89.0	89.4	85.8	81.8
Memorandum Items:						
Nominal GDP (Billion JD)	22.0	23.9	25.4	27.1	28.7	30.7
GDP (in million US\$)	31,015	33,679	35,917	38,204	40,595	43,358

Source: Government Data and World Bank Staff Calculation.

* Includes adjustment to other receivables for 2012 (0.4% of GDP) and transfers to NEPCO and WAJ. As of 2015, NEPCO and WAJ will revert to government-guaranteed borrowing from commercial banks.

** Includes fiscal gap of 2016 (0.8 % of GDP) and 2017 (1.6 % of GDP)

*** GNFS: Goods and Non-Factor Services.

**** Government and guaranteed gross debt. Includes NEPCO estimated borrowings for 2015-2017.

Social Stresses and Participation

Although Jordan's vulnerability emanates largely from the fragility of its environment, shocks and spillovers, the country is also subject to internal pressures associated with a perceived sense of unequal opportunities, constrained freedoms of expression and political participation, exclusion and lack of accountability. As is widely documented, poor performance along these factors impacts on the country's development outcomes and it undermines opportunities for reducing inequalities and ensuring shared prosperity. A prevalent sense of lack of public accountability and transparency also generates a level of popular discontent that, in a regional context of instability, continues to pose a threat on the government's legitimacy and, therefore, the country's overall stability.

Jordan demographic makeup has been influenced by the influx of large numbers of Palestinian, Iraqi and Syrian refugees. It is estimated that 50-65 percent of the current Jordanian population is of Palestinian origin, comprised mostly of Palestinians who entered as refugees in 1948, 1967, and 1990-1991 (UNHCR). While most Palestinians have been granted full citizenship, more than 2 million continue to reside in Jordan as Palestinian refugees with an estimated 380,000 of these living in ten refugee camps that are managed by UNRWA. Jordan also hosts around 700,000 Iraqis, 635,000 registered Syrian refugees, and many more Syrians living in the general population. Although most Jordanians are Arabs, there is a minority of Circassians, Kurds and Armenians. About six per cent of Jordanians are Christians and the rest primarily Sunni Muslims.

Transition to constitutional democracy is a work in progress, feeding frustrations about implementation. Jordan's political system is described as a constitutional monarchy. However, in reality, democracy is primarily exercised through the election of the Parliament, the lower house (and more recently through the election of mayors and municipal council members) while members of the Upper House and the Prime Minister are appointed by the King. Jordan's electoral law is widely contested as it provides much higher representation to scarcely populated rural districts that largely consist of tribes. Despite recent revisions (2013), the electoral law continues to rely primarily on the one-person-one-vote system (as opposed to party representation) which undermines the influence of (already weak) political parties in the electoral process. As a result of these deficiencies in the electoral law, the Jordanian parliament is prone to being seen as competition within elites and as a result has limited confidence amongst the population.

Market structures should be seen as a legacy of the domestic political bargain in which incumbent citizens before each regional conflict had access to public sector jobs and opportunities with the older and larger family trading companies, while the later waves of conflict-driven migrant influx were concentrated in smaller scale private sector activities. It is important to note that these distinctions have eroded over time, but the segmented perspective remain strong in terms of bureaucratic inflexibility and a preference for selectively liberalized investment climate rather than across-the-board reforms.

Most of the Kingdom's 800,000 public sector employees and army forces – 40 percent of the Jordanian labor force – are from generations of nationals and, hence, they are the ones to primarily benefit from public sources of employment, healthcare, pensions, and other welfare services on which the states spends more than 80 percent of its annual budget. On the other hand, naturalized Jordanians are mostly employed in the private sector and, until recently, were seen as dominating access to private sector

opportunities. Despite there being other fault lines along which Jordanians remain divided, including between rural and urban households and between the ‘haves’ and ‘have nots’ – Jordan continues to suffer from the fragility of a common Jordanian national identity; an issue that continues to complicate its reform efforts and agenda moving forward. The scrutiny of the security services into all aspects of life seems to be another source of tension and discontent amongst the population.

Unemployment remains a chronic problem and slow growth compounded by the Syrian crisis is increasingly reflected in the data. Official data published by the Department of Statistics (DoS) show that the unemployment rate for the third quarter of 2015 reached 13.8 percent, reversing a drop that had been seen in 2014. The labor market in Jordan suffers from structural weaknesses as the seasonally adjusted (sa) quarterly unemployment rate has never been below 11 percent during the 21st century and labor force participation is declining. Two groups that are particularly affected are women and youth. Unemployment among women stood at 25 percent in Q3-2015 while that among youth between 15-19 and 20-24 years stood at 37 and 30 percent, respectively. On a regional basis, the northern governorates of Ajloun and Balqa registered the highest unemployment rates at about 15 and 19 percent while the lowest were recorded in Zarqa and Amman (capital) governorates at 8.3 and 10.1 percent, respectively.

Unemployment has displayed little responsiveness to growth. For example, annual growth reached 6.7 percent annually in 2000-2008. This growth "generated" a net employment growth of 2.9 percent annually. In absolute terms, 457,000 net jobs were created. Yet unemployment dropped only slightly, from 14.9 percent to 13.6 percent. A closer scrutiny of the data shows that 42 percent of the jobs were created in the public sector and 58 percent in the private sector. Among those created in the latter, more than half were captured by foreign workers. Job creation for Jordanian citizens in the private sector stood at a mere 28 percent of all the jobs created in 2000-2008. In the private sector, job growth was highest in 'foreign worker-intensive sectors', including tourism and hospitality, construction and retail trade, textiles and clothing. Job creation in the above sectors was high but real wages were stagnant or declining (textiles). In contrast, job growth was below average in the telecom and ICT-enabled services, non-textile manufacturing, mining and other industries (energy, water, etc.). In other words, apart from the financial sector, job opportunities in the private sector were lowest in these skill-intensive sectors which educated Jordanians predominantly "target" when seeking jobs. Going forward, the government has identified eight priority clusters in the Jordan 2025 Vision. If employment patterns persist and if the modernization of traditional sectors does not take place, the chosen clusters will not absorb the Jordanian youth bulge or meet their aspirations.

Inequality based on gender is widely documented. One driver is reflected in the country's justice/legal system and relates to the legal status of women in disputes and the embedding of family power differentials in legal processes (World Bank Jordan Country Gender Assessment, 2013).¹⁶ A second driver relates to the very low levels of female participation in the labor force and in the country's political system and relates to the interaction of cultural factors with market distortions which discourage female participation in a variety of spheres.

¹⁶ <http://documents.worldbank.org/curated/en/2013/07/18423362/country-gender-assessment-economic-participation-agency-access-justice-jordan>

Women face particular obstacles and disincentives to economic participation. Even within the MENA region, where countries have some of the world's lowest female labor force participation rates, Jordan's participation rate lies in the bottom half, below the regional average of 25 percent. In 2014, the female labor force participation rate in Jordan was about a fifth of that of males (12.6 percent versus 59.7 percent). Despite many efforts directed toward enhancing women's role in the society and in the economy, there has been little actual progress in women's economic participation. In 2011, women represented less than 20 percent of the total labor force in Jordan.

Jordan has strong legal protections against marginalization and exclusion based on ethnicity, religion, and disability. The Kingdom's small ethnic Chechen and Circassian minorities benefit from legal equality by virtue of their longstanding residency, and there is little discrimination against them. They also receive favorable political treatment due to their historic reputation for regime loyalty; for instance, Circassians are overrepresented in parliament via a 3-seat House of Deputies quota. Individuals with disabilities also enjoy improving treatment. Jordan leads the region in disability accommodation, as signified by the 2007 Rights of Persons with Disability Law, even though enforcement throughout private workplaces and public institutions has been imperfect. In the religious sphere, official statutes ensure adequate freedoms. More than 90 percent of the country identifies with Sunni Islam, something that Jordanians of both naturalized and incumbent national heritage share. However, non-Muslim minorities, in particular the Christian minority, benefit from powerful legal protections guarding the establishment of their own houses of worship and the practice of their faiths. Christians are also overrepresented in the political system.

Arab refugees in Jordan face significant obstacles to economic participation. Widespread prejudice handicaps the social advancement of the kingdom's several hundred thousand Iraqi refugees, despite national efforts to extend the provision of public goods like education and healthcare. Professional employment remains elusive for many Iraqis. Although the Government and the people have been welcoming of Syrian refugees, building refugee camps and offering basic services, few Jordanians are ready for large-scale integration of Syrians into their population on a permanent basis.

Chapter 3 Conceptual framework

The SCD posits that *geopolitical rent* – income that accrues to Jordan because of its stable status over and above a return to productive activities – is essential to understanding the country’s policy framework and apparent rigidities therein. Although rents are most obvious when they take the form of grants and below-market financing from regional and global actors, they are also present in other flows linked to Jordan’s stability and regional role. For example, Jordan’s proximity to the GCC, its status as a fellow monarchy and long-standing cultural and social links mean that Jordan receives substantial tourism and sector investments (notably property) from the GCC. Remittances also underpin the Jordan-GCC linkage.

In effect, Jordan is exporting stability but importing Dutch Disease. While these flows are in general beneficial to Jordan, they originate from an oil-rich region and in effect transmit oil sector volatility and syndromes to Jordan. In fact, a range of factor market phenomena in Jordan including high reservation wages due to subsidies and remittances, dominance of non-traded sectors, and concerns about competitiveness of exports all correspond to characteristics of resource-rich countries.

These rents interact with domestic social stresses, deficient risk management, and functioning of factor markets to generate the development outcomes that we observe. A logical consequence of the SCD focus on risk management is that insurance and mitigation mechanisms – and possible associated distortionary effects – need to be part of the analysis. Although Jordan’s dialogue with its external partners focuses on the need for resources for coping with costly shocks, the resulting resource inflow means that Jordan’s risk management should also incorporate opportunity – the possibility of gain. But since it is impossible even for the best-intended partners to design perfectly state-contingent payments for Jordan’s risk chain, these inflows take on characteristics of unearned income and insurance. As such, they can create disincentives for protective action (“moral hazard”), weaken accountability, and shorten time horizons for the purposes of developing and implementing policy reforms. In the extreme, Jordan has poorly designed insurance: enough to generate serious moral hazard (with whatever is the latest crisis being another reason to postpone reforms), but not enough to prevent transmission of these risks to households and the private sector.

The rents-risk link is central to the diagnostic: Jordan has developed institutions and mechanisms for managing risks which have embedded risk intolerance in the government, private sector, and citizens, impeding growth and shared prosperity. Given Jordan’s exposure to systemic risk, a strong role for the government in managing these risks is inevitable – and it has often served the country well. Thus it is to be expected that the government has taken the lead in mobilizing partner aid as major shocks have occurred. The problem is that a perfectly sensible lead role for the government in preparing for external shocks and managing resource constraints related to them has extended into a dominant role in allocative decisions related to the mitigation and adaptation to all shocks, whether internal or external. Drawing on the insights of the WDR 2014, the SCD argues that many of these roles could be better handled by households and the private sector, if they were given the means and instruments to do so.¹⁷ At the same

¹⁷ World Development Report 2014. Risk and Opportunity: Managing Risk for Development. <http://go.worldbank.org/OSAT4FHFP0>

time, because the management of risks has come to be seen as mainly a question of mobilizing resources, major blind spots in risk management have emerged, especially related to labor market effects of Jordan's risk chain.

Financing risks linked to rents are embedded in the macro-fiscal framework. Jordan is structurally dependent on foreign grants –a portion of which can be interpreted as geopolitical rents -- to meet fiscal balances. Since the turn of the century, the overall fiscal deficit averaged 4.9 percent, including grants, and 10.1 percent, excluding grants. As with growth, three sub-periods - 2000-2003, 2004-2008 and 2009-2013 - are contrasted. For the early sub-period, the overall fiscal deficit averaged only 2.1 percent of GDP, but this included substantial budget grants equivalent to 8.4 percent of GDP. In fact, budget grants almost doubled in 2003 (JD 937 million) compared to 2002 (JD 490 million) as a result of the US invasion of Iraq. The US and other allies attempted to partially compensate Jordan, whose strong economic ties with Iraq were heavily compromised by the invasion, incurring large costs. The period 2004-2008 was characterized by high growth and privatization, both of which helped decrease the country's dependence on grants. Hence, despite grants declining to an average of 5.2 percent of GDP during that sub-period, the overall fiscal balance (including grants) remained low at 3.6 percent of GDP.

Deficiencies in the management of fiscal financing risks point to broader problems in national risk management. Having a reliable public sector funding program is essential for the sustainability of Jordan's development and growth. This would imply that Jordan's growth is stable and does not mainly rely on foreign aid; if funding is not predictable, projects tend to start or stop according to funding availability. The lack of a funding and debt management strategy implies large risks to Jordan and its growth prospects, and potentially large fiscal uncertainty and volatility. By not having a funding strategy and therefore a reliable source of inflows, Jordan growth becomes more vulnerable to external shocks and dependent on its access to foreign aid.

The responsiveness of grants to fiscal deterioration is not automatic, partly because local developments have also played a role in adverse shocks. Serious deterioration in the fiscal position began in 2009. Lower domestic revenues, arising to some extent from tax concessions to ease volatility in the Amman property market, combined, initially at least, with higher social spending drove the overall deficit to an average of 8.3 percent of GDP, including grants, during the 2009-2013 period. Grants, however, were not as forthcoming as earlier, averaging only 2.8 percent of GDP. As a result, the government resorted to borrowing, reversing progress made earlier in reducing the debt burden.

Since rents have enabled misallocation of risk, the outcome is a policy equilibrium where major change is avoided, and the absence of change is embedded in expectations. Households and the private sector are carrying too many spillovers from Jordan's systemic risk, so they compensate with heightened risk aversion elsewhere. Recognizing the uncertainty and inadequate risk-bearing capacity that reform would create, and since the government has only imperfect insurance, the government is wary of disruptive reforms. The net result is inertia and stasis, and since there is no real prospect of lower risks, the expectation that nothing will change is validated.

The parallel constraints to shared prosperity center on the poor allocative functioning of markets for capital and labor in mobilizing knowledge and broadening Jordan's productive economic base. There

are several components to this element of the diagnosis. First, there is a set of policy distortions, seen in many middle income countries, which impede the flexibility of the economy. These pertain to role and operating model of the public sector, market failures, and specific impacts from being in a resource-rich region. Second, the aforementioned systemic risk is transmitted – and sometimes amplified – to the markets for capital and labor, muting the investment and employment response to opportunities.

Geopolitical rents have made it sustainable to postpone product and factor market policy reforms which would scale up emerging sources of growth. These effects are particularly pronounced where a nimble response is required to capitalize on Jordan’s latent advantages in sectors such as in transit and logistics, knowledge-intensive exports (such as pharmaceuticals and ICT), and renewable energy.

Symptoms of a preference for inaction can be found throughout the functions of government. The frequency of leadership changes in government creates a short-term tactical approach and a tendency for caution and working below the radar screen. This uncertainty in the decision-making and policy agenda of Jordan also affects significantly the confidence of the private sector which seeks some comfort in stability of policies when having to weigh the risks of investing in a risky environment country like Jordan (Jordan 2025). When a major policy reform agenda is set out, such as in the National Employment Strategy, its implementation is devolved to the level of projects rather than driving forward with policy change. This narrowly scoped implementation arrangement accords with both bureaucratic and external partner incentives, since it facilitates control and attribution, while at the same time containing the scope of the originally intended reform. In terms of the core systems of procurement and financial management, the operating philosophy is – as throughout the Middle East – an emphasis on *ex ante* control of all transactions and procedures, with correspondingly little focus on substance of processes and their final impact.

The ability to manage financing risk is affected by governance constraints. Because of the lack of ministerial stability, no authority has incentives to implement a debt management reform, and develop a debt strategy since ministers perceive their time horizon as short. Rather than develop a financial domestic market and position Jordan as an international issuer, the government has benefitted from US-backed 100 percent guarantees on principal and interest, including US\$1.5 billion of issuance in June 2015. This is very attractive funding source, but it is unlikely to be available in the medium to long term. There has been some progress in developing more resilient funding through the sale of an unguaranteed Eurobond and an expected *sukuk*.

A risk perspective is essential to understanding implementation failures and governance problems. Examples are numerous. Financial management and procurement reflect an *ex ante* control public sector management approach in which minor administrative transactions endure protracted procedures, supposedly to minimize risk, while major fiscal liabilities accumulate with little action, as in the electricity sector prior to 2011. There is an imbalance in delegation authority within the government. Front line tax and customs officials have discretion in routine transactions, which creates unpredictable obstacles for the private sector and contributes to perceptions of corruption. But in the management tiers of the public sector, there is little policy autonomy at all and decisions are referred upwards – or worse still, stagnate without action at a particular layer.

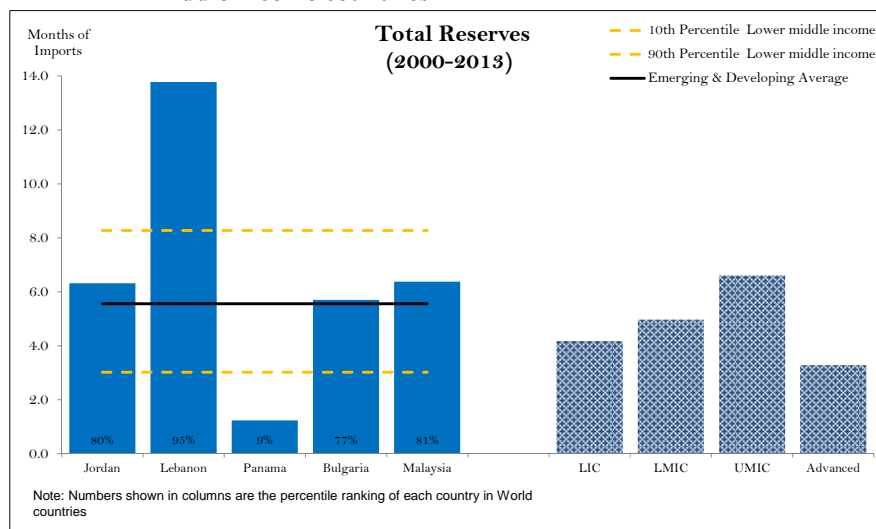
Even though various financial instruments, including structured finance and PPPs, are available to improve risk management, their use in Jordan has remained low despite the demonstration effect of the power sector and QAIA projects. Countries exposed to the range of risks similar to Jordan might consider various forms of financial market deepening to spread risk more efficiently: the list could include equity, Public Private Partnerships (PPPs), corporate bonds, a substantial range of maturities on government bonds, and guarantees. Yet in practice the government has relied primarily on infrequent issuance of government bonds, many linked to once-off guarantees. This makes it more difficult for the market to generate a yield curve which can price sovereign risk at various maturities. The equity market is fairly shallow once one moves beyond established companies in banking and minerals.

PPPs also offer the potential to recapture the private sector development momentum of the privatization era, but will need to be seen as true risk-sharing between the government and private sector. PPPs were initially executed within the framework of the privatization law and thus managed by the Executive Privatization Commission (EPC), which has since been dissolved. The new dedicated PPP law will help open up the possibility for long-term risk sharing on critical infrastructure. The new law could also help to address some of the institutional problems that have developed since EPC was dissolved. Jordan has demonstrated commitment to the PPP agenda in comparison to other countries in the region. However, to truly leverage more private sector investment through PPPs, Jordan will have to address many of the developmental/sectoral constraints to growth that are highlighted in sections below. In addition, most potential projects will require a government financial contribution that goes beyond just guarantees. It remains unclear whether Jordan has the ability or the willingness to support these kinds of commitments going forward.

Chapter 4 Macroeconomic sustainability

Jordan's macroeconomic profile contains highly persistent drivers of vulnerability, manifested in structural imbalances in the current account and fiscal stocks and flows. These have been successfully mitigated by a strong focus of monetary policy on credibility signals via reserves and more sporadic attempts to bring fiscal imbalances under control through debt reduction and budget reforms.

Figure 4.1: Total reserves in Jordan are comparable to those in upper middle income countries



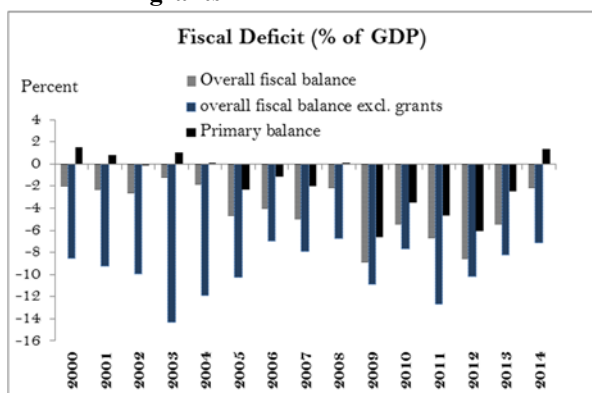
Source: Find My Friends using the WDI.

Prolonged current account deficits have been manageable due to complementary factors including transfers and capital inflows within the framework of an exchange rate peg. The Jordanian currency has been fixed to the US dollar at a rate of JD 0.709 per USD since October 1995. This has proved to be an effective monetary policy anchor, while also reinforcing price stability; the inflation rate has averaged 4.2 percent for the period 2000-2014 and with a standard deviation of 3.5 it has not been subject to large volatilities. Nonetheless, confidence in the Dinar hinges on international financial and political backup. These come in the form of sizable foreign exchange reserves and support from large financial powers. Average total reserves since 2000 amounted to 6.6 months of imports, ranking Jordan in the top 20th percentile globally. Relative to comparator countries' reserves, Jordan is on equal footing with Malaysia, but behind Lebanon (Figure 4.1). Political support for Jordan's regional role is expressed through large financial aid packages that include grants, concessionary loans and direct deposits in the central bank, from not only the GCC countries, but also the US, Europe, Japan, the IMF and the World Bank.

Domestic revenues fall short of meeting current expenditures. From 2000 until 2009, the ratio of domestic revenues to current expenditures averaged 92.3 percent, surpassing 100 percent only in 2007. Tax revenues averaged 16.7 percent of GDP since 2000, reaching a high of 20.4 percent in 2007 when growth was brisk. Jordan has high current expenditures with the 2000-2014 average at 28.2 percent of GDP, consisting primarily of military spending (8.5 percent of GDP), salaries and wages (5.2 percent of GDP) and interest on debt (2.7 percent of GDP) (Figure 4.2). On the other hand, the government has resorted to

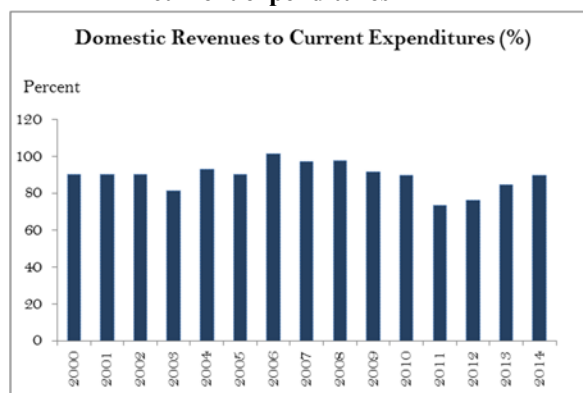
cutting capital expenditures in order to restrain the fiscal deficit. This has been especially the case during the recent post-crisis period. As a result, capital expenditures have averaged only 6.4 percent of GDP since 2000, reaching a low of 3.1 percent of GDP in 2012.

Figure 4.2: Fiscal balances tempered by foreign grants



Source: World Bank staff

Figure 4.3: Domestic funds insufficient for current expenditures



Source: World Bank staff

Revenue mobilization has been adversely affected by a limited tax base which has been eroded over time by the use of the tax system for multiple policy goals, manifested in a range of exemptions and credits. In effect, public revenue is being foregone to achieve policy goals which otherwise be implemented through spending; these are called tax expenditures. Some were implemented to achieve social goals or investment incentives but others have proliferated in response to specific shocks. For example, as fiscal stimulus in response to the global crisis, Jordan resorted in 2009 to large-scale tax exemptions and cuts. Total tax expenditures in Jordan were estimated by a USAID study at 7 percent of GDP in 2012 or around JD 1.6 billion. While some positive change has occurred to streamline the complex exemptions scheme in Jordan, other changes have contributed to the upsurge in the level of tax expenditures, indicating that the underlying tendency is structural. Tax expenditures in Jordan affect the following tax categories: Personal Income Tax (PIT), Corporate Income Tax (CIT), General Sales Tax (GST) and Special Sales Tax (SST), Custom Duty, and Real Property Tax. The special economic zones (SEZs) and the legislation supporting them offer tax exemptions and reduce other fees, especially those related to labor.

The largest single tax expenditure (2012 figures) is for households: the single and family deduction allowance (JD 455 million), followed by zero rated items in the domestic sales tax (JD 263 million). The 2010 tax reform further weakened revenue buoyancy. The tax reform simplified the tax code and removed many specific rates and treatments to groups, sectors, or companies that had been burdening tax administration and blurring the system. However, in practice, the high exemption thresholds on individual incomes have exempted over 95 percent of Jordanian households from taxation. Moreover, the highest bracket of individual income is now taxed at 20 percent, which is low even by Middle East and North Africa's standards. But firms also benefit from goods exempted from customs through various provisions especially relating to capital goods and petroleum products. Though smaller in magnitude, tax expenditures from municipal taxes amount to JD 48 million and remain an important quantity relative to municipalities' budgets which depend on municipal tax revenues to deliver basic services at the local level.

Public expenditure adjustments have likewise seen erosion of gains in fiscal space. The country first responded to the price shocks of 2003–07 by increases in subsidies, made possible due to substantial revenue increases in 2004–07 fueled by strong economic growth. In 2008, these subsidies largely were eliminated. They were replaced however by salary increases for public and private sector employees and military personnel, both active and retired. The more recent subsidy reform was mitigated by a cash transfer linked to the oil price, and thus in principle will not be subject to the same offsetting effect that formerly operated via the wage bill.

Spending on public sector pay and numbers has proven especially difficult to control, due complexity and loopholes in the pay and employment structure. Given long-standing concerns about the size and cost of the public sector, the government has implemented hiring freezes, filling only vacancies in existing positions. However, sector exemptions such as education, health, and military have undermined the freezes. For example, after being recruited to teach in the public schools, new teachers often shift to other posts in the civil service. With military spending near 8 percent of GDP, exempting the military from a hiring freeze blunts the gains from it. Numerous allowances are provided as part of the wages of civilian personnel in the public sector. These allowances add up to more than 2.5 times the salaries bill. These allowances are scattered among 10 categories, the largest being the cost of living expenses, additional allowances, basic allowances, and bonuses. On average, in 2010–11, these represented respectively 37 percent, 16 percent, 9 percent, and 3 percent of the total civil servants wage bill. In 2011 these allowances were increased by as much as 17.4 percent, whereas base salaries increased by only 7.3 percent.

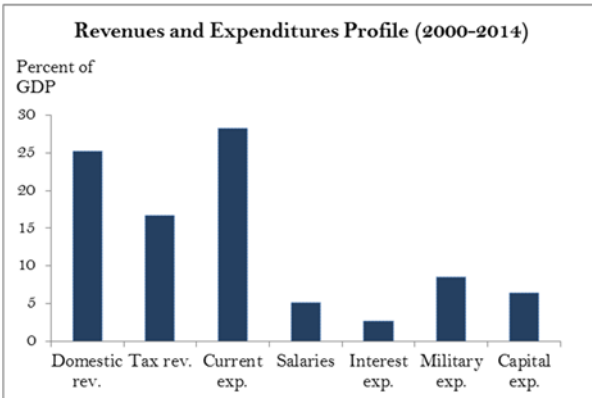
Ambitious public sector reform strategies have lost momentum by the point at which substantive allocative choices would have to be made, while upfront costs remain embedded in the pay structure. In 2011, the government launched a comprehensive reform program, overseen by the Ministry of Public Sector Development, to tackle civil service employment. The reform objectives were four-fold (a) to consolidate the compensation schemes of independent institutions and defining unified governance and wage policy principles across these institutions; (b) to align civil service and own-budget agencies salaries to increase equity; (c) to increase productivity, re-examining terms of reference for all functions of civil service employment; and (d) to identify vacant positions that need to be filled through new recruitment or reallocation of staff, and vacant positions that need to be eliminated. As a result of the alignment of salaries, around JD 80 million in additional costs was incurred annually during 2012-2014. Savings were envisaged to begin in 2015, when public sector employment would be streamlined – but there is no sign of this having taken place.

Debt Trajectory

High growth, privatization proceeds and debt restructuring temporary reduced Jordan's debt profile. This drove gross public debt from a high of 104.7 percent of GDP in 2000 to a low of 60.2 percent in 2008. Starting in 2009, foreign grants were not forthcoming in sufficient amounts to offset costs associated with the successive twin crises, forcing Jordan to revert to increased borrowing. This pushed gross debt back up to 89.0 percent of GDP at end-2014 and is projected to further increase in 2015 (Figure 4.5). Despite being mostly denominated in local currency, the share of external debt out of total public debt has been rising steadily over the last two years, increasing from 28 percent at end-2012 to 38 percent by July 2015. However, and in order to take advantage of the low international interest rates and political

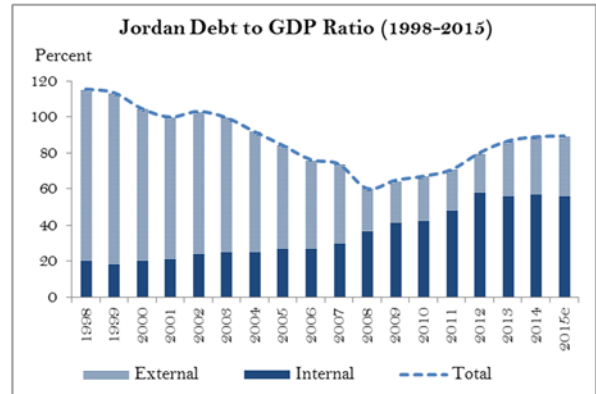
support, Jordan issued three US backed Eurobonds in 2013 and 2014 and 2015 valued at US\$ 1.25 billion, US\$ 1 billion and US\$ 1.5 billion, respectively.

Figure 4.4: Military spending exceed other spending items



Source: World Bank staff

Figure 4.5: Private demand leads growth



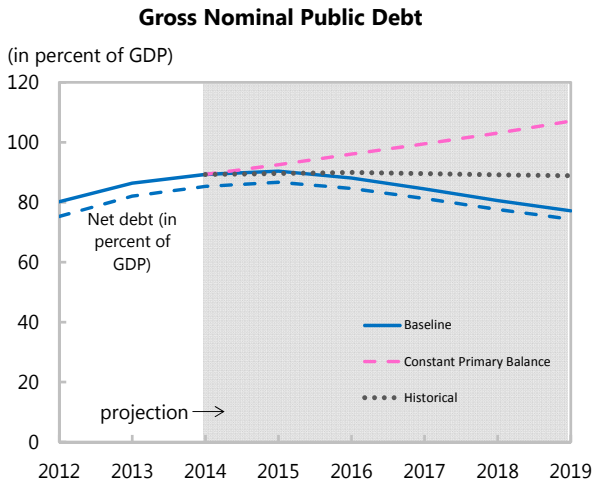
Source: World Bank staff

Jordan faces risks to public debt sustainability and the scope for further slippage is limited with the debt to GDP ratio at around 90 percent. A debt sustainability analysis was performed¹⁸ based on three scenarios: baseline, constant primary balance and historical.¹⁹ The results indicate that, according to the baseline scenario, public debt is expected to reach a high of 90 percent of GDP in 2015 and then decline steadily to a projected 77 percent of GDP by 2019 (Figure 4.6). The baseline scenario also projects that gross financing needs will be sustainable, declining from 26.8 percent of GDP in 2014 to 15.3 percent in 2019 (Figure 4.7). However, debt dynamics and financing needs are sensitive to macro-economic shocks - growth, primary balance, interest rate, exchange rate and contingent liability shocks.

¹⁸ Source: IMF 2014 Article IV Consultation, 2014.

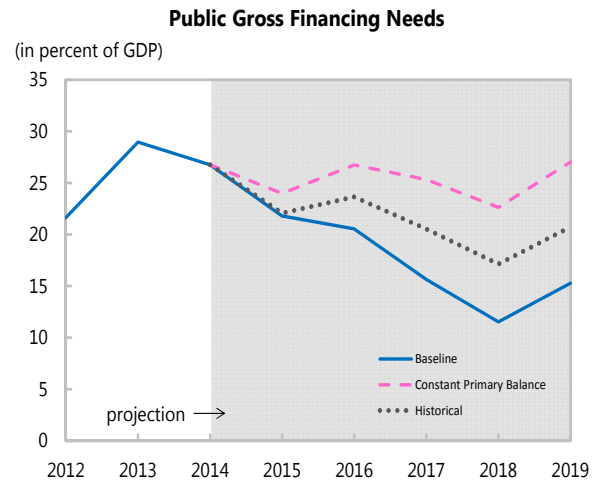
¹⁹ The baseline scenario assumes that real GDP growth is 3.3 and 4.0 percent in 2013 and 2014, respectively, increasing to 4.5 percent thereafter. In addition, this case assumes that the primary balance will begin improving in 2015, becoming positive from 2016 onward. The constant primary balance scenario assumes the primary balance at -5.3 percent. The historical scenario assumes growth rising rapidly from 3.3 percent in 2014 to 5.6 percent thereafter, and the primary deficit falling from -5.3 percent in 2014 to -3.6 percent thereafter.

Figure 4.6: Public debt sustainable under baseline assumptions



Source: IMF

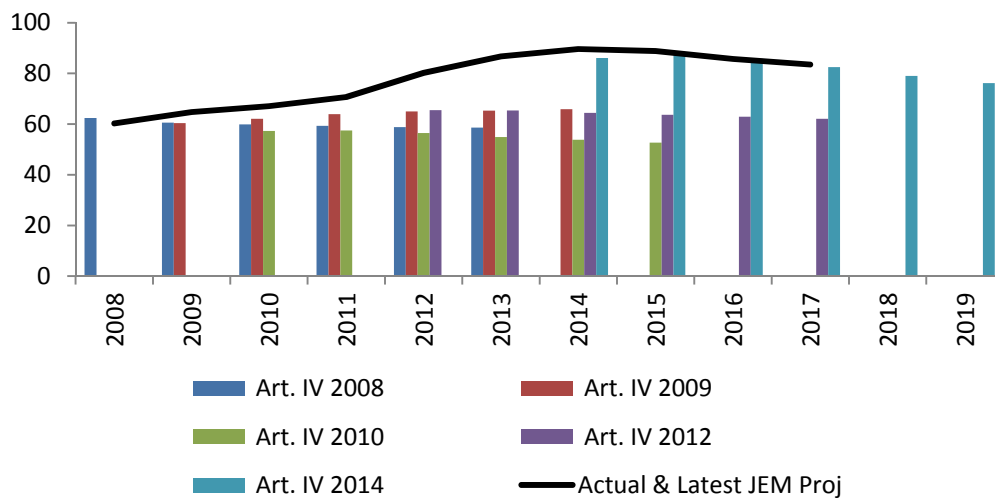
Figure 4.7: Financing needs manageable under baseline assumptions



Source: IMF

Debt projections for Jordan have been subject to extraordinary “base drift” i.e. upward shocks to the baseline in any year appear to be permanent in subsequent baselines. For example, between 2009 and 2014, the IMF Article IV baseline debt ratio for 2014 increased by 20 percentage points, and the future path for debt in more recent projections is much higher than in older baselines. In addition, despite the persistent nature of changes in debt (most clearly for the NEPCO shock), more recent baselines incorporate larger declines in debt than older baselines (Figure 4.8). In older baselines (up to 2012), the medium term debt ratio reduction was around 3-5 percentage points of GDP. In newer baselines, it is around 10 percentage points of GDP. Vision 2025 assumes even sharper debt reduction than projected in baseline World Bank and IMF forecasts.

Figure 4.8: DSA: Jordan – Baseline Public Debt to GDP Ratio, 2008-2019, by year of baseline



Sources: IMF, World Bank

Two successive external shocks—the global recession and the regional turmoil—have exacerbated long-term structural vulnerabilities. Large fiscal and current account deficits have persistently been financed, to a large extent, by external aid. As elsewhere, aid in Jordan has tended to be volatile, which generated volatility in Jordan’s economy. Since 2008, as the global environment turned negative, growth decelerated sharply in Jordan. The onset of the Arab uprisings throughout the region further undermined sentiment, which led to (i) slower growth and lower fiscal revenues, (ii) and increased public spending to partly accommodate social pressures (and sustain growth). The Arab turmoil also resulted in interruptions to Egyptian gas supply, sharply pushing up public spending. As a result, both fiscal and current account balances had deteriorated markedly by mid-2012, forming the basis for the current DPL and SBA.

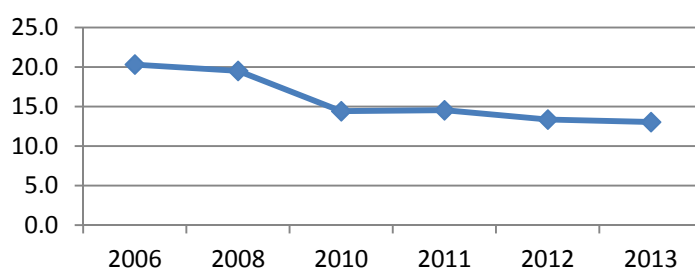
Chapter 5 Poverty and Shared Prosperity Assessment

Poverty measurement and analysis in Jordan has become more systematic over time, improving the scope for understanding the impact of shocks on household welfare. The first official measurement of poverty was carried out in 1973 and a first full study on poverty was published in 1987. World Bank assistance on poverty measurement became relevant starting from 1994 with work carried out on poverty lines and a first World Bank poverty report was published only in 2004. This was followed by a poverty update in 2009 and a poverty note in 2012. The Jordanian Department of Statistics (DoS) has published information on household income and expenditure since 1992 but poverty analysis is only available in specialized reports. Poverty measurement relies on the Household Expenditure and Income Survey (HEIS) implemented by DoS in 1992, 1997, 2002, 2006, 2008, and 2010. The official poverty line in Jordan is constructed based on a “cost of basic needs” approach and a national caloric level of 2,347 calories per capita per day with a consumption mix adapted to the bottom 30 percent of the population (see World Bank 2012 for more details).

Absolute poverty has been on a long-term declining path since the 1990s, with a particularly sharp decline during 2002-2010. According to official figures and World Bank studies, the poverty rate declined significantly between 1997 and 2002. It continued to decline between 2002 and 2008 and more visibly between 2008 and 2010 in spite of a deceleration of GDP growth. The outcome of these favorable trends is that the headline poverty rate fell by 17 percentage points between 2002 and 2010 (Mansour, 2012). Official figures are not entirely comparable over time as DoS changed the poverty line in 2008 and 2010 but the World Bank re-estimated the poverty rate between 2006 and 2010 using a consistent poverty line, capturing a steady decline (Figure 5.1). Therefore, the general finding of falling headcount poverty that is responsive to growth seems robust to the choice of the poverty line, consistent across studies and across poverty measures.

According to the most recent official estimates, 14.4 percent of the population in Jordan lived in poverty in 2010. Recent estimates based on labor force surveys and cross-survey imputation methods indicate that the poverty headcount has continued to decline modestly but consistently between 2010 and 2013.²⁰

Figure 5.1: Poverty rate 2006-2013 (headcount index)



Source: World Bank (2012) and Dang, Lanjouw and Serajuddin (2014)

²⁰ See Dang, Lanjouw and Serajuddin (2014) for more details.

Poverty in 2010 – the year of the most recent analyzed household expenditure survey – was low by regional and international standards. If one uses the international poverty lines of 1.25 and 2 US\$/day/person at PPP values, Jordan shows a poverty rate below 1 percent comparable to that of the Palestinian territories or Israel and much lower than Tunisia, Morocco or Iran. While the international thresholds are important to track the global poverty objectives, national poverty lines should be commensurate to the locally accepted standards of living and ensure that proper statistical monitoring of poverty is possible. A poverty line which is too low makes the poverty rate low and the estimates and tracking of poverty over time very difficult from a statistical perspective. This is part of the reason why in 2012 the World Bank advised Jordan to increase the poverty threshold and re-estimate poverty changes since 2006, a recommendation that was endorsed by the government and that resulted in the new estimates shown in Figure 5.1.²¹

Poverty in Jordan is significantly higher among larger households and those with less educated heads. In 2010, a typical poor household was urban, had 8 members, half of them children, and a household head with less than primary education. A quarter of the poor are in households with more than 9 members. A typical non-poor household has 6 members with 3 dependents, and at least some level of secondary education. The link between household size and poverty sharpened between 2006 and 2010 (comparable surveys) and in all likelihood has been reinforced by direct and spillover effects of the Syrian influx. Between 2006 and 2010, the share of the poor who belong to households whose heads have basic education or less has increased; these households account for 80 percent of the poor and face poverty rates around 20 percent.

There is not a strong bivariate link between labor force status and poverty, but this is related to the pervasiveness of female non-participation and the size of the public sector. Employment rates are similar for poor and non-poor households, while poor households have an unemployed household head at around twice the rate of non-poor households, noting however that unemployment accounts for a relatively small share of the Jordanian labor force. Jobs in public administration and the social sectors span across a wide range of households, so that at the surface, poverty is not related to lack of access to public sector jobs. However, the sector of employment still matters; for example those employed in transport are more likely to be poor, while those employed in finance, insurance and real estate are much less likely to be poor.

The financial crisis of 2008-09 appears to have weakened the link between employment status and consumption, suggesting that adverse macroeconomic shocks were accompanied by a deterioration in job quality. This is determined by World Bank analysis of the relationship between poverty and employment status in the 2006 and 2010 household surveys. In 2006, employment in public administration reduced the marginal probability of being poor by 3.4 percent, but this effect was insignificantly different from zero in 2010. Similar effects are present for manufacturing and mining, commerce, and transport, and for some sectors, the effect actually changed to the undesired direction between the two years (e.g. employment in social sectors has a small but positive association on the likelihood of poverty in 2010). For the probability of being in the bottom 40, employment in public administration reduced this by 4.5 percent

²¹ The new poverty line was set at JD 813.7 per person at 2010 prices, which translated into US\$3.42 per day in 2005 PPP terms, as measured by the World Bank.

in 2006, but insignificantly in 2010. This finding provides an important welfare dimension to the fiscal strains discussed in section V.

The indicator of shared prosperity has showed positive trends between 2006 and 2010 in line with regional and international indicators. Shared prosperity is measured as the consumption growth of the bottom 40 percent (B40) of the population. Jordan has experienced positive developments between 2006 and 2008 and then again between 2008 and 2010 with an annual average B40 growth between 2006 and 2010 of 2.7 percent (Table 5.1). This average growth rate has been marginally higher than the growth rate for the population as a whole indicating that the B40 performance has been positive in absolute and relative terms. This performance has been better than West Bank and Gaza and Iraq but worse than Morocco or Tunisia. When compared with the shared prosperity indicator now available for 72 countries worldwide, Jordan appears to be around median values. Compared to upper middle income countries, Jordan's performance was rather modest.

Table 5.1: Shared Prosperity

	Growth Rate Bottom 40%	Growth Rate Population
2006-2008	0.43	-1.27
2008-2010	5.08	6.46
2006-2010	2.73	2.52

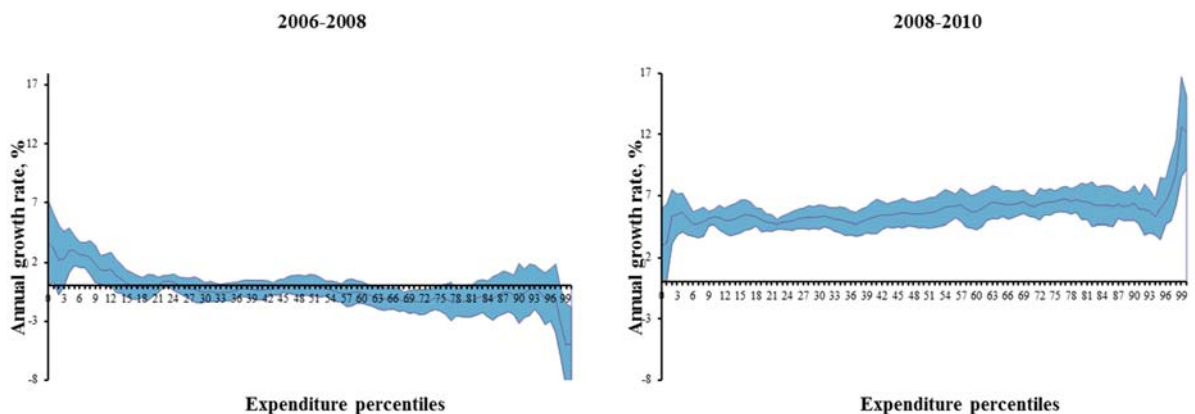
Source: MNAPOV, welfare aggregate is spatially deflated

The indicator of shared prosperity may hide more complex poverty dynamics, particularly between 2006 and 2008. World Bank estimates using an updated poverty line show a marginal decline of 0.8 percentage points between 2006 and 2008, which is consistent with the growth incidence curve (GIC) showing positive growth rates for the poor. As we observe quintiles of households rather than the same households over time, it is possible that some re-ranking across households occurred during the period. This would change the profile of the GIC and is something that is not possible to capture with available data. The absolute performance of the bottom 40 percent is much less complex to interpret for the period 2008-2010. The GICs show positive growth rates for all quintiles and well above zero, averaging around 5 percent. But the growth rates of the poorer quintiles have been inferior to those of the richer quintiles. As the concept of shared prosperity focuses on the absolute performance, this concept hides the more complex relative picture for the period 2008-2010, which may be indicative of differential exposure to shocks, or coping strategies, during the latter period.

Welfare inequality shows an erratic trend between 2006 and 2010 and this is explained by asymmetric growth across quintiles. The Gini coefficient calculated with the expenditure aggregate shows a decline between 2006 and 2008 (-1.5 percentage points) and an increase between 2008 and 2010 (+1.1 percentage points). This is explained by asymmetric growth across quintiles as shown by the GICs (Figure 5.2). During the first period, the very poor did better than any other quintile and this resulted in a reduction in overall inequality. During the second period, the bottom quintiles did worse than upper quintiles and this resulted in a marginal growth in inequality. However, this second period saw much larger growth on average for all

quintiles and a reduction in poverty as opposed to the first period. Therefore, poverty reduction came partly at the expenses of inequality.

Figure 5.2: Growth Incidence Curve



Source: World Bank staff estimations. 95 percent confidence interval in blue

Household vulnerability is embodied in the risk of transient and seasonal poverty, to which the bulk of the bottom 40 percent is exposed. Jordan’s official poverty statistics are updated annually based on other surveys conducted since the 2010 household survey. However, a look at household consumption trends on a quarterly basis from labor force surveys provides a unique perspective into the nature of the poor and the vulnerable population in Jordan (Dang et al, 2015). For example, 18.6 percent of the population in Jordan, although non-poor according to the official definition, experiences poverty in at least one quarter during the year. These are the “transient poor” in the sense that they experienced poverty in at least one quarter during the year, despite being officially considered as non-poor because their annual per capita consumption exceeds the annual poverty line. Transient poverty is experienced across the income distribution, including some lower-middle and a few middle income households. Overall, 33 percent of the population in Jordan (18.6 percent transient poor and 14.4 percent official poor) experiences poverty during at least one quarter of the year (Mistiaen and Serajuddin, 2013). This has implications for policy. For example, based on annual poverty rates, the annual minimum cost of eliminating poverty is an estimated JD 139 million, assuming resources could be perfectly targeted to the poor. If, however, the goal is to prevent the population from falling into poverty during any quarter of the year, the cost would rise to about JD 200 million (+44 percent).

Inequality in welfare may have more profound roots in inequality of opportunities. Work conducted in Jordan on the Human Opportunity Index (HOI) shows that education achievements are strongly related to family characteristics while access to services is highly related to regional location. These are circumstances inherited by children that can have long-term consequences on the welfare of future adults and provide a counter scenario to the one depicted for transient poverty. Combatting poverty and inequality in the short (quarter), medium (year) and long-term (generation) period requires a combination of different measures and one should be clear about whether the approach is addressing mutable characteristics over some time period or the mechanism by which the characteristic is linked to outcomes.

Poverty reduction was driven by a favorable configuration of economic growth and fiscal space, but these factors had run their course by 2010. Mansour (2012) uses a series of welfare decomposition methods to assess the drivers of welfare change between 2002 and 2010. The paper finds that economic growth has been the main driver with over 83 percent of the reduction in the poverty headcount attributable to mean expenditure growth and about 12 percent attributable to redistribution, with the rest unaccounted for. In turn, expenditure growth was attributable to job creation, especially in the public sector. The role of income from rents has increased as compared to income from labor, pointing to the role of the real estate market. Improved access to public utilities and services are also two notable factors that increased welfare, enabled by higher public spending.

Employment also contributed positively to increases in welfare and reductions in regional welfare disparities, reflecting the pattern of growth in Jordan. Big contributions to welfare came from employment growth in selected sectors such as finance, real estate, mining and household services and these sectors increased in importance between 2002 and 2010 with the exception of real estate. There was an interaction between employment and location as northern governorates and trade and tourism sectors fared well during this period, reflecting both public expenditure which benefited these regions but also the upsurge in trade with Syria. Both factors have been unable to play the same positive role since the fiscal crisis and Syrian conflict.

The spatial distribution of poverty is very unequal but also very different depending on whether the objective is to reduce the number of poor or the share of the poor. Poverty is higher in rural areas and lower in urban areas but also diverse across regions. According to World Bank (2008), the poverty rate in 2006 varied from 9.4 percent in Amman to 23 percent in Mafrq. Poverty estimates at subnational level need to be interpreted with caution due to the sampling structure and the lack of statistical representativeness for some of the regions (World Bank 2012). However, differences between urban and rural areas are robust while regional diversity is visible in most survey and non-survey indicators.

Regional diversity may have been accentuated by the influx of Syrian refugees starting from 2011. Syrian refugees have mostly concentrated in the northern regions of Jordan, Mafrq in particular, which was already the poorest region in Jordan. Naturally, the regional diversity related to the number of poor may not correspond to the regional diversity shown by the share of poor in the regions. The majority of poor people live in the highly populated areas. Amman, for example, which is the region with the lowest poverty rate, has also the highest share of the poor in Jordan. Hence poverty reduction measures are most effective and cost-efficient in urban areas even if these areas have lower poverty rates.

Poverty and Access to Infrastructure Services

Poverty scenarios in Jordan are closely linked to energy sector pricing as reforms to tackle sustainability deepen. Tariffs for electricity in the household sector were far below recovery prices during the era of elevated oil prices and the country accumulated a public debt of over JD 2bn generated by the regulatory decision not to increase tariffs when oil prices were high. A combination of diversification of power sources, the oil price decline, and tariff adjustments have greatly eased generation cost pressures, but electricity tariffs remain well below cost recovery and subsidies to water production are substantial. Depending on the type of tariffs' structure reform one may want to simulate, the complete elimination of

electricity subsidies are estimated to reduce welfare of the poor by as much as 6 percent and increase the poverty rate by as much as 2.4 percentage points. These are significant impacts considering that the share of electricity spending in total household expenditure for the poorest quintile is 3.5 percent at the most. Tariff adjustments so far have been successfully calibrated to have low impact on most households, not just the bottom 40 percent. But sensitivities could increase as gradual price adjustments continue and unwinding of cross-subsidies in the system brings more households above base usage thresholds.

The mobility of the poor is impeded by high cost of, and difficult access, to transport. Transport costs in Jordan are higher than those in developed countries, in relative terms, but also in absolute terms, and are a considerable share of households' expenditures. The share of transport and communication expenditures in total consumption is around 16.2 percent in Jordan based on 2010 household expenditure data. The share increases with wellbeing from 11 percent among the poorest bottom quintile to 19 percent among the wealthiest households. Since that survey, the removal of subsidies and the decline in oil prices will have had somewhat offsetting effects. A recent study by USAID estimates that on average, about 23 percent of employed youth salary is allocated to transportation costs. These percentages vary however between different areas of the country and can reach a high of 46 percent of salary in Southern Shouneh area for example. They pay an average of JD 1.9 for transportation to and from work each day, while the monthly salary averages JD 202.

The National Employment Strategy (NES) recognizes several barriers to youth employment including transportation. Inefficient and costly transport is creating increased disparities between Amman and the regions. Economic activity is mainly concentrated in Amman, and poor transportation is contributing to that as industries and services are promoted to reallocate to the capital to be closer to demand and population centers. Any reform for economic and political decentralization, while very welcomed, requires the improvement of the transportation connectivity as an essential prerequisite.

The lack of public transportation and the high transportation costs disadvantage the poor while making it more difficult to address congestion and environmental externalities through pricing. The rural poor can't afford housing in the capital where employment opportunities are, and the commute to Amman is both expensive and time consuming. There is no reliable public transport system which requires the urban poor to use outdated, overcrowded, and unsafe buses and microvans to meet their transportation needs. On the other hand, precisely because of its informality and lack of scale, the transport sector primarily employs low skilled labor, mostly from poor households. Truck drivers, bus and microbus owners and drivers, taxis, airline companies, ports all employ largely low skilled labor hailing from poor household. The construction of transport infrastructure (roads, bridges) also employs poor and unskilled labor.

Jordan's income and poverty data point to the existence of poverty pockets and of income inequalities across regions, even though the number of poor is highest in the Greater Amman area. Regional disparities are also reflected across a wide range of indicators including access to basic services - health, education, water and sanitation, investments, employment opportunities and affordable housing, real estate and transportation. This perceived marginalization of rural areas could explain why a lot of political dissent and calls for political and economic reforms over the past few years have been led by East Bankers and amongst the most critical voices are tribal leaders, military retirees and youth movements who were organizing periodic demonstrations in rural and poorer governorates like Karak, Tafileh, Maan and Jarash. Lack of

opportunities outside the capital could also explain the evident radicalization amongst communities in those areas, particularly amongst the poor.

Poverty in the Syrian influx

Recently published World Bank analysis has shed more light on the poverty profile of Syrian refugees, but there is not as yet a harmonized assessment of poverty among refugees and residents (Verme et al, 2015). The analysis shows that refugee poverty follows particular trajectories depending where they flee from and where they settle in Jordan. For example, refugees coming from the Syrian governorates of Aleppo and Damascus and going to the Jordan governorate of Tafilah are among the poorest. Many among these refugees had been already displaced before the crisis due to the persistent drought in the northeast of Syria and this affected poor agricultural workers who moved to the urban centers such as Aleppo and Damascus in search of work during the years that preceded the revolution. Another useful angle is to look at the time of entry into the country. The group that entered Jordan before the Syrian crisis and the latest group of entrants have the lowest poverty rates while the peak of poverty is associated with those who entered in 2012 and 2013 which coincides with the peak of the crisis. As one would expect, refugees who entered Jordan illegally suffer from higher poverty irrespective of the point of entry.

There are very strong legacy effects in the poverty profile of Syrian refugees. For example, family composition and previous occupation are also significant correlations of refugee poverty. Poverty is the highest for the age group 35-49 presumably because this is the group with the largest number of children in young age, and each additional child is strongly associated with increased poverty. For the same reason, poverty is also higher for married and engaged people as opposed to other marital status group. Single people have the lowest poverty rate and this seems to apply also to people age 50 and more. In general, poverty increases as we pass from white collar types of occupations (pre-crisis) to blue collar types and the highest poverty rate is found among skilled agricultural workers. Hence, agricultural workers who were particularly affected by the drought in Syria before the crisis remain the poorest population group in the post-crisis refugee status. But current returns to skills are very low for refugees. When refugees manage to work, these occupations do not reflect their skills level. This is a non-negligible loss in human capital and productivity.

Children are bearing severe costs of displacement. Refugee children face many challenges in enrolling in educational institutions due to scarce supply, financial constraints, crowding, psychological distress and other issues that would not normally be an issue for children in regular populations. Only about half of Syrian refugee children in Jordan attend school despite the fact that Jordan provides free education to refugees. Human capital investments take years between the initial investment and productivity returns. Despite this “time to build,” the costs of losing entire cohorts of children’s education in recent years will be enormous.

Many of the aspects of poverty in the Syrian influx coincide with pre-existing stresses among the Jordanian poor. As noted earlier, the Jordanian poor tend to live in large households with low education levels and more young (under age 15) dependents. These needs – housing, education, and support for dependents – are also those of the refugees. The occupational profile of Syrian refugees also pushes them

into sectors where the Jordanian poor are disproportionately present, such as informal services, construction and transport.

Poverty and Job Creation

Job creation tends to be oriented towards low-skilled males, resulting in a large wedge between earnings sufficient to exceed the poverty line and reservation wage of more educated Jordanians. Jordanian males tended to get around 72 percent of the net jobs created in the economy, 69 percent of which were created for the less educated males (Figure 5.3). Females took up the remaining 28 percent of net created jobs, more than half of which went to the highly educated (Figure 5.4). As such, out of the 48,500 jobs created in 2013, only 16,600 went to university graduates, 2,200 went to diploma holders, and the rest 28,700 jobs went to secondary degree holders or below. Given the high unemployment rates for Bachelor degree holders and above (17.6 percent), job creation was not sufficient to absorb the unemployed. Jordanian universities graduated around 45,500 students during the academic year 2012/2013, thus adding around 29,000 people to an excess flow of graduates relative to current labor market requirements.

Figure 5.3: Male net jobs created, shares by education level, 2013

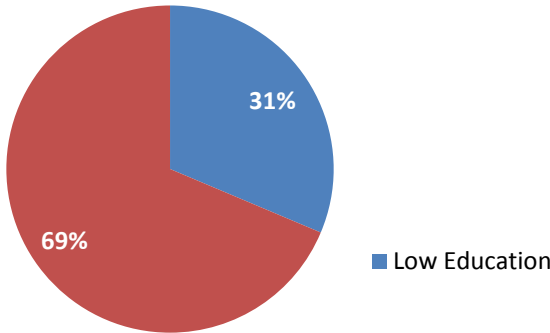
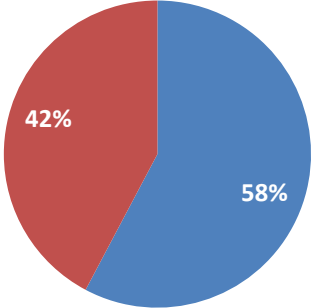


Figure 5.4: Female net jobs created, shares by education level, 2013



Source: Job Creation Surveys (DOS) 2013

Even though 60 percent of jobs were taken by individuals without a university degree, these jobs were not sufficient to absorb the low-skilled Jordanians who faced competition from the foreign laborers. Around 21 percent of private sector jobs were held by non-nationals in 2013. These jobs were mainly of low-skilled nature; a mere 5 percent went to non-Jordanians with a diploma or university degree and above. Further, most of the foreigners working in Jordan had either an elementary occupation or were service and sales workers (Figure 5.5). Figure 5.6 shows the share of non-Jordanian jobs created in 2013 in each sector. Low productive sectors employed a higher proportion of foreign workers.²² Most of the jobs

²² The real estate sector is an exception; however, net jobs created in that sector are minimal.

created in the sector which includes mainly domestic workers went to non-Jordanians²³. The agriculture sector shed jobs for Jordanians and created new ones for the non-Jordanians; however employment in that sector is minimal. The wholesale and retail trade, repair of motor vehicles, and transportation and storage sectors which employ 37 percent of Jordanians in the private sector had nearly 20 percent of jobs held by non-Jordanians.

Figure 5.5: Non-Jordanian Net Jobs Created by occupation shares, 2013

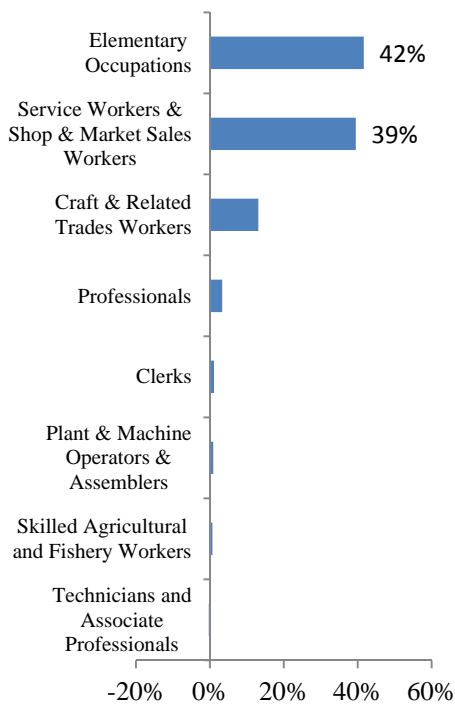
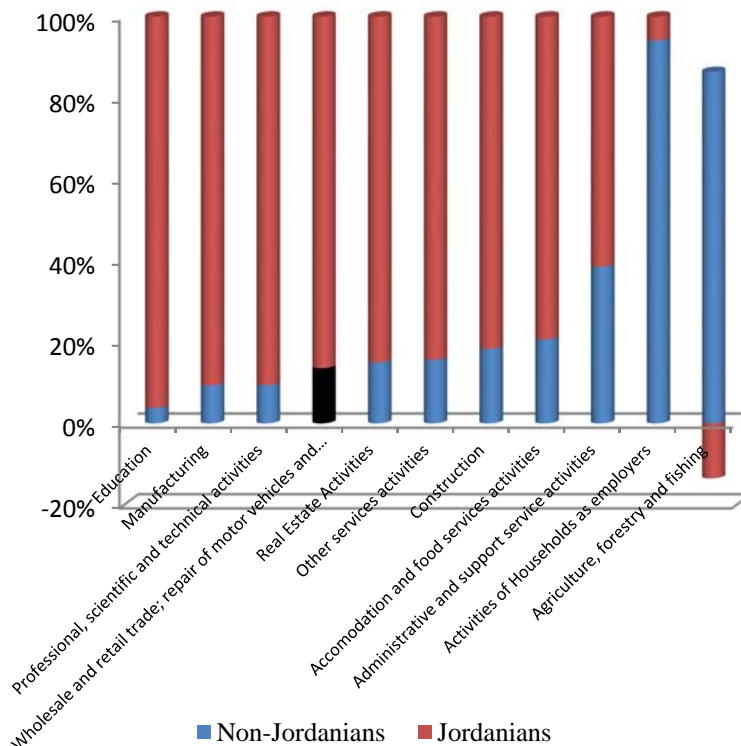


Figure 5.6: Non-Jordanian Net Jobs Created by sector shares, 2013



Source: Job Creation Surveys (DOS) 2013

Half of all job creation took place in Jordan’s capital, Amman, which had the bulk of the unemployed residing there but also exhibited the lowest unemployment rates. However, there still exists a mismatch between where jobs are created and where people reside as job creation in certain governorates was not sufficient to absorb the unemployed and lower unemployment rates (Figure 5.7). Amman, Irbid and Zarqa had the highest concentration of unemployed due to their population size; however, they exhibited the lowest unemployment rates compared to the other governorates where job creation was lower (Figure 5.8). Moreover, it was the females who were disproportionately affected by geography; unemployment rates for females in the north or south of Jordan are far higher than the rate in the capital (NES 2011-2020)¹.

²³ These types of jobs seem undesirable to Jordanians.

Figure 5.7: Net Jobs created and population by Governorate, 2013

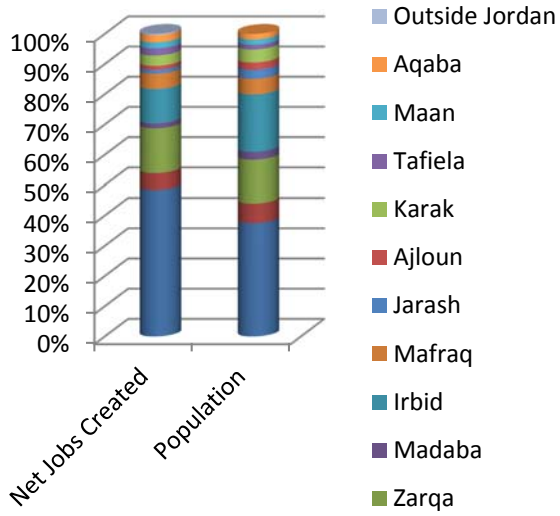
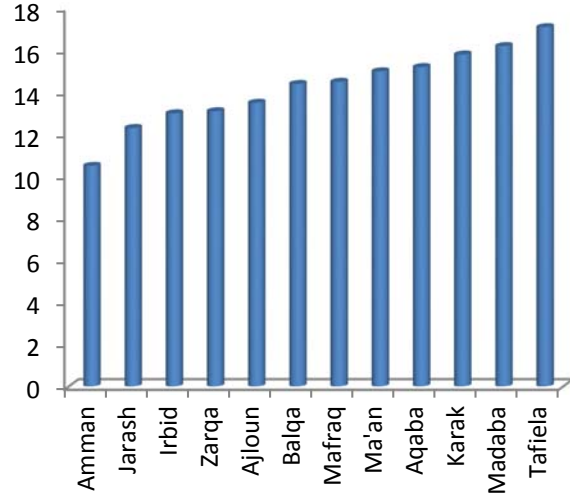


Figure 5.8: Unemployment Rates by Governorate, 2013



Source: Job Creation Surveys (DOS) 2013, Employment and Unemployment Surveys 2013 (EUS DOS)

Chapter 6 Constraints

The SCD dual hypotheses of deficient risk management and distorted factor markets are both aggregations of, and manifested in, sector level constraints. In other words, the SCD is arguing that Jordan's challenges in achievement of the twin goals – and unlocking of opportunities for doing so – need an integrated analysis which sets out the constraints at two levels of aggregation. First, for each sector, how individual constraints contribute to general problems with management of risk and functioning of markets. And second, how these general problems are manifested at the sector level. While these interactions are simultaneous, they have distinctive elements at the sector and aggregate level. These distinctive elements in turn reflect the overarching components of the conceptual framework discussed earlier, namely Jordan's access to geopolitical rents and the sustainability of the domestic political bargain in the country.

The purpose of this section is to apply the two hypotheses to key sectors of the economy and distill from the sector analysis a set of constraints which correspond to the hypotheses. The analysis will proceed by initially setting out major shortcomings and challenges that have been identified in initial inputs from the World Bank Group sector specialists. These will then be recast to show their relationship to the SCD hypotheses. As will be seen, this will lead to the emergence of a common constraint across many sectors – “implementation” – and a set of constraints within the sectors. Sector teams prioritized within and across the constraint set, as explained further below.

Business Climate

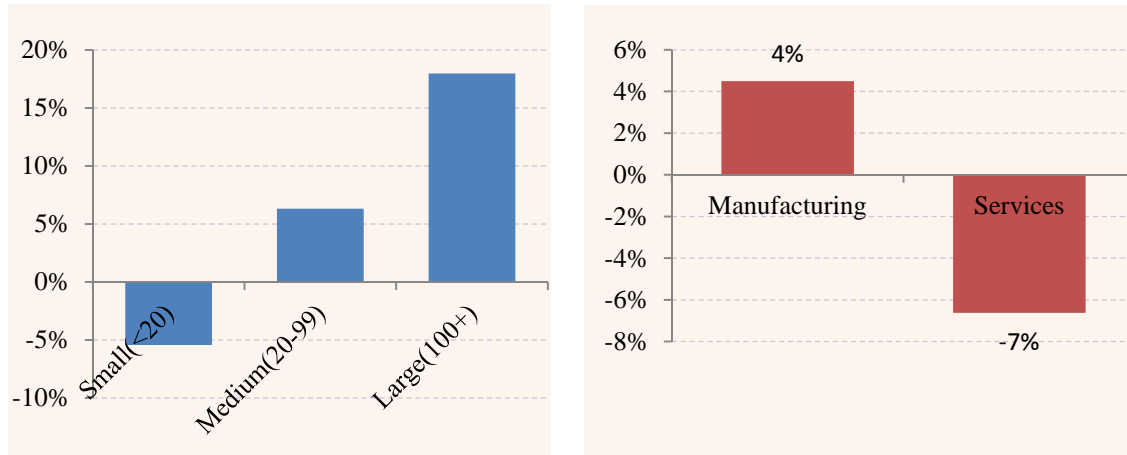
The critical sign that Jordan's business climate is not conducive to exploiting opportunity is the inability to sustain high investment whether domestically or foreign sourced. While Jordan benefitted from privatization-driven inflows in early 2000s, there has been a major drop in FDI since the spillover from the global financial crisis of 2008. Gross capital formation had decreased to less than 10 percent of GDP by 2011. The impact of the global financial crisis exposed the vulnerability of the Jordanian economy to external shocks. The economy experienced a drop in FDI inflow of more than 30 percent during the recent period of 2008 – 2011.

While part of the explanation for the post-2008 FDI decline is risk exposure, structural factors are also at play. These are exemplified in a dire Doing Business (2016) ranking of 113, which in turn reflects particularly poor showings on getting credit (185), protecting minority investors (163), and resolving insolvency (146). These components of the rankings are intrinsic to the confidence of creditors or investors to participate in the creation or expansion of businesses. Important strides are needed to streamline regulations for business, and more importantly ensure effective implementation and equal enforcement to all businesses.

Evidence of uneven implementation business administrative performance is revealed in the results of the 2013-14 Enterprise Survey. As seen in the charts below, medium and large, and manufacturing firms all experience greater delays in public service provision relative to smaller and service-oriented firms. This probably reflects the lower burden of public service dependency of these smaller and service sector businesses. The variability and uncertain quality of public service delivery (particularly for the key services of water and electricity connections and award of construction permits) is further evidence for why

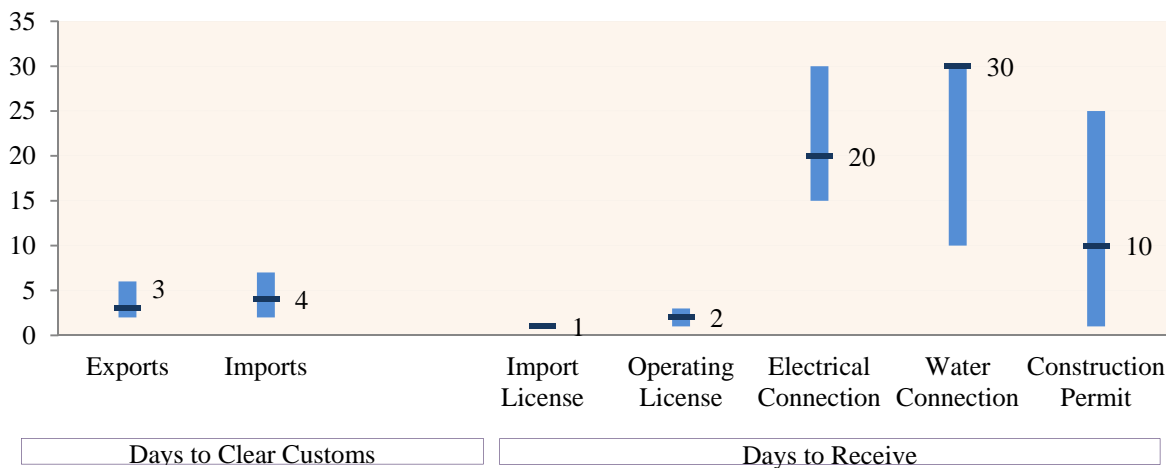
investment in manufacturing and more employment-intensive industries is constrained and reflects a deepened risk-averse posture.

Figure 6.1: Time Premium for Public Services



Source: Enterprise Surveys. Figures measure average time relative to country mean for seven services, including applications for electrical and water connections, operating and import licenses, construction permits, and clearing (exports) imports through customs

Figure 6.2: Jordan: Days needed for critical logistics and administrative services



Source: Enterprise Surveys. Median (dark blue horizontal line) values shown over 25th to 75th percentile range (light blue vertical line)

A number of non-traded sectors remain closed to foreign investors and suffer from lack of competition and discretionary tax exemptions which sustain privileged firms and raises costs for exporters. Compared to the 50 countries included, Jordan ranks relatively high in the OECD FDI restrictiveness index, mainly due to the equity restrictions in a large number of sectors, in particular

transport, distribution and construction.²⁴ This is despite the demonstrated success of FDI in sparking job growth in domestic firms which supply foreign firms – gains which outweighed the job losses in direct competitors to the foreign entrants (Jobs or Privileges report). The current review of Jordan’s investment regulations offers an opportunity to address that, by lifting some restrictions on foreign investment in sectors that are usually open in other countries, when alternative, non-discriminatory measures make it possible to meet the legitimate public policy objectives for safety and quality.

Jordan has struggled in attracting the right scale of FDI in knowledge-intensive sectors. Despite a strong ICT base (see Annex 1) the country missed out on later stage investments into ICT (outsourcing and operational HQ components), medical services, tourism and other sectors that went to the other countries in the MENA region. The investors moved to other locations that may not have been as well equipped, partially due to inadequate investment policy framework in Jordan including flux in tax policy regarding these investments. Entrepreneurs also report being deterred by laws regarding speech, which inhibit social media innovations. A lack of skilled labor in some of those potentially strategic sectors was also quoted among the reasons to not to invest.

More importantly, Jordan hasn’t graduated from its early FDI successes to punch above its weight as a FDI destination, despite the advantage of stability. Most of the investments are market seeking into non-productive sectors and with little value added (e.g. real estate), and Jordan’s non-mineral merchandise export base remains remarkably small. FDI did not lead to significant technology transfers, adaptation of the local market to improved production techniques/conditions or increases in productivity in multiple sectors. Comparing investment decisions in Jordan to investments in the whole of MENA highlights the potentially missed investment opportunities. At present, a much lower proportion of FDI originates from emerging markets and European countries compared to the rest of MENA. Thus Jordan would benefit from diversifying target markets for FDI, and targeting better quality FDI and strengthen the linkages between FDI and domestic investment.

The earlier FDI surge did signal the potential of reforms to activate the capital market, but enabling conditions were not in place for a sufficient time to be transformative. First, the reform momentum which had been instrumental in improving the country’s investment climate and competitiveness, and was reflected in its good standing in various global competitiveness indices, has fallen away in recent years. Secondly, there were a number of incentives regimes which accounted for significant investment and trade flows. For example, the Qualified Industrial Zones (QIZ) extended the benefits of the US Israel Free Trade Implementation Act to exports from certain parts of Jordan through a new bilateral agreement with the United States. This regime in particular, which provided tariff and quota-free entry into the United States market and streamlined business processing within the zones, led to specialization primarily in textiles and garments production. This attracted hundreds of millions in FDI in the late 1990s and early 2000s. To a lesser extent, economic arrangements with the European Union establishing a free trade arrangement also had a positive impact, but overall export performance to the EU remains extraordinarily weak.

The benefits accruing to investors into Jordan through the various special economic regimes allowed for quick growth in investment activity that could not be sustained. While special incentives could

²⁴ <http://stats.oecd.org/Index.aspx?datasetcode=FDIINDEX#>.

attract some funds, these benefits were of finite duration and not built upon the export fundamentals of the Jordanian economy which continued to remain broadly undiversified and dominated by extractives, notably phosphates and potash exports. The current multiplicity of zone regimes further complicates investment into productive sectors. The recent Investment Law (2014) offers an opportunity for coordination of investment and economic policies and a welcome broadening of the investment promotion regime beyond specific projects to the sector level.

Renewable energy presents an important exception to sluggish investment, and illustrates potentials and pitfalls of the current approach. On the one hand, renewables represent a natural convergence of needs and capability for Jordan, as the country has good prospects for wind and solar power, and strong needs to diversify energy sources and reduce carbon intensity. Furthermore, scaling up renewables involves substantial risk given the long-term nature of investments and dependence on regulatory arrangements (e.g. for off-take/buy-back); in this regard, the role of a catalytic and signaling investor like IFC has emerged strongly. As an example, the proposals for solar round 2 are drawing offers of capacity of 250MW at less 8 US cents per Kwh, among the most competitive in the world.

By the same token, prospective investors will benefit from government commitment to the emerging clarity on the investment framework for renewables. The investment process around the first wind farm at Tafilah, which is now operational, was done through direct negotiation with the sponsors (Masdar), governed by a memorandum of understanding. This was seen as a pathfinder project which would establish market interest. Once the Renewables Law was passed, the Ministry of Energy and Natural Resources (MENR) had the ability to begin a direct proposals process, which is has now done with subsequent solar rounds. The process for these rounds was spelled out to investors and while there were a few hiccups in the initial round of projects tendered under the Law, this was more related to timing and pricing as opposed to lack of clarity on the tendering approach.

The government's commitment to the PPP agenda has yielded some notable successes in mobilizing domestic and foreign capital notably through PPPs in selected projects, such as Queen Alia International Airport (QAIA). A significant component of the current policy agenda of the government relates to operationalizing a PPP law through regulations, which would open up the potential for large-scale risk sharing on transformative long-term infrastructure projects, where risk aversion is likely particularly high. More generally, Jordan's mix of risk exposures could likely be diversified regionally and internationally if the right pricing and capacity frameworks were in place.

Despite efforts to liberalize its trade environment, Jordan did not fully reap the benefits of trade integration, and export promotion programs show mixed performance to date. Regarding trade agreements, while the Jordan-US FTA has generated a large trade creation effect without trade diversion, the implementation of the regional agreements (GAFTA and AGADIR) has led to some level of trade diversion without much trade creation. In other words, Jordan has hardly increased its export to these partners as a result of these agreements. At the same time, the increase in duty-free imports from these countries has "replaced" imports from non-preferential partners that normally pay customs duties at entry. The net welfare impact is negative. Vis-à-vis the EU, Jordan has expanded its exports as the result of the FTA (trade creation), but to a very small extent. In addition, export promotion and industrial upgrading programs have helped firms increased their exports to overseas markets, but it has helped predominantly

established exporting firms for a short period and have a stronger impact at the “intensive margin” (export of existing products to existing markets) rather than the “extensive margin” (export of new products to new markets). The weak export-orientation of the Jordanian firm is further evidenced by fact that less than 20 percent of those firms reporting in the 2013-14 survey indicated that its primary market is international. And only 40 percent sold nationwide. The preponderance of firms saw their market as strictly municipal.

Jordan’s business environment is not characterized by a push to develop new opportunities. Only 24 percent of Jordanian firms offer formal training programs for their employees to advance on the organizational ladder. Only about 13 percent of service sector companies and 19 percent of manufacturing companies use technology transfers from other firms or parent firms as a source of support for innovation activities. Over 75 percent of firms surveyed indicated that during the previous 3 years they had introduced neither a new product nor service or a new or significantly improved method of manufacturing products or services.²⁵ Only 16 percent of firms had made any innovations to logistics and distribution methods, barely 10 percent introduced new organizational structures or management practices. The government and private sector agencies for innovation activities have underdeveloped capacities, monitoring mechanisms and information for them to effective support and implement innovation activities. There is a need for a broader, more private sector-focused product and process development strategy instead of the earlier near-exclusive focalization on science and technology. Focus on innovation is key to improve productivity in both knowledge-intensive and labor-intensive sectors.

Access to finance

Jordan ranks 185th out of 189 economies in the “Getting Credit” indicator of the World Bank’s 2016 Doing Business report, due to its poor credit information system and its inadequate collateral and bankruptcy laws. This ranking caps off a downward trend that saw Jordan fall by an average of 18 spots a year between 2011 and 2014. The Jordanian economy has a score of zero (weakest possible) on both the depth of credit information index and the strength of legal rights index, far lower than those of the average of Middle East and North Africa (MENA) and Organization for Economic Co-operation and Development (OECD) countries. This is attributed to, *inter alia*, the non-availability of credit information from retailers, trade creditors, utility companies, or financial institutions; the inability of banks and financial institutions to access borrowers’ credit information online; and the fact that borrowers cannot inspect their data in the largest credit registry. Jordan also compares poorly against MENA and OECD countries on public registry coverage and private credit bureau coverage.

For household access to finance, Jordan scores relatively well compared to MENA, but MENA overall is weak in this regard compared to other upper middle income countries (UMICs). According to World Bank Global Findex 2014, 25 percent of individuals aged over 15 years have a financial institution account (UMIC average 71 percent), but just 4 percent have formal savings (UMIC average 32 percent) while 14 percent have formal borrowing (UMIC average 11 percent).²⁶ Just 16 percent of women have a financial institution account. The figures for savings are particularly striking as they reveal how inadequate access to finance and the socio-political bargain interact with each other. 29 percent of households report

²⁵ World Bank Enterprise Survey, 2013-14

²⁶ <http://datatopics.worldbank.org/financialinclusion/country/jordan>

saving any money compared to 63 percent for UMICs, while just 2 percent report saving for old age (UMIC 31 percent) and 6 percent report saving for education expenses (UMIC 25 percent). Many households lack the institutions, the incentive, and of course the income to make provision for these lifecycle events.

Firms rank the issue of access to finance as the second largest obstacle to their operations after the investment climate. Small firms were five times likelier than larger firms to record access to finance as their largest obstacle. Similarly, more than twice as many firms in Aqaba, Zarqa, and Balqa saw access to finance as their largest obstacle compared to firms in Amman. Only 11 percent of small firms in 2013 had a loan, for example, compared to 24 percent of medium sized firms and 33 percent of large firms. The gap between banks and SMEs remains large. Over the last couple of years, microfinance institutions (MFIs) started up scaling to serve the sector after realizing its potential and its needs. MFIs started offering relatively larger ticket loans for SMEs and hiring people with banking experience to handle this product. The up-scaling that MFIs are going through is generally a welcomed step though it is obvious that MFIs cannot address the needs of the SMEs given the funding constraints of MFIs being non deposit taking institutions and the limited products they can offer.

While levels of access for SMEs are an issue in many middle income countries, Jordan is also characterized by recent deterioration in critical access indicators. The worsening trend in access to finance in Jordan cuts across all firm characteristics, from region and firm size to firm age and sector. In nearly all instances, the basic indicators of access to finance such as ownership of a checking account, access to a line of credit, and access to an overdraft facility have deteriorated for Jordanian firms across the country. The percentage of firms without a checking account, for example, rose from 6.2 percent in 2006 to 16.6 percent in 2013, while the percentage of firms enjoying the benefits of an overdraft facility halved from 40.4 percent to 20.1 percent over the same period.

Jordan's financial depth is also impeded by the lack of non-bank financial intermediaries, notably insurance companies and pension funds. For insurance, there is a regulatory challenge: The insurance sector used to be regulated by the Insurance Commission (IC), however the power of the IC has been weakened after it was dissolved and merged with the Ministry of Trade and Industry (about a year or so ago). The market views this negatively as they have lost the independent regulator that weakens the overall sector. There are about 25 insurance companies in this small and fragmented market where the large five dominate leaving small players with losses. The small size of the insurance sector in Jordan, as well as the low penetration results in low profitability (even for large players).

The market for private capital is dominated by the banking sector, which is less competitive and plays a limited role in financial intermediation, compared to other regions. Enterprises often resort to the informal sector, family and friends for access to finance. Private sector credit-to-GDP is relatively low at 80 percent, which is largely allocated to the large corporates. Although banks are the principal source of external finance for SMEs, only 11 percent of bank lending goes to SMEs, compared to 25-40 percent in emerging markets. The 2012 Jordan Investment Climate Survey (ICS) shows the large disparities in terms of access to credit by size of firms. Only 27 percent of the small firms have a loan versus 38 percent of 10 medium-sized firms and 53 percent of large corporates. Moreover, bank financing is mostly working capital, rather than longer finance, though in overall terms, both remain a constraint.

Overall, the wave of shocks since 2008 compounded pre-existing weaknesses in market infrastructure, explaining why trends have worsened. The need for approval of a secured lending law, formation of a credit bureau (now expected to be operational in 2016), enhancing the role of NBFIs, and modern insolvency and bankruptcy laws has been known for a long time. When shocks moderated during 2004-2008, these issues seemed less pressing but heightened uncertainty since then has highlighted their importance. Macroeconomic factors such as crowding out from fiscal deficits also worsened during the latter period; exposure to the sovereign accounts for 41 percent of bank assets.

Prevalence of informality

The weak business climate has very strong labor market impacts by acting as a driver of informality, which in turn is an enabler of migration. There exists a duality in the labor market where job seekers with similar profiles and skills get different benefits, and employers in similar businesses have different labor cost structures due to informality. Informal employees are defined as those who do not have access to social security coverage. In 2012, 26 percent²⁷ of waged workers still had no access to social security despite the fact that the number of establishments engaged in social security grew at an annual average rate of 20 percent²⁸ since 2009 due to a change in regulation²⁹. This is because while a firm may be officially registered, it could still hire some of its employees informally and avoid compliance with the new regulations.

Age, education, firm size, and sector of work constitute important determinants of labor informality. Informality rates are very high among youth between ages fifteen and twenty-four. After the age twenty-four, informality decreases rapidly until individuals reach forty to forty-five years. Controlling for other factors, more education is also associated with a lower probability of being employed in the informal sector. Further, there is an important relationship between informality and firm size. Workers in medium size (large size) firms are 19 (25) percent less likely to work in the informal sector compared to workers in small size firms. Finally, workers in the low-value added personal services and wholesale/retail sector which employ a significant proportion of Jordanians workers are associated with an 18 percent higher probability of working informally compared to workers in other sector (World Bank 2013³⁰) (in 2013, 37 percent of Jordanian workers in the private sector were employed in the wholesale and retail trade, repair of motor vehicles, and transportation and storage sectors).

Overall, labor informality is not a “choice” but “exclusion” and is typically higher among the most vulnerable and poor. Informal workers in Jordan earn on average lower wages than formal workers. The average monthly wage for formal private sector workers was JD 388 per month in 2010 compared to an

²⁷ Jordan DOS.

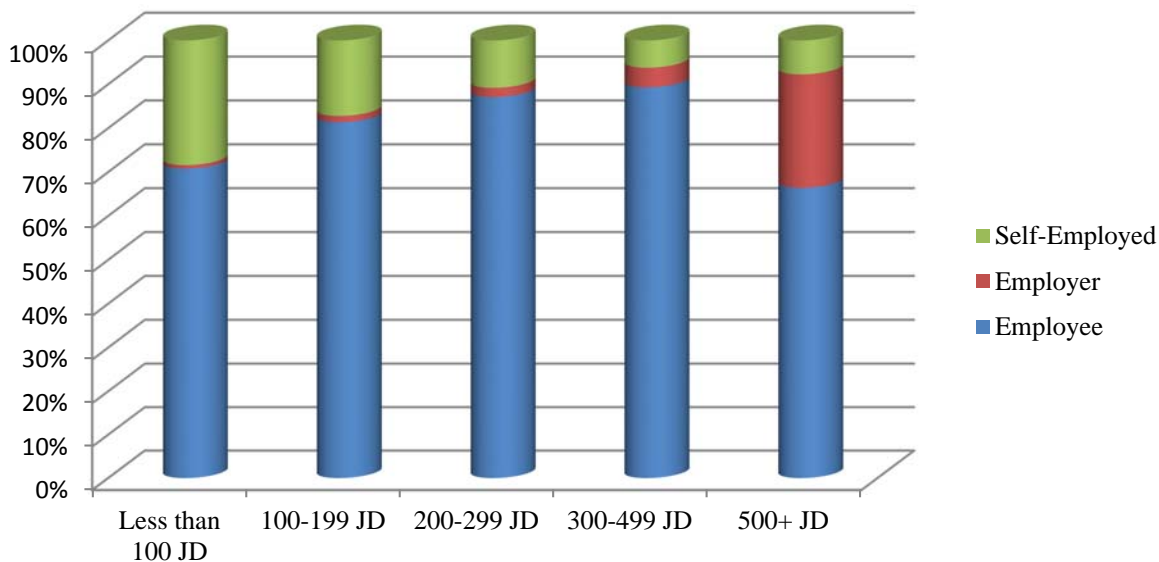
²⁸ DOS 2013 Statistical Yearbook.

²⁹ In 2009, the Social Security Corporation changed regulations and launched a governorate by governorate campaign to make coverage compulsory for establishments employing one or more workers, whereas prior to that year coverage was obligatory for firms with 5 or more workers.

³⁰ Gatti, R.; Angel-Urdinola, D.; Silva, J; and Bodor, A; (2013) “Striving for Better Jobs: The Challenge of Informality in the Middle East and North Africa Region,” World Bank, Washington DC.

average monthly income of JD 269 for informal workers. Further an analysis of wage disparities between employment statuses shows that the self-employed who are mostly informal typically earn less than any other status. Figure 6.3 demonstrates that the lowest wage category of JD 100 or less has the highest proportion of self-employed. Controlling for personal characteristics such as age, education and gender, self-employed are more likely to fall in the lowest wage quartiles than employees or employers.⁸ In addition to the monetary benefits, informal workers typically receive less non-wage benefits. About (72 percent) of wage earner workers in the private sector occupies formal permanent jobs and can get a paid leave against (77 percent) of informal workers who haven't access to any kind of leave.³¹

Figure 6.3: Employment Status by monthly income categories, 2013



Source: Employment and Unemployment Surveys 2013 (EUS DOS)

Governance

Public opinion about governance problems in Jordan coalesces around the view that the country suffers from an implementation deficit, but there is no consensus on why these implementation failures arise. For some cases, it is seen as the difficulty of achieving concurrence between the government and the parliament, resulting in legislation that gets stalled or is diluted. In other cases, it may be the issuance of regulations which is problematic, especially as this is a more technical process which is more difficult for parliamentary or public scrutiny. Since regulations have to be within the scope of the law, poorly drafted laws or laws written with the intention to enable loopholes at the regulatory phase exacerbate this problem. Finally, problems may be downstream at the level of follow-up of new measures, due to weaknesses in technical and managerial capacity in ministries, departments, and agencies.

³¹ Informal workers include “informal labor in the private sector” and “workers in households without pay” which constituted 44 percent of total employment in 2010 (487,861 informal workers compared to 744,724 formal workers).

There are also examples of where governance shortfalls are associated with a high degree of discretion, with tax-related investment incentives being an important case. The Council of Ministers is empowered by law to grant tax relief from sales tax and custom duty on a discretionary basis. There is currently no clear framework in place nor are there clear policies and procedures to periodically evaluate forgone revenue to the government from various tax expenditures. For customs administration, there are reduced tariffs with eight different sectors benefiting from exemption of custom duties on imported fixed capital for at least the first three years of doing business. The sector exemptions create clear scope for vested interest lobbying and connections. Other sectors may be exempted based upon Council of Minister's recommendation. There are also special agreements including Council of Minister's decision and Investment Promotion Law with exemptions generally originating from export incentives. After the issuance of the new investment law in 2014, and the executive regulations on investment incentives in 2015, the scope of discretion should decrease significantly, as the regulations clearly stipulate in tables the exemption rates / durations and the designated sectors. The results of such regulations are yet to be tested on the ground. Also, the new investment incentives were decided without a study on the costs and benefits of the prior incentives, and there is no framework in place to update them based on desired impact.

At the public sector managerial level, substantial effort on Public Financial Management (PFM) reforms has not yet found a balance between streamlined controls and limits on arrears. Instead, controls are often burdensome while arrears persist, especially in the health sector. The MoF's PFM Strategy 2014–2017 emphasizes the continuous improvement of PFM functions. In operationalizing its PFM modernization efforts, the Government of Jordan could benefit from focusing first on consolidating the effectiveness and enforcement of financial compliance systems. This includes the enforcement of budget expenditure commitment controls, addressing tax administration weaknesses that allow significant levels of tax evasion and arrears, and strengthening the skills of budget officers across the public sector. Looking ahead, a focus of PFM reforms on downstream service delivery (as opposed to central systems) seems necessary.

Given the decline in public investment, shortcomings in public investment management (PIM) are especially costly. Inefficiencies in PIM include: i) Poor project selection that does not transform into productive assets; ii) Unrealistic time schedules and consequent delays in completion; iii) Chronic under-execution of capital projects; iv) Cost over-runs; and v) Neglect to operate and maintain created assets. These weaknesses relate to a range of areas of concern in the existing PIM system including: i) Politically-motivated decisions in PIM process; ii) Lack of objective criteria for project selection; iii) Unclear lines of responsibility and accountability; iv) Shortages of project appraisal, procurement and management skills; v) Perverse incentives for project managers to underestimate risk; and vi) Lack of coordination between different levels of government.

Effective delivery of public capital is integral to achievement of Vision 2025 and the resilience components of the Jordan Response Plan (JRP). From the perspective of Jordan 2025 ("A Blueprint for Sustainable Growth and the Prosperity of all Jordanians"), improved PIM will be critical for Jordan's ability to convert its financial support from abroad and its own budgetary resources into productive capital. Efficiency in capital expenditure has become increasingly important in the face of foreseeable public funding constraints in Jordan. Many arguments for fiscal space are explicitly about the need to boost public

investment in physical assets such as public infrastructure and/or in social sector facilities (i.e. health, education, etc.) that contribute to improvements in human capital.

The central theme of needed improvements is to increase integration of public investment with broader policy objectives. Thus while the quantity of investment will continue to be limited by fiscal space, the most significant challenge in Jordan's current situation remains the achievement of a qualitative improvement in its public investments. Those projects should be funded or leveraged equivalently whether as traditional on-budget public procurement, or totally or partially by donors, or as public-private partnerships (PPPs). In all cases, the government needs to ensure that its investments promote welfare growth and reduce inequalities and unemployment, and that its fiscal risks are well managed. In this sense, improvements should contribute to integrating all line ministries and other government agencies in sector strategic planning of the system, as well as procurement processes, budget approvals and execution of public investment projects/PPPs, establishing a solid foundation for inter-sector coordination and budget integration, adjusted to Jordan's priorities.

Transparency and Accountability

There have been numerous accountability initiatives in recent years, but there are also some critical bottlenecks in the accountability chain. Jordan's poor performance on freedom of press is reflected in its score of 42.07 (rank 143) on the 2015 World Press Freedom Index. The Arab Spring and the Syrian conflict seem to have led the authorities to tighten their grip on the media and, in particular, the Internet, despite an outcry from civil society. Access to around 300 news websites was blocked within Jordan in June 2013 under a new media law that drastically restricts online freedom of information. Yet, understood as an approach to governance by which citizens hold the state accountable for their performance, social accountability has been enshrined in all reform efforts launched by the King since the early 2000s including in Jordan First (2002-2003), the National Agenda (2005) and *We are All Jordan* (2006). Jordan is one of the few countries in MENA to have joined the Open Government Partnership (OGP). In 2014, Jordan also launched its National Integrity Charter and Executive Plan which seeks to serve the country's citizens, preserve their dignity and safeguard their assets through enforcing laws, regulations and instructions in effect based on transparency, justice and equality. Also, Jordan is one of the few countries in the region that has an Access to Information Law and a functioning Ombudsman through which citizens can provide feedback on public services and predatory actions.

The tentative progress on access to public information is a case study on how dispersion of authority and fragmentation can be used to weaken strong upstream initiatives. Jordan adopted the Law on Securing Access to Information (LSAI) in 2007, the first ATI law in the MENA region, after other legislation have been passed to promote greater openness and improve competition in specific sectors, such communications and the media. Various aspects of the LSAI and its implementation are considered drivers of failure. These include:

- The absence of a central independent agency to support implementation of the LSAI and monitor its enforcement by public agencies.

- The dependence of the Information Commissioner (ICO) on the Information Council (IC) and its Chair, the Ministry of Culture, makes this agency's mandate very limited. It limits the capacity of the ICO to challenge the Executive and pressure public agencies to implement the LSAI.
- The ICO is the head of the National Library; he is responsible for the information kept in this department and not the information kept in other public agencies. His decisions are not binding for other public agencies.
- The process of classification and categorization of information at the agency level was launched only in 2012, after the majority of public agencies had ignored this LSAI requirement for more than five years.
- There is no use of new information and communication technologies in processing requests for information. A citizen wanting public information has to go to the specific agency and fill in a form (if it exists) to request it.
- The details and personal data required from individuals requesting information can dissuade them from presenting requests for information.
- The Law on the Protection of State Secrets and Documents (1979) covers the secrecy of public information, and this has constituted a serious obstacle to the implementation of the LSAI. Other existing legislation also hinders implementation of the LSAI, such as the "Law on Publications" and the press code.
- The absence of sanctions in the LSAI has contributed to what is currently low compliance, as there are no consequences for public officials and agencies that ignore the law's requirements.
- The broad scope and use of exemptions and the limited success in processing appeals limit the use of the LSAI.
- The High Court of Justice is the last recourse for appeals against decisions pertaining to ATI, which imposes a considerable burden on the appellant.

Jordan constantly scores higher than the other MENA countries based on its performance in fighting corruption. Despite this fact, considerable corruption challenges remain in Jordan. In Transparency International's Corruption Perception Index (CPI) 2014, Jordan is ranked 55 out of 175 (Jordan scores 49 in 2014, 45 in 2013, and 48 in 2012; MENA average score in 2014 = 38; global average score in 2014 = 43) and has fallen behind the Gulf states. Other findings on corruption in Jordan have indicated either no improvement or a gradual decline in key governance indicators that would support a reduction of corruption risks.

Requests for assistance with public services and benefits in Jordan are generally not channeled through political blocs but through informal and personalized networks. Favoritism and the use of influence or personal and business connections to gain favors, such as jobs or access to goods and services, are covered by a particular phenomenon known as *wasta*, the middleman who is common throughout the country and the region and can make transactions opaque and enforcement of existing laws difficult. A business survey, the World Economic Forum's Global Competitiveness Report 2013–2014, reports that corruption is considered by business executives to be one of the obstacles to doing business in Jordan.

Despite the recent improvements, the risk of arbitrary and discretionary administration persists, with negative impacts on service delivery and the business climate. Included among the causes of this un-level playing field are: i) Weak government accountability, which has reportedly contributed to the

abuse of office and to corruption; ii) No systematic punishment of public officials who take bribes, the difficulty of achieving successful prosecution of corruption cases, and rare prosecution of high-ranking civil servants; and iii) Hidden costs reported by companies operating in Jordan, stemming from bureaucracy, red tape, vaguely formulated regulations, and conflicting jurisdictions. The Worldwide Governance Indicators, produced by the World Bank, register no significant change in Jordan's political stability, government effectiveness, regulatory quality, and rule of law from 2007 to 2012. The indicators also show a lessening of control of corruption over this period, although this is not statistically significant. According to a recent survey by the Centre for Strategic Studies at the University of Jordan, 81 percent of Jordanians believe that the law is not applied equally to all citizens, while the widely cited Bertelsmann Foundation gave Jordan a lower "rule of law" score. Jordan 2025 sets the target of having a small majority of citizens (as measured by the University of Jordan survey) believe that the law is applied equally to all citizens by 2025.

In the context of Jordan, poorly-designed accountability mechanisms can be a contributor to risk aversion. The attractiveness and irreversibility of the public sector career path make the civil service considerably cautious; civil servants generally do not make decisions unless they (multiply) confirm that everyone above them in hierarchy is onboard. Promotion is sometimes based heavily on being around the longest without making any big mistakes. By contrast, strategic plans usually involve change if implemented properly, and change involves risk. Reinforcing this is that government officials pushing strategy implementation may worry about becoming scapegoats for government failures. In the past, the few officials who had mobility between the public and private sector were seen as especially vulnerable. A number of cases at Greater Amman Municipality, which were eventually not prosecuted, contributed to this perception.

The existing institutional setup for procurement in Jordan shows a proliferation of control mechanisms but with fragmentation and no authoritative procurement policy. This fragmentation has led to a situation where Jordan's procurement is covered by 56 separate by-laws including the ones for the three central procuring entities of the General Tender Directorate (GTD) of the Ministry of Works for construction procurement, the General Supplies Department (GSD) of the Ministry of Finance for purchase of goods and the Joint Procurement Directorate (JPD) for purchase of medicine. A comprehensive self-assessment was carried out by the government in partnership with the World Bank in 2010 using the OECD Assessment Tool. The self-assessment identified shortcomings in all areas, but the lowest scores (out of 3) were awarded to the appeals mechanism (0.8), institutional capacity (1) and the regulatory/normative body (1.3).

The absence of a lead entity on procurement coupled with weak accountability of fragmented structures severely undermines confidence in the procurement system and makes it prone to insider or collusive bidding. A political-economy study on enabling the implementation of public procurement reform in Jordan (July 2014) identified specific issues hindering the prospects of reform, including those of appeal mechanism, regulatory body and performance measurement among others. At present the appeals function of the procurement system is very limited. Apart from the hierarchal administrative review of complaints by the responsible procuring entity, bidders can only have recourse to the court system as there is no independent form of appeal mechanism. As with the regulatory/normative body, there is currently no central oversight unit and no entity in charge of the common regulatory framework. Each of the central

entities is tasked with discharging its functions in the procurement system, as well as with the maintenance and updating of its relevant regulations. This has prevented the establishment of a central e-procurement platform that could also be used for other processes besides tendering, such as complaints, dissemination of regulations and so on towards an open government. In addition, the current absence of measurements of procurement performance further hinders the prospects of reform, since the lack of information about how the system is actually performing makes it difficult for stakeholders to know if and where improvements are needed, and how those improvements might benefit them.

Environment and Natural Resources

The extent of challenges and costs arising from environmental and resource management issues can be elaborated through increasingly sophisticated indices and methodologies. The Environmental Performance Index (EPI) ranks how well countries perform on high-priority environmental issues in two broad policy areas: protection of human health from environmental harm and protection of ecosystems.³² Within these two policy objectives the EPI scores country performance in nine issue areas comprised of 20 indicators. Indicators in the EPI measure how close countries are to meeting internationally established targets or, in the absence of agreed targets, how they compare to the range of observed countries. One weakness of EPI is that it gives equal weights to all its subcomponents, thus assuming a uniform distribution of environmental pressure across countries. In reality, countries may be vulnerable to different pressures: some are vulnerable to water scarcity, others to ecosystem losses.

By various measures, Jordan ranks fairly well in terms of resource management – but this is insufficient given elevated risks. For example, on the Environmental Performance Index (EPI), Jordan ranked 60th out of 178 countries in terms of EPI aggregate score. The overall EPI score is developed by aggregating individual ESI factors (Jordan's rank in parentheses) on health impacts (60th), air quality (74th), water and sanitation (79th), water resources (45th), agriculture (55th), forestry (N/A), fisheries (N/A), biodiversity and habitat (162nd) and climate and energy (20th). With regards to 10-year changes in these factors, the agriculture rank has improved by 10 percent due to strengthening of pesticide regulations, and the air quality ranking has decreased by 10 percent due to increases in average exposure to PM 2.5 as well as PM 2.5 exceedance. When Jordan is compared to its GDP per capita cohort, it performs above the norm with regards to two factors: (i) water resources (wastewater treatment) and (ii) climate and energy, more specifically, positive changes in trends in carbon intensity as well as positive trends in CO₂ emissions per kWh. Jordan underperforms relative to its GDP per capita cohort in (i) air quality and (ii) biodiversity and habitat, the latter of which is not indicative of Jordan's performance relative to other arid-land countries.

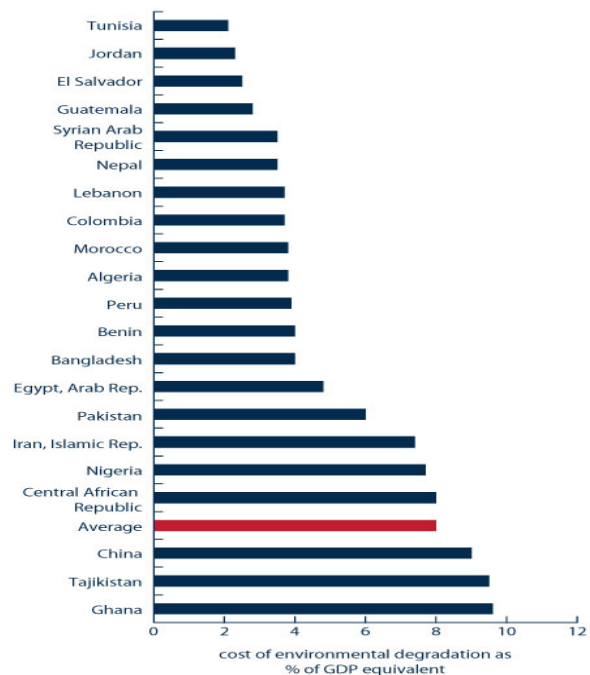
Adjusted net savings (ANS) have deteriorated. ANS, also known as genuine savings, measures the rate of savings in an economy after taking into account investments in human capital, depletion of natural resources, and damage caused by the pollution. Jordan's ANS, including particulate emission damage (percent of GNI), has deteriorated in the recent past, from 12 percent (2010), to 9.5 percent (2012), to 5.4 percent (2012). This is due to (i) increases in consumption of fixed capital, e.g. the replacement value of capital used up in the process of production; as well as slight increases in (ii) mineral depletion defined as the ratio of the value of the stock of mineral resources to the remaining reserve lifetime (capped at 25 years).

³² <http://epi.yale.edu/>

Environmental degradation inflicts a cost to society, in terms of mortality and morbidity from air and water pollution, foregone income of activities linked to natural resource use (such as agriculture and tourism) and cost of “aversive behavior” (for example, water filtration, purchase of bottled water to reduce exposure to water-borne diseases). The Cost of Environmental Degradation (COED) in Jordan is evaluated taking into account both intermediate and long-lived impacts of degradation that occurred in a reference year (2006). Using a range of well-established and internationally accepted methodologies, the total COED in 2006 was estimated to be in the range of JD 143-332 million, with an average of JD 237 million, or 2.35 percent of gross domestic product (GDP). If the impact of emissions on global environment is added, the total cost to Jordan and the global community as a whole would be JD 393 million.

The most important contributor to Jordan’s cost of degradation is air pollution, which is highly localized and accounts for 1.15 percent of GDP. The impact of inadequate water supply, sanitation and hygiene is the second most significant, representing about 0.81 percent of GDP. The cost of improper disposal of solid waste ranks third, followed by that of soil and coastal zone degradation.

The relatively high cost of outdoor air pollution should be interpreted as a signal of degradation in selected road traffic and industrial hot spots (such as downtown Amman, Zarqa, Fuheis, and so on), and not as a reflection of overall poor air quality at the national level. In particular, air pollution does not affect tourism poles, such as Petra, the Dead Sea, Jerash, and so on. Although Jordan’s aggregate cost of environmental degradation as a percent of GDP equivalent is low compared to the mean, it also starts with a much leaner basket of environmental assets.



The continuous influx of Syrian refugees to Jordan, specifically to the Northern governorates, is having direct negative impacts on natural resource management, especially on groundwater aquifers. A recent study by the Ministry of Water and Irrigation warned that it was only a matter of time before the main aquifer lying beneath the Zaatari camp became polluted. Over-pumping to meet the demand of hundreds of thousands of Syrian refugees is not the only risk facing the aquifer, according to the study, which noted that pollution due to wastewater leakage is already being documented. The influx of refugees is placing pressure on the local sanitation network. This includes causing sewage to overflow frequently, according to officials and residents of Mafraq. More than 34.164 million cubic meters of wastewater are generated annually by Syrian refugees in Jordan. The second refugee camp setting is above Al Azraq aquifer, one of the most important groundwater resources in Jordan. In addition to aquifer drawdown, groundwater quality degradation, and a sharp increase in supply of wastewater, most of which is left

untreated, solid waste emanating from both the refugee camps and northern municipalities is straining already stretched solid waste management infrastructure, including dumping bins, vehicles, landfill equipment, as well as landfill volume.

Jordan's National Agenda (2005-2015) adopted environmentally sustainable economic development as a critical policy goal as reflected in a wide range of sectors, including transport, energy, and waste management. These were translated into a National Executive Programme (2011-2013), highlighting specific goals, policies, projects, programs, and indicators. Among the National Executive Program's goals were developing water resources and upgrading their management efficiency; achieving security in energy supplies and diversifying energy sources. Reflecting the gravity of water scarcity in Jordan, the Programme allocates the biggest proportion of funding – 16.5 percent of the total – to the water and wastewater sector. In 2010, Jordan became the first country in the MENA region to conduct a national green economy scoping study, called Green Economy Initiative. Through this Initiative, Jordan identified several opportunities to kick off green clusters, including renewable energy and energy efficiency, water and wastewater management, solid waste, green buildings, eco-tourism, transportation etc.

Other relevant strategies include the Ministry of Energy and Natural Resources National Energy Strategy (2007-2020), which outlines ways to develop conventional, renewable and alternative resources such as wind, solar, oil shale and nuclear. Moreover, it sets a goal of increasing the contribution of renewable energy to the overall national energy mix from 1 percent in 2007 to 7 percent by 2015, and 10 percent by 2020. In addition, the Renewable Energy and Energy Efficiency Law Number 13 was a law implemented in 2010 to promote private sector investment in renewable energy projects through the Renewable Energy Fund. This law paved the way for private sector investment in renewable energy projects in order to enhance energy security and efficiency. Since the implementation of the Law, one wind IPP of 117MW has been financed and is under construction, while another twelve solar IPPs of over 200MW have signed financing agreements and are nearing financial close. Power Purchase Agreements for four additional wind and another four solar power projects were signed within 2015. The National Water Strategy Plan (2008-2022) was also issued in 2009 to address Jordan's water scarcity challenge. The Plan aims to develop cost reflective tariffs by 2022 in order to reduce water leakages and promote efficient distribution of water resources.

Efforts in renewable energy reform trace back to 2005 when the National Energy Efficiency Strategy sought to introduce a number of incentives. For example, 100 percent exemption from income tax over 10 years was introduced to encourage independent power producers to generate electricity on a Build Own Operate (BOO) and Build Own Transfer (BOT) basis. Additionally, other measures were highlighted including the progressive removal of oil and electricity subsidies (to reflect their true costs), the establishment of an energy data bank, the elimination or reduction of a sales tax and customs duties on relevant materials, and the provision of renewable energy grants and loans.

As a result of the 2009 oil price shock, the government created additional fiscal incentives. For example, all renewable energy and energy efficiency imports were exempted from customs and sales taxes. Grants and tax exemptions were also utilized to promote energy efficient vehicles, and sales taxes on solar water heaters were removed. There is considerable grant funding to subsidize both adaptation and mitigation projects with high GHG reduction.

Water and Climate Change

Jordan is one of the most water-stressed countries in the world. Its per capita annual renewable resources of 135 cubic meters in 2014 is far below the threshold of severe water scarcity set at an annual 500 cubic meters per capita. Rapid population growth, income growth and urbanization in combination with a fixed supply of total renewable water resources will further accelerate the decline in available per capita renewable water resources, and increase the gap between supply and demand, adding pressure to the sustainable use of these scarce water resources. In addition, limited wastewater treatment capacity, inadequate cost recovery, the high operation and maintenance costs (amongst others the results of the high energy intensity of the water sector) and the dependency on trans-boundary waters further complicate water sector management. As a result, groundwater levels have declined rapidly, while traditional surface and groundwater water resources cannot meet water demand. The Government estimated the projected deficit between supply and demand in 2013 at 312 MCM which is about 25-30 percent of available internal water resources (Vision 2025).

Water's role in the economy is a critical one, but difficult to value. Water is used as a key input in all main sectors of the economy: agriculture, energy and mining, manufacturing and utilities. At the same time, water is supporting transport, recreation and tourism. Negative impacts to the availability and quality of water have effects on a country's production potential and job creation. Hence, water resources are essential assets that require effective management to ensure that water can be allocated between its competing uses in such a way that it enhances prosperity. In a recent report the IMF noted that failure to manage these water challenges can impede a country's economic prospects as water shortages can result in food insecurity, increasing production costs and impeding productivity growth.

Climate change impacts in Jordan will be severe. Total water availability for all uses, including Jordan Valley agriculture, will likely diminish in the next twenty years. Results also show that climate change could have significant impacts on rain-fed agriculture. The livestock sector and overall food production in Jordan have been identified as most significantly impacted through climate change impacts on rain-fed cultivation and on arid and semi-arid rangelands. An overview analysis of climate and disaster risks for Jordan points to 3 major risks that would affect Jordan's sustainability and should be incorporated not only as risks but perhaps more importantly as opportunities for Jordan to move towards a sustainable economy. First, changes in precipitation – sudden snow/rainfall and less runoff, which can cause flash floods, landslides and location-specific flooding. But would also mean less water availability overall and loss of infrastructure (e.g., rural roads). Second, increasing temperatures – rise on average, which can cause loss of crops, increase in electricity demand, incl. peak load and some infrastructure disruptions. Third, earthquake risk due to location in Rift zone. Each of the preceding risks presents opportunities for efficiency and conservation measures for water and energy sectors; for diversification of rural employment; for better urbanization and human settlement planning; clean energy/tech jobs, climate smart agriculture.

The Government is dealing with the extreme water scarcity, but recent external shocks have resulted in rapidly increasing costs in the water sector. The large influx of Syrian refugees and the rapid increase in electricity prices have further accelerated the cost of providing water and has increased the dependence of the sector on the government's budget. The influx of Syrian refugees forced the Ministry of Water and

Irrigation (MWI) to improve existing water supply systems to provide adequate water to refugees and construct proper wastewater collection systems to avoid pollution of the aquifers. MWI prepared a report on hosting Syrian refugees cost on the water sector that estimated the total direct annual cost at JD 128 million. At the same time, the dismantling of electricity subsidies and the increase in diesel prices has had a major impact on the water sector. The sector has a very high energy intensity due to geographical and hydrological conditions that result in high pumping costs. Between 2007 and 2013, the electricity costs in the sector increased by 260 percent. In 2014, the IMF estimated the fiscal deficit in the sector at JD 313 million, constituting about 1.2 percent of GDP and 14.2 percent of the total deficit (including grants). As a result of the persistent fiscal deficits, the debt of the Water Authority of Jordan (WAJ) had increased to JD 840 million by 2012.

Reducing the gap between demand and supply requires increasingly expensive and complex investments, although there is still significant scope for managing demand more effectively. GOJ has taken measures to reduce demand (through non-price and to a much lesser extent price based demand management measures), but success in reducing demand has proved difficult as population growth, urbanization and economic growth continue to increase the demand for water. Nevertheless, there is still scope to manage demand more efficiently, especially in agriculture which is the largest water user in the country (despite its relatively small contribution to GDP and employment). Directions could include on-farm water use efficiency and integrated water resources management, improvement of livestock and rangeland systems, and a comprehensive risk management system for agriculture incorporating risks of pests and diseases, drought, and prices. Without more emphasis on demand management and the resulting re-allocation of water amongst users, the country will have to rely on increasing water supplies, which increasingly will include high-cost water sources such as desalination and wastewater reuse. The Government has just completed the Disi Conveyor transfer and its future plans include large investments in desalination to augment supplies.

Because of the low levels of cost recovery, the water sector is operating on an unsustainable financial footing. Programs aimed to put the sector on a more sustainable footing have resulted in some successes. The two largest utilities in Amman and Aqaba are currently able to cover their basic operation and maintenance costs, and both utilities are even able to generate some cash to pay for some of their capital costs. Yet, the recently established Yarmouk utility (covering the northern governorates) was in a weak financial position when it was established, and the influx of Syrian refugees has strained its progress in achieving financial sustainability. The Water Authority of Jordan as the country's bulk water supplier generates large deficits, as it increasingly finances projects to develop non-conventional (and more expensive) sources of water to increase the availability of water in the Kingdom. The increasingly larger distances over which water is transferred has resulted in the water sector becoming increasingly more energy intensive – and as a result the sector is now the largest consumer of electricity in the country, which increases the operation and maintenance costs in service delivery.

As a result, water in Jordan remains heavily subsidized. As in many other countries in the region, water and electricity tariffs for agriculture and domestic use are heavily subsidized in Jordan. Subsidies in the sector pose a large fiscal burden. Given the sensitive political economy issues associated with reducing those subsidies, the Government of Jordan is adopting regulatory, institutional, and participatory approaches to cost recovery that include measure to improve incentives for water conservation, and increase

efficiency in the provision of water services to coincide with tariff increases. In 2013, the Government of Jordan was able to cover 86 percent of its current water expenditure but only 59 percent of its total (current and capital) expenditure. The implementation of the IMF Structural Benchmarks for water shows that the GoJ is committed to move the sector to higher levels of cost recovery with a targeted program of actions that aim to increase revenues and improve efficiency in service delivery.

The efficiency improvements are mostly linked to the implementation of projects largely funded by foreign aid because of the inability of the water sector to fund its own investment programs. The high dependence on external funding (including donor funding) results in large fluctuations in the capital budgets, and hence affects the ability of the country to deal effectively with its extreme water scarcity. The capital budget tends to be highly fragmented because of the high number of projects being implemented at any given time – often resulting in long implementation times and cost overruns. The absence of robust investment project screening results in projects being financed and that often do not take into account the life cycle costs of the project resulting in a crowding out of the capital budget to fund these additional operation and maintenance costs.

The heavy reliance on a project based approach in dealing with extreme water scarcity has its limits. As water is key input in most productive sectors, the project-based approach may result in partial solutions to a constraint that cuts across sectors. The extreme water scarcity should be reflected not only in water sector policies and projects, but also in the policies of sectors that are significant water users, especially Jordan Valley agriculture and the industrial sectors.

Jobs

Vision 2025 identifies boosting labor market participation as the single biggest challenge facing Jordan. At the macro level, the Jordanian economy is not generating enough jobs to absorb over 60,000 young citizens who enter the labor market every year. Major constraints arise from the structure of economic activity, the large presence of the public sector with market-distorting effects on wages and youth expectations, and the burden of inefficient employment-related social security contributions borne by small and medium enterprises. At the same time that unemployment appears to be relatively constant over a long time span, recent numbers indicate a decline while growth has been slow. Moreover, the high level of non-participation makes the unemployment rate less useful as a barometer of the economy.

There is evidence of an education-labor market mismatch, with the education system failing to generate readily employable graduates in sectors with strong growth potential. Several studies – notably one conducted under the IFC E4E Initiative for Arab Youth initiative – have noted that Jordan’s comparative advantage in sectors such as business process services and other high value services has failed to generate clear market signals in the education system to direct more students into these sectors. Partly this appears linked to shortcomings in general education career guidance, but it also relates to institutional rigidities in education and a reluctance to embrace curriculum development innovations long seen as standard in FDI success stories (e.g. the close consultation with global IT companies in third-level curriculum development in Ireland).

The recent diagnostic analysis conducted by IFC illustrated that these growth sectors are constrained because of the inability to find hires with the needed soft and hard skills, further exacerbating the unemployment problem in Jordan, especially among youth. Higher education institutions are reacting slowly to the needs of the job market contributing to this skills mismatch and the market failure. There is evidence of coordination failures and incentives incompatibilities, contributing to the gap between the educational and training outcomes (hard and soft skills) of college and university graduates and industry/employers' demands in key sectors such as ICT, tourism, health, construction, for example. In terms of quality Jordan has 28 universities, and the world ranking as a quality indicator of the universities is low, ranging from 1,787 to 9,719 (source: 2012 University Web Ranking).

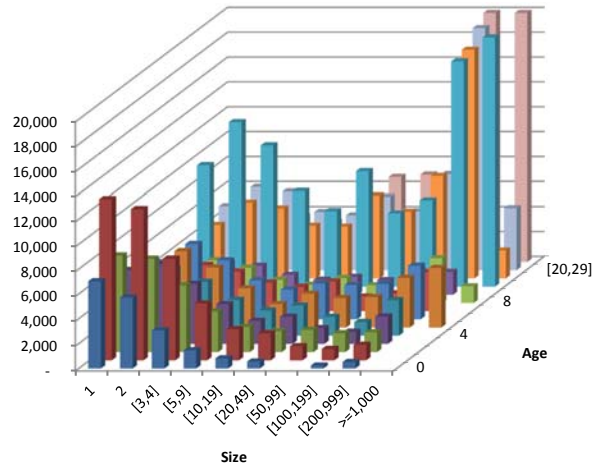
Queuing for public sector jobs is significant. In 2010, about 218,000 applicants were queuing for openings in the public sector according to the Civil Service Bureau. The queuing phenomenon reflects large distortions between public and private sectors wages and compensation, especially at the semi and unskilled levels. In 2010, the average monthly wage in the public sector was JD 412 compared to JD 338 in the private sector; the public sector pays about 70 percent of private sector wages for managerial and technical levels and about 150 percent of the private sector for unskilled and semi-skilled levels (Jordan National Employment Strategy, 2012). This distribution of jobs between public and private sectors is inefficient: (i) a large number of educated people are under-employed in the public sector and a large number of people in the private sector are frustrated with few job opportunities or stagnant or declining real wages; (ii) the public sector, including administration, defense and security already employs 38 percent of the labor force and is bloated.

It is likely that subsidies reinforce the effect of remittances in raising reservation wages and so depress labor force participation. Universal subsidies for LPG (used for cooking and space heating) and bread and free health care to the poor and lower middle income groups are provided by the government. Since these necessities can be met partially through subsidies, the incentive to work is weaker. As discussed later, there are also substantial energy subsidies, which are now concentrated on electricity and water due to the successful elimination of retail liquid fuel subsidies. The energy and water subsidies are embedded in the operating model of the state-owned utilities companies. The subsidies program for bread and LPG cylinders are simple in their design and translate into price controls at points of sale which enable all households in Jordan to access basic necessities, as these are universal untargeted programs. For bread, the government imports flour at a per ton cost of JD 350 and sells it to bakeries for JD 50. In 2015, the estimated cost of subsidizing flour on the Treasury is around JD 180 million.

On the labor demand side, jobs in Jordan's private non-agricultural sector are mainly found in old large establishments and micro startups. However the country exhibits what can be described as a missing middle with few young medium- and large-sized firms contributing to employment. Small scale activities constitute the vast majority of firms and provide almost half the employment opportunities; half of all establishments are sole proprietors. . This concentration of employment in one-person and micro (2-9 employee) establishments, which are significantly more likely to be informal in the Middle East and North Africa (MENA), is disconcerting (World Bank, 2011). In particular, evidence indicates that informality is associated with lower levels of productivity in MENA as compared to other regions that are at a similar level of development. The large share of employment in micro-firms is also a reflection of the economy's sectoral composition. The economy is dominated by the services sector which tends to have smaller

establishments. While Jordan has a reasonably high entry rate for new establishments, this is driven by the entry of many small and often informal establishments.

Figure 6.4: Distribution of Private Non-Agriculture Employment by Establishment Size-Age Categories (2011)

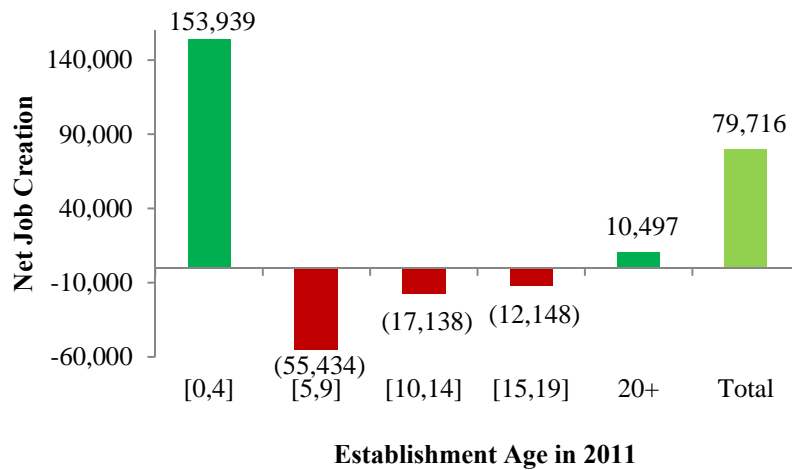


Source: World Bank, 2014

Startups create the majority of jobs in the private non-agriculture economy, although these jobs are mainly in informal and often low-productivity 1-person and micro establishments. Startup establishments (aged 4 years or less in 2011) created 154,000 jobs constituting 193 percent of net job creation over the 2006 to 2011 period. Around 83 percent of these startups employed only 1 or 2 workers each and 80 percent of them were in the services industry with a large concentration in retail trade. These types of informal firms that operate in low-productivity sectors often offer low quality jobs with limited benefits and social protection.

The widespread creation of startups may reflect Jordanians’ attempts to secure a livelihood in an environment where existing firms fail to generate sufficient jobs to absorb the growing labor force. Establishments aged 5 to 19 years in 2011 destroyed 74,000 jobs between 2006 and 2011 and old establishments (aged 20+ years in 2011) created a meager 10,500 jobs (constituting 13 percent of net job creation in the private non-agriculture economy) over the same period. This lackluster performance is attributable not only to job loss through the exit of firms from the market, but also to the slow employment size growth of Jordanian establishments over their lifecycle. On average across the Jordanian economy in 2011, firms aged 35-39 years were only 3.5 times the employment size of young firms aged 0 to 4 years, whereas those aged 40+ years were around 5.3 times the employment size of young firms. This finding, however, belies the exceptional performance of Jordan’s manufacturing sector which actually outperforms employment size growth over the establishment lifecycle in comparators such as Egypt, Turkey, and the United States.

Figure 6.5: Net Job Creation by Establishment Age (2006-11)



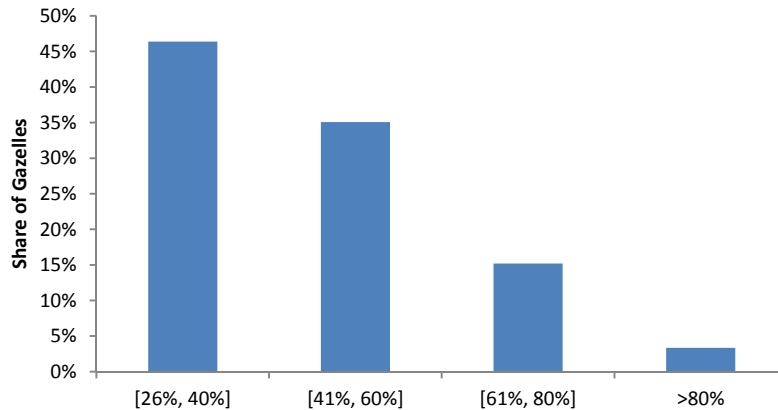
Source: Author's calculations using establishment census data (2006, 2011)

Note: Young firms are those aged 4 or less in 2006 (i.e. created after 2001)

Among existing firms, and contingent on their survival, young establishments and large establishments exhibit higher average employment growth rates than old and small establishments. Young age (of 4 years or less) of existing establishments is associated with a higher average net job creation rate (over the 2006-11 period), even after controlling for establishment employment size. Moreover it seems that after controlling for age, the average net job creation rate consistently rises for increasingly larger establishments, especially those with more than 50 employees.

A minority of fast-growing existing firms known as gazelles also contribute a significant share of new jobs to the economy. Gazelles are defined as existing establishments with at least 10 employees at the beginning of the period, and which at least double in employment size over a 4 year period. Only 1.4 percent of all incumbent establishments in Jordan are gazelles. Despite their small number, these establishments grow at lightning speed. More than half of gazelles grew at an average annual employment growth rate of more than 40 percent, reaching in 2011 at least 6 times their size in 2006. Consequently these gazelles contributed 64 percent of economy-wide net job creation among establishments with 10+ employees (and 40 percent of net job creation among establishments of all sizes). Manufacturing gazelles contributed 47 percent of manufacturing sector net job creation among establishments with 10+ employees (and 35 percent of net job creation among manufacturing establishments of all sizes).

Figure 6.6: Distribution of Gazelles by Average Annual Employment Growth Rate (2006-2011 period)



Source: Author's calculations using establishment census panel (2006, 2011). Figures are extrapolated from panel to full population using sampling weights.

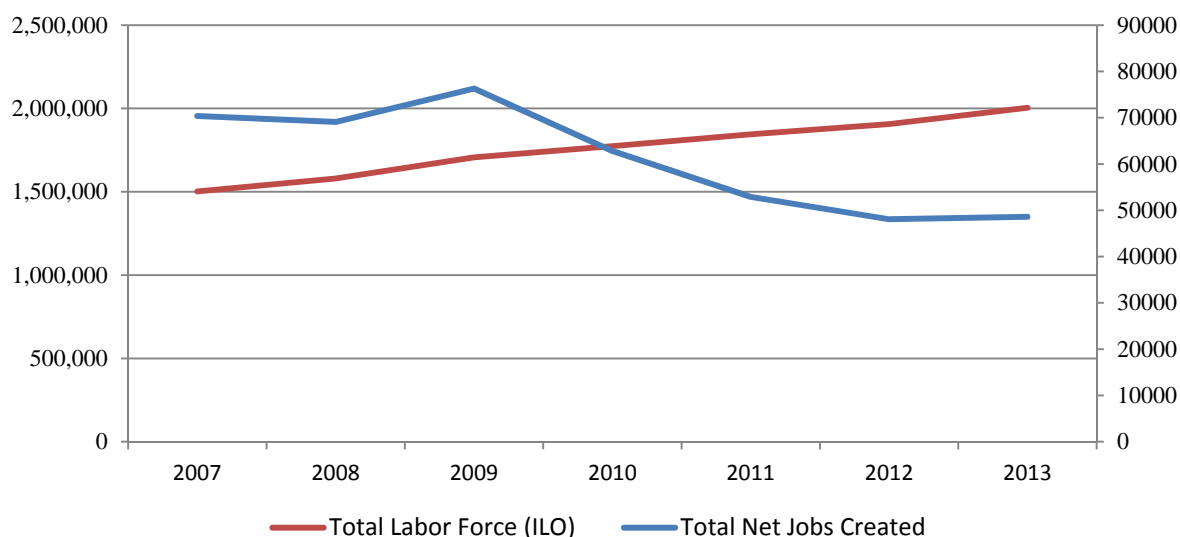
Note: By definition, gazelles are establishments with at least 10 employees in 2006, and which more than double their employment over a 4 year period i.e. whose average annual employment growth rate is higher than 26 percent.

Jordanian gazelles are typically young and either small or medium-sized, and operate in various economic sectors. 57 percent of gazelles are young startups or young firms (0-9 years old at the beginning of the period) while 28 percent are older than 20 years. Almost 85 percent of Jordanian gazelles employ less than 50 workers at the beginning of the period, whereas only 7 percent employ 200 or more. Gazelles are prevalent across many sectors but seem to exhibit higher incidence in construction and manufacturing sectors (at least 3.3 percent and up to 8.6 percent, respectively) and lower incidence in services sectors (at most 2.9 percent).

In the services sector, Jordan's ICT sector can be characterized as a conglomeration of gazelles as it boasts over 600 technology companies and 300 startups. In fact, it is estimated that over 50 percent of the country's startups are in the ICT field, including telecom, IT, mobile online businesses, and game development. Over the last decade, Jordan's ICT sector has thrived due to (i) the concerted effort by the government to advance the sector; (ii) the drive and innovation of its entrepreneurs; (iii) a competitive deregulated market; and (iv) increased penetration of ICT infrastructure. These factors have helped Jordan emerge as a technology hub in the region and attract investment and partnerships from leading tech firms globally. Despite the sector's growth and success, it currently only contributes to 1.25 percent of the total workforce and 14 percent of the GDP. Weak macroeconomic conditions coupled with industry-specific challenges and intense competition has increased pressure on the ICT sector. These issues are exacerbated by poor infrastructure, namely reliability of power, secure internet servers and bandwidth availability as well as uncertainty in the policy and regulatory environment (e.g. tax hikes, enforcement of contracts), which have constrained the potential for both growth and job creation.

Net job creation growth has been negative over the last decade and not sufficient to absorb the growing labor force. Net job creation decreased from 70,000 jobs in 2007 to 49,000³³ jobs in 2013, an average annual decrease of 5 percent (Figure 6.7) while the total labor force grew by 600,000³⁴ individuals (Jordanians and non-Jordanians) for the same period. Who is creating the jobs and why are they not growing sufficiently?

Figure 6.7: Net jobs created and Labor Force (Jordanians and Non-Jordanians), 2007-2013



Source: Job Creation Surveys (DOS) 2007-2013, ILO Employment and Social Outlook 2015

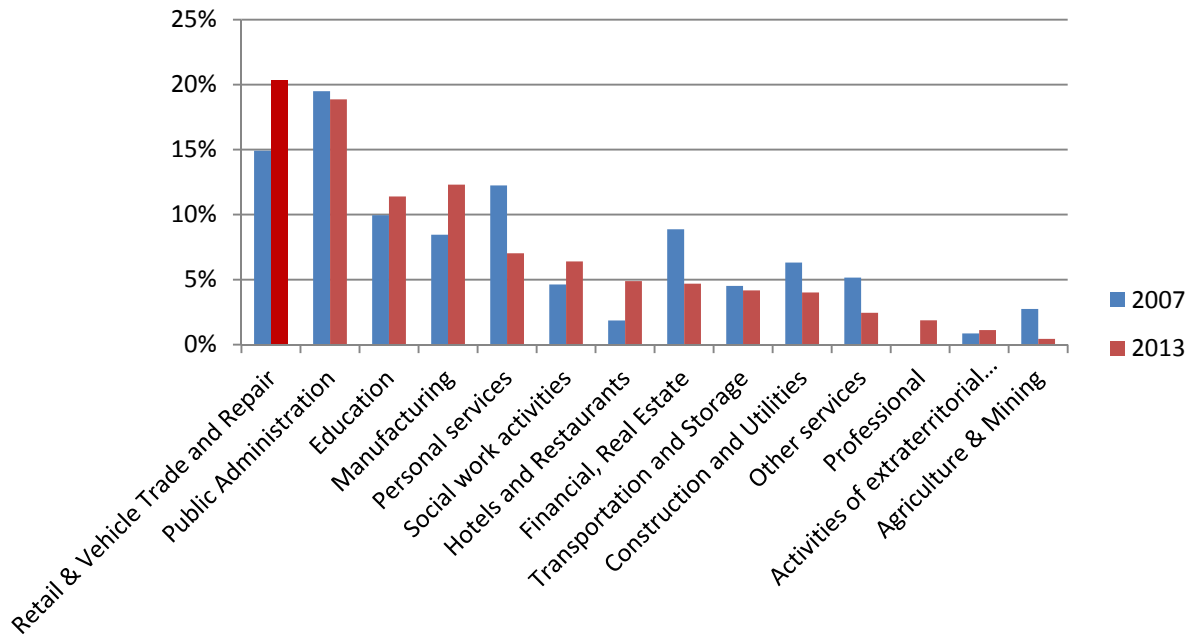
A significant proportion of jobs were created in the low productivity service sectors or in the public administration sector. The low productivity private sector jobs are the counterpart of the microenterprises discussed earlier. Figure 6.8 illustrates the distribution of net job creation by sector. In 2013, the main contributors to net job creation were the public and defense administration (20 percent) and the wholesale and retail trade, repair of motor vehicles, and transportation and storage sectors (25 percent). High productivity services such as financial and real estate activities only created 4.7 percent of net jobs in 2013, a decrease of 4.2 p.p. from 2007 (Figure 6.8). Almost all of the employed in high productive service sectors are wage employees. Around a quarter of the employed engaged in low productive services are self-employed indicating that these sectors creating 25 percent of the jobs are often an informal one or two person firms. In fact, almost two thirds of all self-employed worked in the wholesale and retail trade, repair of motor vehicles and transportation and storage sectors³⁵.

³³ Different data sources provide different job creation estimates. The EUS (DOS) provide lower estimates for job creation than the Job Creation Surveys (DOS).

³⁴ ILO Employment and Social Outlook 2015 (includes Jordanians and non-Jordanians).

³⁵ Source: EUS (DOS) 2013

Figure 6.8: Distribution of Net Jobs Created by Economic Activity, 2007 and 2013



Source: Job Creation Surveys (DOS) 2007 and 2013

The inactive population is overwhelming represented by women with low levels of education. When in the labor force, women face very high unemployment levels, particularly for young and educated groups. Less than 10 percent of women with low levels of education join the labor force against almost 70 percent of young female graduates and 50 percent of young females with post-secondary education. A marginal effect analysis demonstrates that women with post-secondary education and with university and post-graduate education are respectively about 32 and 57 percent likelier to be in the labor force than their less educated counterparts.

Married women also tend to remain outside of the labor force. The ‘marital-status gap’ in labor force participation (the relative difference in labor force participation between married and never married women) is about 24 percent. Among women aged 22-29, the marriage gap is even larger, suggesting that marriage at a younger age causes an even earlier exit from the labor market. Despite low participation, women experience very high unemployment rates - more than double than men- 20 percent versus 9.5 percent. Unemployment levels are particularly high among the young (age 15-29) and highly educated women (above 35 percent). Vulnerability to unemployment rises with the level of education for women, while men with higher education are less likely to be unemployed. The probability of being unemployed decreases with age, though it does not appear to be affected by the marital or parental status of the women, making unemployment essentially a youth phenomenon. This masks the fact that women might simply leave the labor market after failing to find a suitable job after a certain age. These factors point to a large, untapped pool of resources that are not utilized in the economy.

To address the youth employment and enhance employability, the Government prepared a National Employment Strategy (NES) for 2011-2020. The NES spelled out a comprehensive approach to

employment creation which tackles supply, demand and institutional issues. Thus the NES included: (1) an overview and diagnosis of the labor market, (2) actions from the supply and demand side aiming to improve the employability of Jordan's labor and the creation of job opportunities and, (3) a sequencing of actions over the short, medium, and long terms balancing both demand and supply of labor.

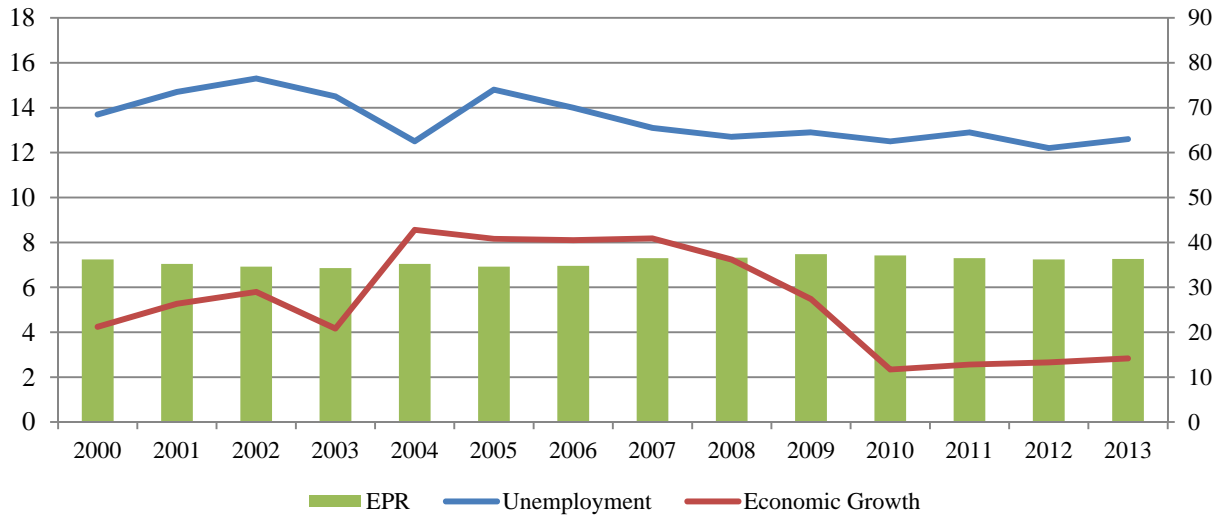
The NES has been characterized by a very large gap between the high quality of analysis and strategic directions on the one hand, and implementation on the other. The NES, reaffirmed by Jordan 2025, was intended as a national strategy which would set a cross-cutting human development agenda, but in practice implementation has been split between the Ministry of Labor and the King Abdullah Fund for Development (KAFFD). Perhaps more debilitating to the strategy has been its conceptualization as a series of projects (i.e. individual activities of training, skills development, and analysis) which in turn are financed by a technical and vocational education fund which mobilizes revenue from a fee on expatriate employment; in addition, project funding has come from donors. As a result, the ambitious policy agenda in the NES has been relegated with government entities instead defining their NES role in terms of the ability to get a project team funded in this fashion; if a project is not funded, then the respective entity simply drops that component of the NES. Donors have enabled this *modus operandi* through their own preference for appearing to support the NES by funding projects, but there is no sense in which the NES is a whole of government endeavor.

Economic Growth and Labor Market Conditions

In Jordan, economic growth has not translated sufficiently into better labor market conditions; i.e. lower unemployment and sufficient job creation. Even during the 2000-2008 period of high economic growth, employment did not grow as much. Employment elasticity of growth averaged 0.42 during 2000 to 2008, which is still on the low side (NES 2011-2020).³⁶ Employment to population ratios remained low compared to international standards and did not grow much from 2000 to 2013 (Figure 6.9 and Figure 6.10). Finally, despite positive economic growth, unemployment rates hardly changed over the last years remaining in low double digits (12.6 percent in 2013).

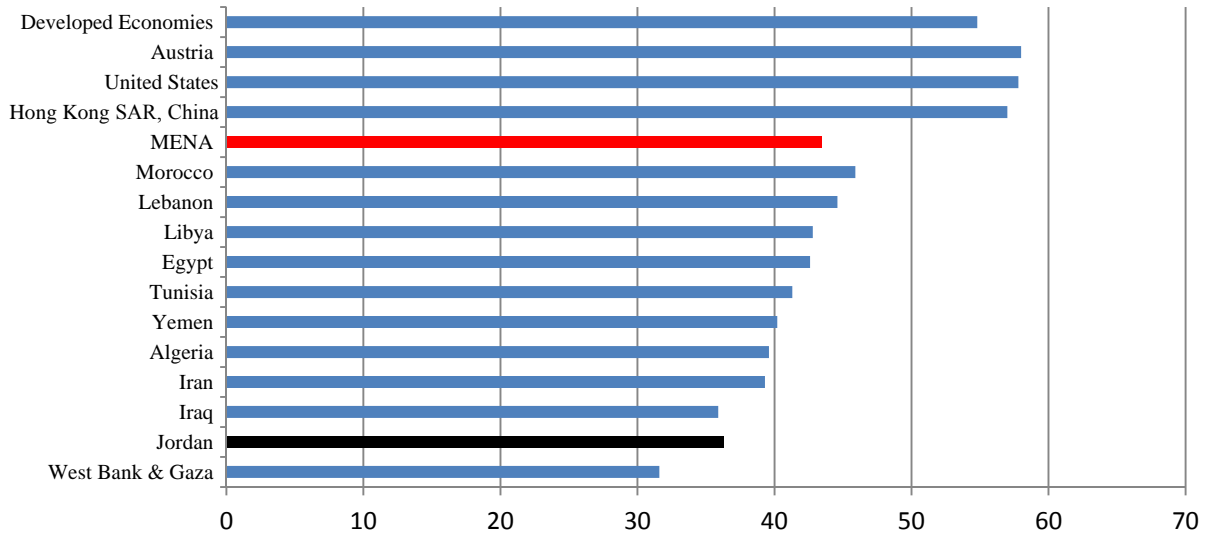
³⁶ Kingdom of Jordan. Jordan's National Employment Strategy, 2011-2020, which had a technical update in 2015.

Figure 6.9: Economic Growth, Unemployment Rates, and Employment to Population Ratios (%), 2000-2013



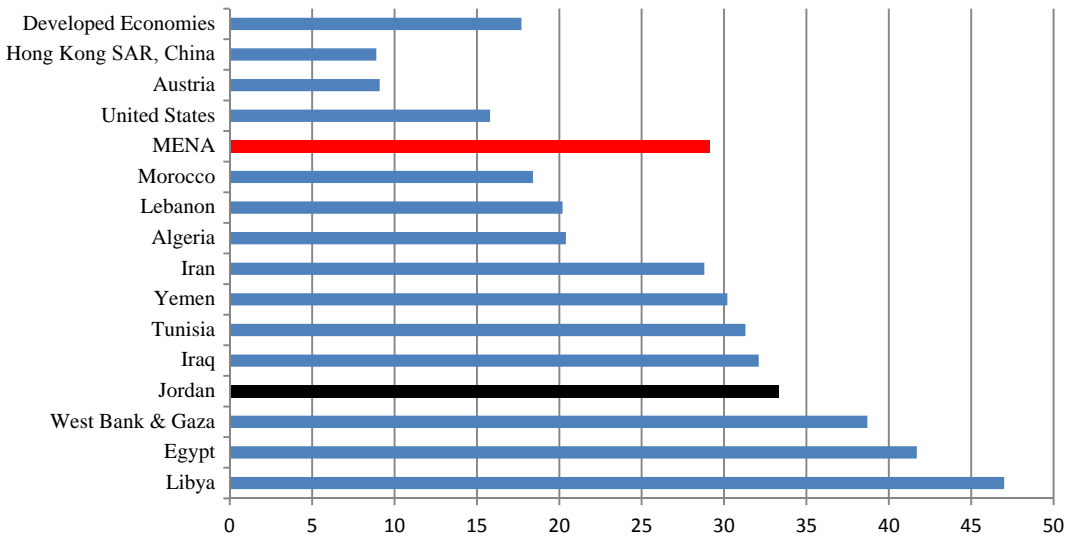
Source: Employment and Unemployment Surveys 2000-2014 (DOS), WDI, ILO Employment and Social Outlook 2015

Figure 6.10: International Comparison of Employment to Population Rates, 2013



Source: ILO Employment and Social Outlook 2015

Figure 6.11: International Comparison of Youth Unemployment Rates, 2013



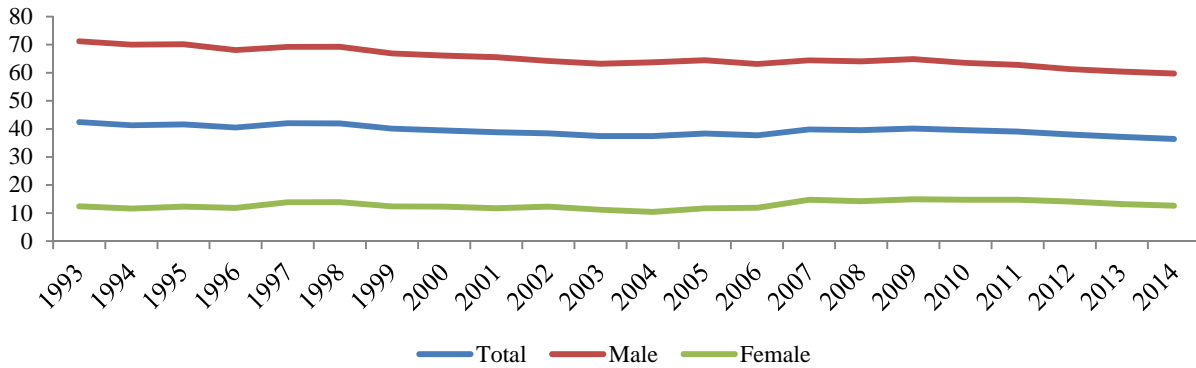
Source: ILO Employment and Social Outlook 2015

Participation of Jordanians in the labor market

The labor force is increasing due to population growth, not higher participation. Overall labor force participation rates fluctuated around 40 percent since 1993, meaning that less than half of the working age was participating in the labor market. Male participation in the labor force decreased by 11 pp from 1993 to 2014 (Figure 6.12). As such, most of the growth in the Jordanian labor force has been due to demographics and increases in the working age population rather than participation rates. Despite the slight decrease in male participation rates, they are still highly comparable to the rest of the economies albeit on the lower side compared to the MENA region (75 percent) (Figure 6.13)³⁷. On the other hand, female labor participation is very low and not even in line with MENA averages. It also significantly lags behind non-MENA countries (Figure 6.13). Indeed, Jordan has one of the lowest participation rates for women (13.2 percent according to DOS) in the MENA region compared to other countries such as Lebanon and Tunisia.

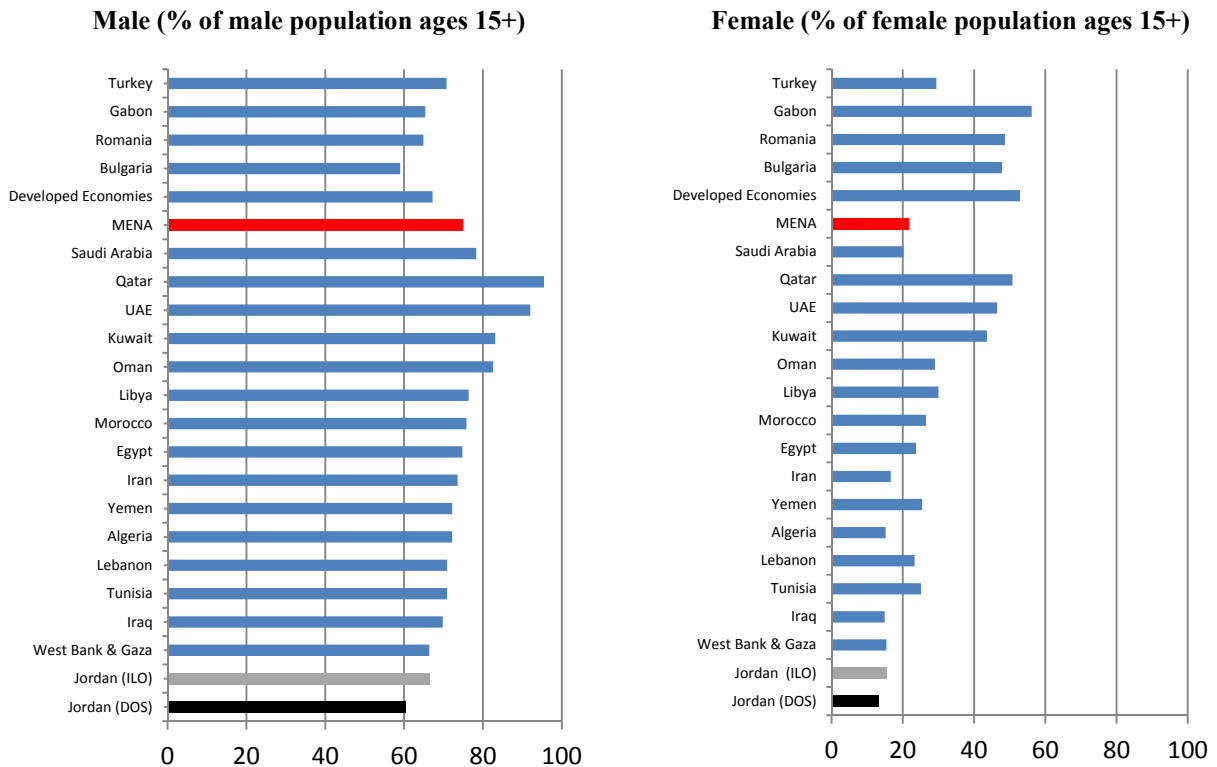
³⁷ Labor Force participation rates in the GCC are high because they include both nationals and migrant workers.

Figure 6.12: Labor Force Participation Rates in Jordan, 1993-2013



Source: Employment and Unemployment Surveys 1993-2014 (DOS)

Figure 6.13: Labor Force Participation Rates in Select Countries, 2013



Source: Employment and Unemployment Surveys 2013 (EUS DOS), ILO Employment and Social Outlook 2015

The inactive population is predominantly female but also young and of low education. A significant proportion of the inactive females are women who stay at home (78 percent), while inactive males are typically either students or with means to remain out of the labor force (Figure 6.14). The inactive females are largely not well educated. Participation rates in 2014 were below 5 percent for females with a secondary degree or below, but higher than 50 percent for those with a Bachelor’s degree or above (Figure 6.15). Participation rates for males also increase with educational level to reach the highest rate of 82 percent in

2014 for Bachelor degree holders. Further, controlling for other factors such as age, the 2013 Employment and Unemployment survey data (EUS) showed that the lower the education level of an individual, the less likely he or she will participate in the labor force. Finally, around half of the inactive working age population is below 30 years old many of whom can potentially enter the labor market. The inactive sub-populations described here are out of the labor force by choice (data from the 2013 EUS showed that around 98 percent of inactive are not prepared to start a new job if it was offered to them in the next 15 days).

Figure 6.14: Distribution of inactive females and males females ages 15+ by category, 2013

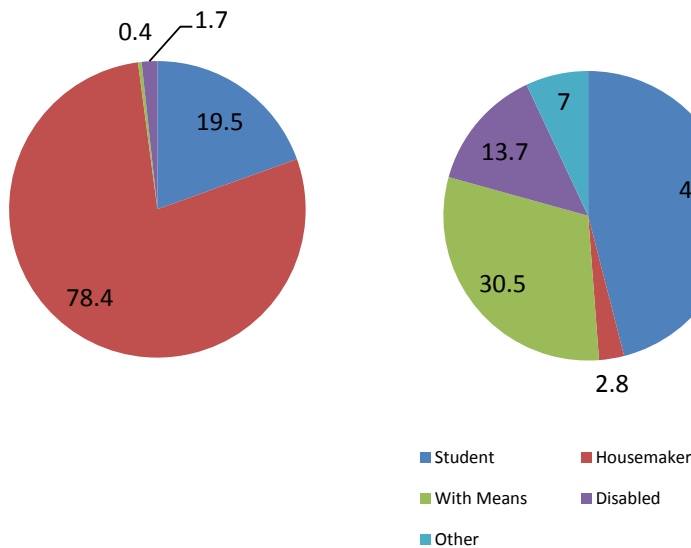
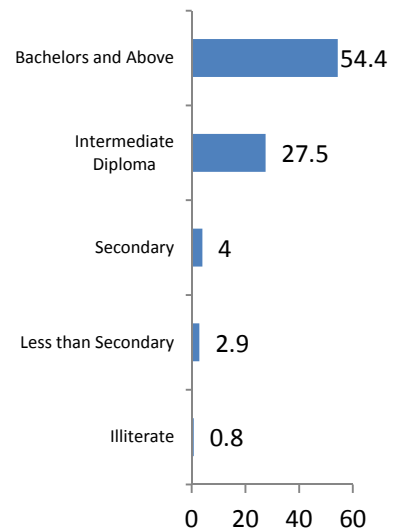


Figure 6.15: Female Participation Rates by Education, 2014



Source: Employment and Unemployment Surveys 2013-2014 (EUS DOS)

Educational Attainment of the Jordanian Labor Force

Increasing access to tertiary education is reflected in labor force composition, but nearly two-thirds of the labor force has no higher than a secondary degree as migration to the GCC reduces the educated cohort. Thus the sharp relationship between education and participation seen in some countries is muted in Jordan and the *resident* labor force continues to mainly consist of individuals with low education.³⁸ However, Jordanians holding high academic qualifications have been on the rise because of the country’s focus on investment in human capital. Figure 6.16 shows the distribution of labor force according to education. Around 61 percent of the labor force held a secondary degree or lower while 28 percent received a Bachelor’s degree or above. However, the share of university holders is steadily increasing over time. The proportion of the labor force holding a university degree and above increased from 6 percent in 1973 to the 28 percent in 2014 depicted in Figure 6.17.

³⁸ In addition to having a population with a relatively high share of individuals without a tertiary education, many skilled and educated Jordanians migrate to the GCC and other countries in the world leaving mainly the unskilled individuals in the country.

Figure 6.16: Distribution of Labor Force according to Education, 2013

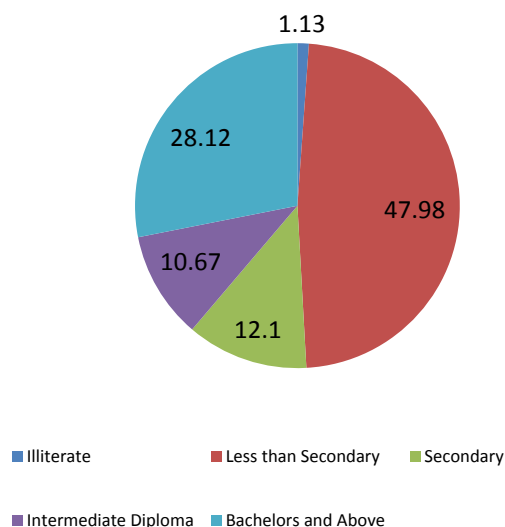
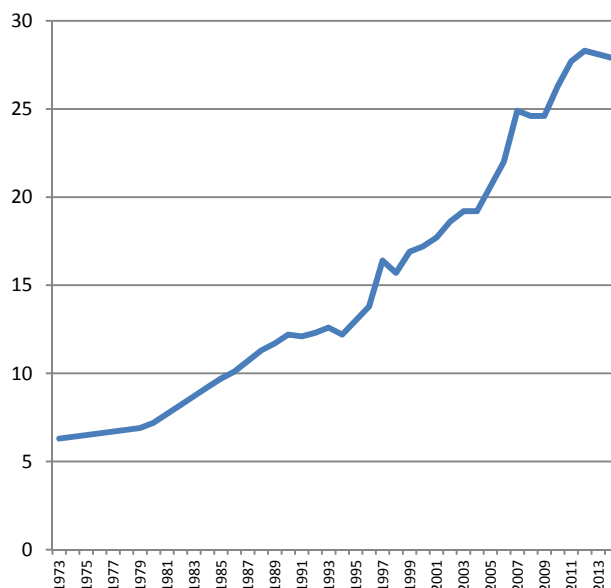


Figure 6.17: Labor Force with Tertiary Education (% Total), 1973-2014



Source: Employment and Unemployment Surveys 2000-2014 (EUS DOS), UNDP (2013)³⁹

Despite the increase in university degree holders, specialization and skills supplied do not match those demanded by the private sector. The problem begins with a tendency towards non-competitive admissions in many tertiary institutions, weakening at the outset the link between outcomes and performance. The number of graduates specializing in education, humanities, and non-technical and professional fields continue to exceed demand, and employers complain through surveys that education is not “applied” enough. Around 58 percent of graduates from Jordanian university majored in education, humanities, and non-technical and professional fields in the academic year 2012/2013.⁴⁰ This translates into a labor force dominated by the non-technical fields (70 percent) especially since professional and technical fields have only slightly higher participation rates (74 percent for professional and technical fields vs. 67 percent for education, humanities, and non-technical and professional fields).⁴¹ The labor force is therefore not getting equipped with the appropriate skills as humanities and social science students are not being provided with the expertise they would need in the workplace.⁴²

In addition, technical and vocational employment training (TVET) continues to be weak and fragmented and offering academic and humanities specializations rather than a technically skilled workforce demanded by the private sector. The challenge is not so much the diversity of the providers, but rather the poor state of governance of the sector. In spite of a strategic focus by the National Agenda in

³⁹ UNDP (2013) “The Informal Sector in the Jordanian Economy”

⁴⁰ This is typical of Arab countries, where about 68 percent of university students major in education, humanities, and social sciences, compared to 56 percent in Latin America, and 54 percent in East Asia (NES 2011-2020).

⁴¹ Source: EUS DOS 2013.

⁴² Even in the scientific, technical, and engineering fields, employers complain that education is not “applied” enough.

Jordan and considerable donor funding, reforms are slow, coordination is lacking, and quality control is weak or nonexistent. In addition, there is a lack of private sector collaboration at all stages which widen the gap between private sector needs and expectations and the skills taught to vocational trainees.

Non-Jordanian labor force

Besides out-migration to the GCC, the labor force also sees strong impacts of in-migration of Arab and Asian workers. In 2012, foreign labor formed almost 16 percent of the labor force⁴³. According to the Ministry of Labor data, the total number of foreigners with work permits reached 286,000 in 2013. The majority of male foreign labor is Arab; the highest number of non-Jordanian Arabs with documented permits was Egyptian, followed by Syrians. On the hand, more than half of female foreign labor is Asian working as domestic workers. The data from the Ministry of Labor is only indicative and does not reflect the true numbers as undocumented workers are not included. It is believed that the amount is much higher especially given the number of Syrian refugees entering the country.

Most of the foreign workers who enter the Jordanian labor market are either low-skilled or specialize in non-technical and professional fields during their tertiary education, and as such, they occupy jobs that Jordanians can take. More than half of the foreign workers in 2012 did not have a secondary degree. Further, out of the foreign workers who held a university degree, 66 percent specialized in education, humanities, and non-technical and professional fields, specializations which are also popular among Jordanians.¹⁰ The supply of non-Jordanians can thus displace jobs from the unemployed Jordanians who have similar qualifications, especially in occupations seen as undesirable or which have poor occupational regulation. In addition, the low-skilled and often undocumented foreigners may depress wages at the low end since employers have access to workers who have low bargaining power and can work at the minimum wage.

The similarity in educational profile of inward migrants with that of resident Jordanians suggests that structural features on the demand side of the labor market are playing an important role in labor market outcomes. With a growing Jordanian labor force and a large supply of foreign labor, the economy would need to create enough jobs to absorb the labor market entrants and combat unemployment. Despite stagnant participation rates of Jordanians in the labor market, the total labor force has been growing due to an increase in the Jordanian working age population and inflow of foreign labor into the market. The foreign labor supply is relatively large and has increased due to the Syrian conflict and the influx of refugees into the country. So how did job creation fare?

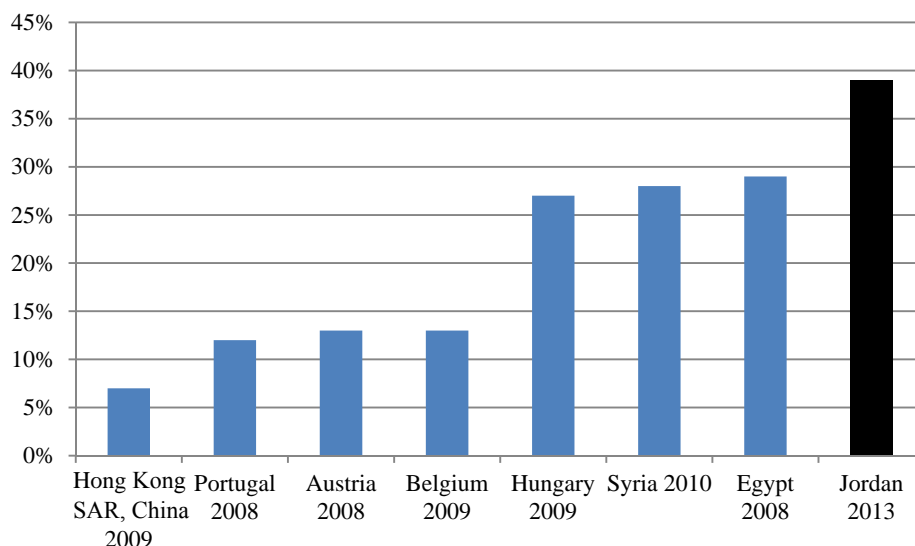
Public sector bias

The public sector continues to create the largest number of jobs. In 2013, 39 percent of all workers were employed in the public sector. Despite perceptions of a hiring freeze, the government continues to contribute to 24 percent of all net created jobs. Employment in the public sector is high relative to some

⁴³ Source: EUS DOS 2012. This percentage is underestimated as many foreigners are not captured by the survey.

non-MENA developed countries⁴⁴ but comparable to other MENA countries, albeit on the high side (Figure 6.18). Controlling for other factors, the better educated an individual is, the more probable that this person is working in the public sector; however, given the number of high-skilled labor force participants and the number of jobs created in the public sector, many stay unemployed, especially females. This is consistent with the high unemployment rates among females with a Bachelor's degree and above (26.6 percent).

Figure 6.18: International comparison of public sector employment shares



Source: ILO LABORSTA, IMD World Competitiveness Online 1995-2011, Employment and Unemployment Surveys 2013 (EUS DOS)

The widespread preference towards public sector jobs is a rational decision on the part of the Jordanian population; public sector jobs are stable, well compensated, and are associated with good job quality and fringe benefits. Two key indicators of the rational public sector preference are that public servants are paid better and work relatively less hours. The majority of employed public sector workers earn above JD 300 per month (76 percent) while half of the private sector workers earn that much (47 percent). The average monthly wage in 2009 in the public sector was JD 412 compared to JD 338 in the private sector⁴⁵ (NES 2011-2020¹). Further, public sector employees work on average 40 hours per week as opposed to the private sector where they work on average 44 hours per week. Finally, the public sector tends to offer social security coverage, health insurance and maternity benefits to its employees, while coverage of these benefits in the private sector varies by establishment. Given the better monetary and non-monetary benefits, it is of no surprise that public sector employees do not wish to change jobs. Most of the workers who wished to change jobs were working in the private sector; they mainly wanted to move jobs

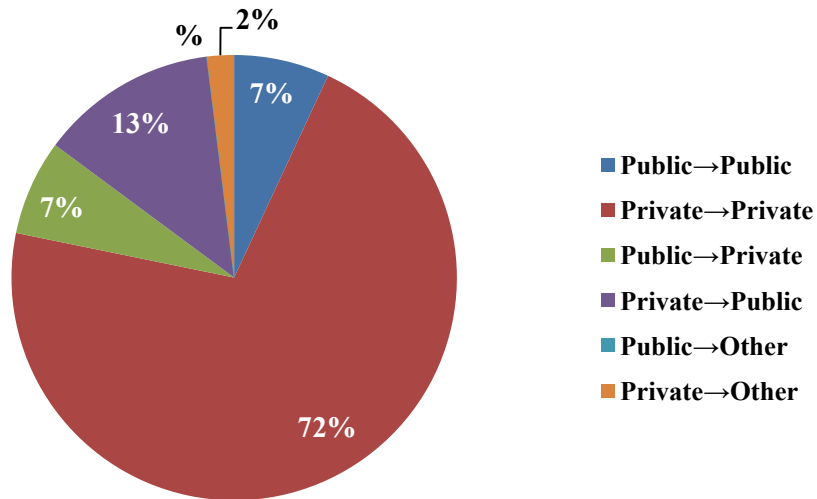
⁴⁴ There are examples of successful economies with similarly high public employment shares.

⁴⁵ The differences in hourly earnings between the private and public sector should be more given that employees work less hours in the public sector.

because of the insufficient earnings they are receiving (69 percent); a few did not like the working conditions⁴⁶.

Mobility between the public and private employment sectors is limited, segmenting in effect the labor market at the public – private divide and making the initial point of entry into the “right” and “preferred” labor market crucial. Figure 6.19 shows that most of the mobility occurs within the private sector and not across sectors. In 2013, around 73 percent of workers moved within the private sector, 7 percent within the public sector, and the rest between sectors. These rates did change throughout the last few years. Further, most of the limited mobility which occurred across sectors tended to be from the private to the public sector rather than the other way around (13 percent moved from private to public while 7 percent moved from public to private) reinforcing the public sector bias which exists in the labor market. The low mobility between the two sectors does not allow in general the efficient labor allocation function of the labor market to prevail which plays against developing a dynamic private sector that can lead to an economic and employment expansion path.

Figure 6.19: Share of Workers Transitioning between Employment Sectors, 2013



Source: Job Creation Surveys (DOS) 2013

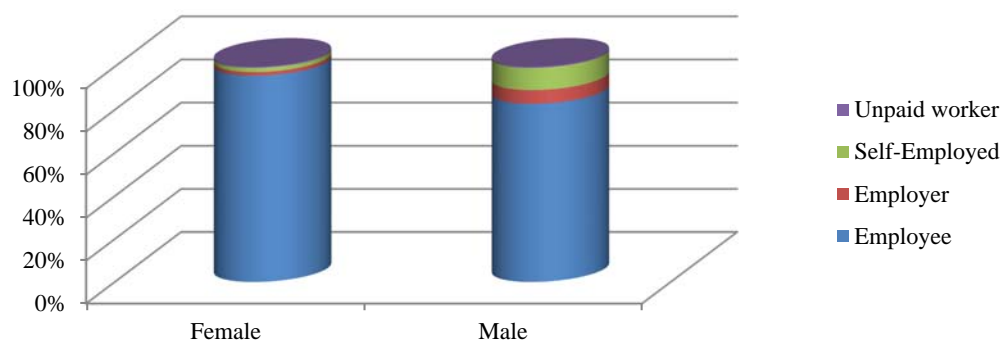
Gender Differentials

A wage and occupational gap continues to exist between males and females. The average male wage is 1.24 times higher than the average female wage in the private sector. Taking educational attainment into account, the wage gap is larger for university graduates than it is for graduates of community colleges, high school, or below (NES 2011-2020¹). In addition, females remain underrepresented as business owners and self-employed. Indeed, self-employed and employer women in micro, small, and medium enterprises account for only 4 percent of female employment, far below the proportion of males as owners (17 percent

⁴⁶ Source: EUS DOS 2013

of employed males) (Figure 6.20). Expanding opportunities for females to start their own businesses has a multiplier effect on employment of females; when females do start their own firms, they are more likely to employ other females (NES 2011-2020¹).

Figure 6.20: Employment Status by Gender, 2013



Source: Employment and Unemployment Surveys 2013 (EUS DOS)

Gender-related bias in the economic structure of employment and production tend to distort women’s economic participation in the labor force. Women have not participated in the benefits of higher growth in the past decades. Highly segmented labor markets have prevented them from working in high growth and high productivity sectors. While only one woman over four participates to the labor force, 44 percent of working women are employees in the public sector. Education and health represent respectively 38 and 12 percent of all female employment and are female employment intensive with female employment being slightly over 50 percent in each (JLMPS 2010). However, the growth rate of job creation in these sectors has not been high recently. What is striking about these numbers is how skewed the distribution of female intensity is across sectors. Nearly half the sectors have minimal (less than 15 percent) female presence. Very few sectors - activities such as education, health, ICT and other services - have above-average female employment intensity. Aggregate trends also demonstrate that female workers are not only locked into low growth sectors but also in sectors with low labor productivity, in particular education, health and public administration.

Evidence seems to suggest that barriers to economic participation start with women’s educational attainment, but are accentuated by the way economic incentives are designed or preferences and social norms shaped. In Jordan there is a clear disconnect between the skills and education that women acquired and the skills requested by employers, particularly in the private sector. Women are in fact much more concentrated in studies related to humanities, with very little presence in scientific courses or in technical fields in general. The labor market outcomes seem therefore to basically mirror the fields of study in which women tend to specialize. This does not necessarily mirror the demand of skills that comes from the private sectors, and the qualifications required to join the most dynamic and productive sectors in the economy, as recent analysis conducted indicates, especially in sectors with high growth potential such as ICT which has proven in other economies to be more “gender-blind.” Moreover, other sectors with high growth potential, such as tourism and healthcare, seek more women yet cultural barriers tend to steer women away from these growing employment opportunities, instead resulting in the need to hire from outside of

Jordan. Women are also perceived as less productive than men and face significant restrictions to become entrepreneurs.

These norms strongly complement other preferences for public sector employment. Personal preferences and social norms, particularly applicable to married women, lead to the perception of the public sector as the only “socially acceptable” employment for a woman as well as constrain women mobility, geographically and beyond (for instance reducing the ways women might look for a job). They are accentuated by the way economic incentives are currently designed: generous compensation schemes in the public sector for instance distort women’s choices in the labor market. All these factors are reinforced by the lack of adequate institutions or legislation supporting the active insertion and participation of women to the economic life of the country.

Participation challenges for women begin with the school-to-work transition and are then propagated by the above factors. The Jordan New Work Opportunities for Women (NOW) pilot project provided strong evidence on the nature and scope of the challenges. NOW was designed explicitly to support a rigorous impact evaluation. The pilot randomly assigned 1,347 female community college graduates of the 2010 cohort to one of three labor market interventions: a 3-week soft-skills training course for 300 women, a 6-month job voucher offer for 300 women, a dual training and job voucher offer for 300 women, and a control group for 499 women. The job voucher offered a firm a 6-month wage subsidy conditional on hiring a graduate. Early results from the midline survey indicated that employers responded to clear financial incentives: the job vouchers induced a 39 percent rise in female employment. Moreover, 57 percent of women expected to keep their jobs after their vouchers expired. In contrast, the training program received extremely positive feedback from trainees, yet had no significant effects on employment. A detailed survey was then undertaken to verify and understand the long-term impacts of the pilot. While the pilot succeeded in its objective of increasing female labor force participation and helping young women accrue work experience, the majority of the jobs did not translate into permanent employment. The pilot highlighted critical constraints to young job seekers in Jordanian labor market regulations: the minimum wage and the requirement to register workers in social security limited the willingness of many firms to retain these young graduates after the wage subsidy expired.

Social Safety Nets

As is the case in most countries in the MENA region, the government helps households manage risk through fragmented social safety net (SSN) measures, and universal subsidies dominate SSN spending. Jordan has 18 different SSN programs which include non-targeted (universal) subsidies, housing assistance, fee waivers in education and health services, in-kind and cash transfers, and training programs. In 2012, non-subsidy SSN programs accounted for almost 1.6 percent of GDP on targeted social assistance programs, and about 3.4 percent of GDP on food and fuel subsidies, making its targeted safety net expenditure more balanced than the average MENA country. Moreover, Jordan’s overall subsidy bill is lower than the MENA average, but it is well above the average of comparative sample of developing countries. Excluding non-targeted subsidies on energy and food, the largest SSN program in terms of coverage and cost are (i) the cash transfer program managed by the National Aid Fund (NAF) and (ii) the fuel subsidy cash compensation scheme which is administered by the Ministry of Finance’s Income Sales and Tax Department (ISTD).

Other universal subsidies are more effectively targeted at poor households through consumption patterns. Bread and LPG are heavily consumed products by Jordanian households. Poorer households spend a larger share of their total expenditure on these two products. They account for about 7 percent of poor households' total consumption but only 2 percent of the richest Jordanian households. More specifically, Jordanians households in the bottom decile, spend 3.6 percent of their expenditures on subsidized food items, whereas for the richest 3 deciles this share falls to below 1 percent. Similarly, the poorest 20 percent Jordanian households spend 2.3 percent of their total spending on LPG compared to 1 percent for the richest 20 percent households.

Coverage of existing cash transfers is substantial but not all poor or vulnerable are benefiting from the programs. Empirical evidence indicates that almost 80 percent of the beneficiaries of the targeted cash transfers of the National Aid Fund (NAF), are poor, making this program one of the better-targeted SSN programs in the region. Although the program covers about 100,000 households (500,000 people), the coverage of the program is not sufficient for all poor (estimated about 1 million or 14.4 percent of the total population in 2010). The fuel subsidy cash compensation program introduced in 2012, and run by the Income and Sales Tax Department (ISTD), benefits over 60 percent of Jordanian households (over 3 million people). Given the objective of this compensation scheme, the main target population is the middle income households, vulnerable, and the poor *who have applied to the program*.

Existing cash transfers programs are using various targeting methods and overall targeting is improving. Targeting methods range from categorical to universal including a mixture of categorical and means-tested program (NAF) and a verified income and asset tests (ISTD's cash compensation program). More broadly, the nature of program targeting continues to evolve in Jordan as the country has engaged in a series of fuel price reforms, including the price liberalization of gasoline by 2013 and the introduction of the fuel compensation cash transfer scheme which was contingent on the oil price – and thus removed when the oil price fell. Compared to similar programs in other countries, Jordan's main non-contributory and means-tested programs run by the National Aid Fund (NAF) are well targeted to the poor. Despite its small coverage, with over 80 percent of NAF's 80,000 beneficiary households in the bottom quintile, the program's targeting compares well even when measured against the performance of social assistance programs in some countries in Eastern Europe (such as Poland or Hungary) or Latin America (such as Chile or Mexico).

However, NAF has fairly limited coverage of the poor and vulnerable population with only 31 percent of the bottom decile receiving this assistance in 2010. Overall, about 7.5 percent of the Jordanian population received NAF assistance in 2010. Based on 2010 household survey data, out of those whose consumption expenditure before NAF is less than the national poverty line (JD 813.7), and who find themselves below the poverty line, only a quarter received assistance from the NAF. The coverage rates for NAF drop sharply from 31 percent in the poorest decile to 10 percent in the second decile, and the remaining coverage is for the richest 8 deciles.

The NAF faces a tradeoff between scaling up its current methodology and leakage of benefits to non-poor households. About two-thirds of NAF's resources go to those in the bottom 20 percent of the population, with more than half going to the poorest decile. However, more than a third of NAF resources

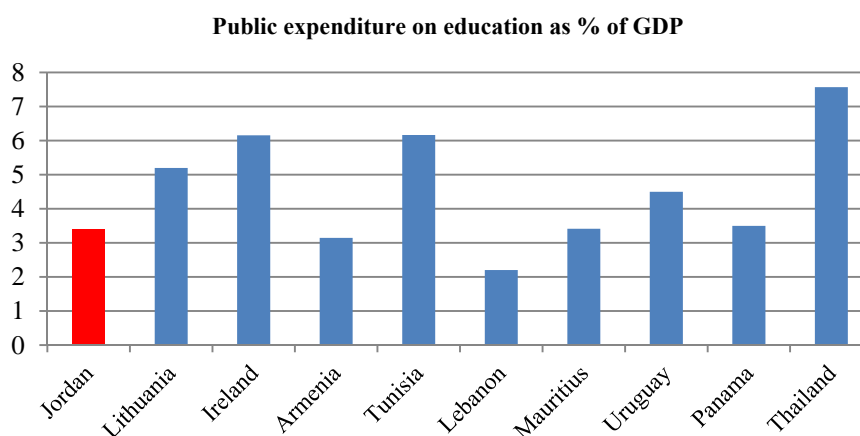
go to the non-poor. This confirms that the current mixture of categorical and income-based targeting has likely reached its limit, and if the coverage is expanded the leakages and inefficiencies are likely to grow. This is because the poor currently excluded from the NAF are working poor (data shows that the majority of the poor in Jordan are working poor) who do not necessarily belong to any particular category currently targeted by NAF.

A proposed National Unified Registry (NUR) will provide a critical platform for the full range of social safety net and service delivery objectives of the government. The NUR would constitute a single data base with unique ID information for all Jordanian households. With the NUR, programs could fully realize the targeting and scale potential of the ITSD cash transfer database, while building on the successes of the NAF. If realized, the NUR would enable a major increase in government support to the risk management ability of households.

Human Resources: Education

Public education expenditures – which exclude higher education – amounted to roughly 700 million Jordanian dinars (JD) in 2011, which translates to 3.4 percent of gross domestic product (GDP) and 10.3 percent of total public expenditures, which is slightly below the comparator country average (Figure 6.21). Based on available historical and projected data in Table 6.1, these shares are also relatively stable. By way of comparison, the corresponding average for the Organization of Economic Cooperation and Development (OECD) 2009 shares are 4.4 percent of GDP and 9.8 percent of total public expenditure⁴⁷.

Figure 6.21: Public expenditure on education, Jordan vs. comparator countries



Teacher salaries constitute the majority of education expenditures; this proportion is relatively high in Jordan as compared to its peers. The MOE employs 103670 people; 6239 of them are administrators and managers in the Ministry and the regional and district offices, the rest are teachers. All in all, the MOE is the largest employer in the country.

⁴⁷ OECD 2012. *Education at a Glance 2012*. Indicator B4, Table B4.1. “Total public expenditure on education (2009)”.

Figure 6.22: Educational spending on teacher salaries, Jordan vs. comparator countries

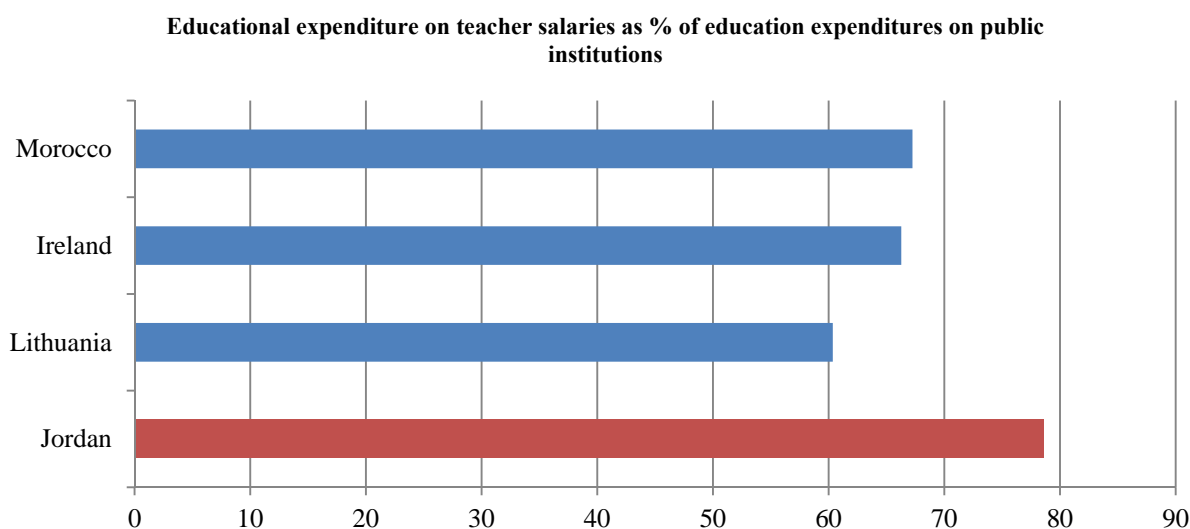


Table 6.1: Education spending in Jordan, 2008-2013

(JD million)	2008	2009	2010	2011	2012	2013
Nominal GDP	15,593	16,912	18,762	20,477	21,966	23,852
Total public expenditures	6,741	7,487	7,260	8,366	8,473	8,718
-- as % of GDP	43.2	44.3	38.7	40.9	38.6	36.6
Ministry of Education expenditures	525	559	591	689	759	842
-- as % of GDP	3.4	3.3	3.1	3.4	3.5	3.5
-- as % of total public expenditures	7.8	7.5	8.1	8.2	9.0	9.7

Jordan is well on its way to achieving the MDGs in terms of primary completion rates and the elimination of gender disparities in education. In 2008, UNESCO reported that Jordan had achieved gender parity in both primary and secondary education in 2005. At the beginning of this decade, it had achieved 95 percent parity in literacy, full parity in primary and secondary enrollment, and increased school life expectancy for both sexes. Jordan was then ranked 67th out of 128 countries in the “Education for All” rating for gender and education, indicating that Jordan has made significant progress in providing equal learning opportunities for males and females.

Efforts by the Jordanian government to improving education outcomes are slowly bearing fruit. Jordan has an 8 percent illiteracy rate, the third lowest rate in the Arab world; its primary gross enrolment ratio has increased from 71 percent in 1994 to 98.9 percent in 2010; and the transition rate to secondary school has increased from 63 percent to 98 percent over the same period.⁴⁸

⁴⁸ EdStats illiteracy rates, primary gross enrolment ratio and transition to secondary school.

Despite the impressive increase in preschool enrolment in the last decade, at least 40 percent of children in Jordan do not have the opportunity to attend kindergarten (KG), and thus begin first grade with no formal preparation. Research⁴⁹ has shown that students with poor socioeconomic background do not have the same level of school readiness as their peers who come from a higher socioeconomic background. In order to reduce the effects of this gap, it is important for governments to invest in early childhood education and school readiness. Achieving universal KG access will take time; meanwhile it is essential to reach these most disadvantaged children with low-cost, effective learning readiness support. In this regard, the MOE has had success with several alternative interventions which aim at engaging parents, such as Parent-Child Packages (PCP). The PCP targets the mothers of children who were not enrolled in KG to promote learning readiness at home.

After remarkable gains in education quality between 1999 and 2008, more recent assessments point to a worrisome decline in student learning. Jordanian students' outcomes in TIMSS 2003 and 2007 outperformed that of many of its peers in the region while showing a strong upward trend. However, the 2011 TIMSS and NafKE (national assessment test) student learning outcomes plummeted.⁵⁰ There are at least three factors that may account for these results: (i) the massive expansion of enrolments in secondary education between 2009 and 2011, (ii) the increase in the number of untrained teachers entering the profession, and (iii) the negative data collection environment in many Jordanian schools in May 2011 when both tests were conducted. The results of PISA 2012 confirm the deterioration of education quality in Jordan although they also show that the dramatic downward trend has stopped.

In Jordan, student results confirm that female students have been outperforming males in TIMSS, NafKE and PISA in all subjects and grades for several assessment cycles. This clearly shows that a reverse gender achievement gap exists in Jordan. While women's high performance on standardized tests and at universities are very positive attributes of educational development in Jordan, the low performance of males and low participation of women in the economic and political arenas are both reasons for significant concern. More specifically, the stagnation of male educational attainment might be a precursor to low employment and weak earning opportunities in the future, particularly for those with low socioeconomic backgrounds.⁵¹

Disparities exist along rural and urban lines, causing students in rural areas to fall behind. This is clearly seen in international assessments where Jordan's students do well on international educational tests compared to the region, but they fall near or below the international average and stark disparities exist between urban and rural areas.

Sector-level constraints have been identified as follows:

⁴⁹ Duncan, G. J., & Magnuson, K. A. (2005). Can family socioeconomic resources account for racial and ethnic test score gaps? *Future of Children*, 15(1), 35-54.

Magnuson, K. A., & Waldfogel, J. (2005). Early childhood care and education: Effects on ethnic and racial gaps in school readiness. *Future of Children*, 15(1), 169-196.

⁵⁰ TIMSS scores 2003, 2007, 2011.

⁵¹ Author, D. H. & Wasserman, M. (2013). *Wayward Sons: The Emerging Gender Gap in Labor Markets and Education*. Cambridge: Third Way. <http://economics.mit.edu/files/8754>

- **Limited capacity within the MOE to implement meaningful reforms and hold the education system accountable, plan and use data, and effectively put policies into practice.** For instance, although Jordanians have the highest literacy rates in the region, a recent USAID-funded early grade reading assessment found that the majority of students are not reading with fluency and lack the foundational literacy skills normally taught in first grade.
- **The education system suffers from low internal efficiency.** Most recently, the pass rate for the 2014 General Secondary Certificate Examination was 40 percent. Of the 57,141 students who sat for the exam, only 22,974 students passed.
- **Teacher recruitment procedures and deployment practices are highly centralized and inflexible, ultimately impacting the quality of the teaching labor force.** The increase in the number of not sufficiently trained novice teachers in Jordanian classrooms could perhaps be the greatest constraint for education quality in the country. The four-month induction course for newly appointed teachers (reaching only 16 percent of new teachers) can only be a temporary replacement of a modern pre-service training system in cooperation with tertiary institutions. Moreover, the role of MOE in the selection, recruitment and deployment of new teachers is still extremely limited and the issues of teacher shortages in certain curriculum areas, gender imbalance, and inefficient distribution of teachers are far from being addressed satisfactorily
- **The influx of Syrian refugees is creating strain on the public education system and requires additional financial resources to maintain basic teaching and learning facilities and resources.** While the main impact felt by the MOE relates more to its capacity in terms of providing additional classrooms or school buildings, including furniture and textbooks, the most concerning impact of crisis remains the protracted deterioration of the quality of education which could be further jeopardizing some of the key achievements of the past years. The introduction of double shifts in schools is clearly restraining instructional time available to all students in any of both shifts. In addition to having to manage larger size classes, freshly recruited teachers are insufficiently trained, making learning environment less conducive for any foreseeable good quality educational outcomes.

The most important risk affecting the sector currently is the long term effects of the Syrian refugees in Jordan. The conflict in Syria is still ongoing and therefore the expectation is that they will be remaining in Jordan for a significant amount of time. The MOE needs to strategically plan for the sustainable integration of Syrians in the education system. This will require addressing the financial constraints on the sector together with the problems of education quality and any potential social cohesion issues that may arise with the presence of the refugees.

Health

Jordan has generally high attainment in health outcomes, but there are significant differences in access and high fiscal costs in the current delivery model. There are three significant health service delivery mechanisms: a basic national health service run by the Ministry of Health which provides a backstop to universal access to free healthcare but is overstretched, a separate system of clinics and hospitals for the military, and mixed public/private clinics and hospitals accessible to those with health insurance or other financing, including financing from the government (e.g. cases taken on by the Royal Court).

Furthermore, the system in general bears extremely high costs for medications, due to rigidities in the management of prescriptions which leads to an overreliance on brand name pharmaceuticals as opposed to generic drugs.

The Jordanian health sector continues to be affected by several important challenges with respect to its fragmentation, quality disparities, and funding. First, the relationship between the public and the private sectors is not well regulated, which results in inefficiencies in the production of health services. Second, even within the public health system, several large and smaller providers and fund holders compete for resources with no or little overall coordination with respect to the allocation of resources, further undermining the overall efficiency of the health system. And third, there are some inherent organizational and governance limitations in the system, which generate serious inequalities with respect to paying for services and accessing care. Importantly, the apparent challenges in the public health system – particularly as it relates to quality of service delivery – and the perceived advantages of certain aspects of the private sector generate a sense of mistrust in the health system on the part of the general public. A key challenge for the GOJ is to restore the trust in the health system by introducing a well-articulated reform plan that aims to provide all citizens with formal health coverage in an effective, efficient, and equitable manner, while ensuring quality.

Organizational, regulatory, and economic issues are all compounded by, and partly, the result of the overall political economy context of the country across a range of sector-specific issues and outside of the health sector proper, such as the rule of law, PFM, and voice and participation in public decision making. With respect to the health sector, an important overall challenge for the GOJ in its further reform efforts will be to align the interests of the general public and the country with those of specific health care providers, the largest of which are the MOH and the Royal Medical Services on the public side. Furthermore, the performance of the health sector, including the health financing system, is undermined by the ad-hoc nature of the generous ability of people to access subsidized health care at the expense of the state through different channels. These venues, although understandable from a humanitarian perspective, create serious inefficiencies in resource allocation and in the ability to develop a strong, reliable, and sustainable health financing system based on the transparent application of rules and regulations.

While Jordan has made remarkable achievements in terms of health status attainment, significant inequities exist. For example, child mortality differs considerably across regions and governorates, and type of residence. In 2012, the highest infant and under-5 mortality rates were observed in the Southern region (22 and 26 per 1,000 live births, respectively). The Central and Northern regions performed similarly in terms of infant mortality rates. The IMR was 17 per 1,000 live births in these two regions. The lowest rate of under-5 mortality was observed in the North (19 per 1,000 live births), while the South region attained slightly higher U5MR (20 per 1,000 live births). In addition to these differences, there are significant disparities in child mortality across governorates. The IMR and U5MR were the highest in the Tefiela governorate (26 and 31 per 1,000 live births, respectively). The lowest IMR and U5MR were observed in Ajloun (14 and 16 per 1,000 live births, respectively), where these rates are half that of the ones in Tefiela. From another perspective, child mortality is higher in urban centers compared to rural areas.

Jordan is currently experiencing a demographic transition with a population composition characterized by a youth bulge. The working age group (between 25 and 64) accounts for about 42 percent

and those under the age of 15 represent approximately 35 percent of the total population. Only 3 percent of the Jordanian population is above the age of 65. This composition offers a unique opportunity for Jordan to capitalize the potential benefits of the so-called demographic dividend. The window of opportunity to reap the benefits of the demographic transition will depend on Jordan's ability to engender a healthy and educated workforce, and foster a labor market with the capacity to offer employment opportunities to those entering the labor force. This being said, it should be noted that Jordan is also going through an epidemiological transition characterized by a rising burden of non-communicable diseases (NCDs). If NCDs remain unaddressed, the potential for a demographic dividend may be a remote possibility. These category of diseases may result in premature disability, lower economic productivity, and lead to a large turn-over in the labor force (if those in the working age group drop out of the labor force due to complications associated with NCDs). At the national level, the competitiveness of the Jordanian economy may be compromised due to losses in productivity and high turn-over in the labor force.

In 2011, Jordan's public spending on health as percentage of GDP stood at 6 percent, almost double that of the MENA average of 3 percent. This was also mirrored in the per capita health expenditures, which in 2011 reached US\$392 in Jordan in contrast to the MENA average of US\$232. The majority of public spending on health is allocated to curative care. In 2008, curative care accounted for almost 68 percent of Ministry of Health expenses. The situation was no different for the Royal Medical Services where it spent 64.3 percent of its financial resources on curative care. These figures exclude any arrears that hospitals may have been running. Out-of-pocket (OOP) spending on health, although low relative to the MENA average, is inequitably distributed. OOP expenditure accounted for 24.7 percent of total health expenditure, almost half of the MENA average of 46.6 percent. This said, OOP spending is inequitably distributed across the population with poorer households spending more on healthcare relative to richer households. For example, the poorest households spend 9 percent of their income on outpatient services, while the richest spend 7 percent. Furthermore, OOP spending is mainly driven by spending on pharmaceuticals (63 percent), followed by private hospitals (30 percent) and private practitioners (7 percent).

Total population coverage in Jordan is in the range of 70 to 93 percent. An issue of some importance in the Jordanian context is the existence of duplicate health insurance coverage, which according to the Jordanian High Health Council, is enjoyed by around eight percent of the total population. Therefore, applying this duplication percentage would mean that population coverage lies somewhere between 62 and 85 percent. In the absence of an automated system that identifies those covered using unique identification numbers it is extremely difficult to reach an exact figure for the level of coverage in Jordan. Importantly, these data, while showing that a relatively large proportion of the Jordanian population is without formal health insurance coverage, do not, however, imply that the formally uninsured are completely without financial protection in case of illness. Most Jordanians without insurance coverage or other means can receive medical assistance through the Royal Court and other agencies. While this system ensures effective coverage to all Jordanians it also has its drawbacks as it undermines efforts to expand formal coverage by means of other more structured and potentially more effective programs. It is also an inefficient way of providing coverage due to its generosity and relative capriciousness.

Box 6.1: Jordan, MENA's Top Health Tourism Destination

Despite the host of challenges in the healthcare sector including significant variation in the quality and cost of delivery of service, organizational inefficiencies as well as misalignment of interests among the public, government and healthcare providers, the sector is an area of competitive advantage for Jordan. With thousands of highly qualified medical professionals, internationally accredited private hospitals, competitively priced treatments, and top-notch facilities, Jordan has positioned itself as one of the top destinations for medical tourism, both regionally and internationally. In 2014, more than 200,000 patients travelled to Jordan, which helped generate around US\$1.4 billion in revenue related to health procedures, accommodations, transportation and related expenses to the economy.

While Jordan has already made significant progress in promoting and developing this niche sector, it has yet to fully realize the potential for job creation and private investment opportunities. The economic model needs to adapt to some key challenges including increasing operational costs (e.g. electricity, taxes) and brain drain as qualified physicians emigrate to the US, UK, and Gulf countries offering more attractive salary packages. Nevertheless, increasing demand for health services domestically and regionally coupled with greater investments by public and private players in healthcare facilities, research and development, and cutting edge technologies signifies the potential for Jordan's continued growth in this space.

Energy

Energy is central to Jordan's risk profile and investment prospects. Currently, most energy needs are met by imported fuel, created risks that, when not managed properly, lead to crises such as with gas imports during 2011-2014. Yet because of its potential, there is alignment of strong investor interest with a policy priority on reducing the vulnerability to imported energy sources. Yet Jordan also exists in an energy-abundant region, where low energy costs are seen as part of the competitive package in attracting investors. How to strike the balance between management of energy supply and fiscal risks with the need to maintain competitiveness is a critical challenge for policymakers.

Electricity

Jordan's successful record of electricity sector reforms could not withstand extreme external shocks of fuel supply interruptions and price volatility. Since early 2000s Jordan has made significant progress in reforming its electricity sector. The sector was unbundled into two generation, one transmission, and three distribution companies, while an energy regulator was established in 2001. The largest generation company and all three distribution companies were privatized. The Government has also successfully developed its power generation needs by privately financed Independent Power Producers (IPPs) and twice implemented major energy subsidy reform programs (2008 and 2012 ongoing). However, Jordan domestic oil and natural gas resources are limited and as a result the country is heavily dependent (97 percent of its needs) on imported fossil fuel and dominantly relied on Egyptian natural gas supply to fuel its power generation. The electricity consumption has at the same time been steady growing at an average rate of 4.6 percent during 2009-2013 resulting in total energy imports of US\$ 5.2 billion equivalent to 27 percent of imports of goods in 2013, 15 percent of GDP, increasing therefore Jordan's vulnerabilities to external fuel supply shocks. Since 2011 the repeated and extensive interruptions of the Egypt gas supply, surging cost of fuel substitutes and inability of the electricity pricing regime to carry through timely and effective

adjustments of electricity prices have hiked operational losses of NEPCO and putting increasing pressure on Government's budget and deteriorating the financial performance of NEPCO.

Yet even as the sector was being modernized, massive risks were embedded in the new electricity generation and distribution arrangement. In fact, the NEPCO crisis was partly foreseeable. The NEPCO structure as a sole buyer of fuel but with regulated charges to generators and users loaded the company with severe financial risks i.e. that it would be squeezed between a mandate to maintain stable tariffs while meeting open-ended fuel requirements for the generation sector. During 2007-08, the debate around NEPCO focused on switching *more* generation capacity to Egyptian natural gas, because at the time the contractual gas price was lower than the oil price. The logic of this decision had already been undermined by contractual disagreements concerning the gas price prior to the 2011 disruption. Thus an opportunistic decision to switch the fuel mix based on recent price trends led to power dependence on a single source, which would eventually be interrupted, at great cost.

The Government is implementing a reform program addressing challenges and vulnerability risks of energy sector sustainability. The Government recognizes that fundamental structural reforms will be necessary to improve the financial and operation performance of the energy sector through addressing its main challenges of mitigating the rising cost of energy supply and maintaining security of supply. Key elements of the Government program in the electricity sector include:

- **Electricity Tariff Adjustments and Management of NEPCO's Debt:** Under the IMF supported program the Government developed a five year (2013-2017) electricity tariff adjustment plan that aims to bring NEPCO's wholesale electricity tariff to operational cost recovery in 2017. The Government implemented two planned annual tariff increases of 15 percent in 2013 and 2014 and a 7.5 percent tariff increase in January 2015. These electricity tariff adjustments have increased NEPCO's revenues by 2 percent of the GDP. The Government continues to be committed to achieve full cost recovery in 2017 and is considering options to improve the electricity tariff structure and further measures to restore financial viability of NEPCO by addressing its JD 4.57 billion (equivalent to US\$ 6.44 billion) of accumulated debt since 2011.
- **Diversification of Fuel Supply Resources:** Jordan has initiated a program for the diversification of fuel supply resources to improve security of supply and mitigate impact of interruption of the Egyptian gas supply. The development of a Floating Storage and Regasification Unit (FSRU) at Aqaba for LNG import was initiated and the first LNG shipment was received in May 2015. Envisaged LNG import could allow GoJ to eliminate 50 percent diesel and 25 percent heavy fuel oil (HFO) imports and hence reduce the cost of fuel feedstock supply to power generation. The Government is also strengthening the country's fuel storage capacity to mitigate the risk of fuel supply interruptions and has initiated the development of a Petroleum Strategic Reserves Terminal at Madona for petroleum products and LPG which is scheduled to be completed in 2018.
- **Diversification of Power Generation Mix through Domestic Resources:** Jordan is also taking steps to further improve the security of electricity supply by diversifying its power generation mix from domestic energy resources. The Government has made progress in developing new renewable energy projects in which the private sector will take the lead and could be able to reach its 10 percent (and more) renewable target in the energy sector by 2020. As of February 2015, about 400 MW of contracts for privately developed wind and solar power projects have been awarded and

another 590MW is planned to be contacted by end-2015/2016. The Government is also considering to fund the required transmission investment to facilitate further scale up of renewable energy.

Although oil prices have fallen significantly in the last few months, scaling up development of renewable resources remains a strategic approach to sustain security of energy supply in Jordan and to strengthen its resilience to external shocks of imported fuel interruptions and price volatility. Under various oil price scenarios, renewable power generation is expected to replace generation by the more expensive imported diesel. Once in operation, the contracted 990 MW of renewable projects could reduce the cost of generation by US\$180 to US\$230 million (under US\$50 to US\$60/barrel scenarios). In November 2014 the Parliament amended the 2012 Renewable Energy and Energy Efficiency (REEE) Law requiring improving the bylaws and regulations for development of renewable resources by direct proposals. The Ministry of Energy and Mineral Resources is preparing these bylaws and is developing a public data room for renewable resources development to improve transparency. In addition to renewable resources Jordan is keen to improve the balance of its power generation mix by utilizing its abandoned domestic deposits of oil shale. The Government signed in 2014 a long term agreement for purchasing electricity from a 500 MW privately developed shale oil power plant expected for operation in 2019.

Urban and Local Development

Jordan is a primarily urban country with an important concentration in Amman and the northern part of the Kingdom. The country is divided in 12 governorates and 99 municipalities. While a number of services are channeled directly through deconcentrated units at the governorate level (e.g. education and health), the municipalities are responsible for a range of functions and services among which planning activities, road construction and maintenance, solid waste management, street lighting and cleaning, and the management of a number of public places and establishments. These activities are funded through their own revenues, as well as limited central government transfers, loans and grants.

Despite their very limited resources, the municipalities have at the forefront of the response to the Syrian refugees' crisis. The sudden increased demand and utilization of services provided at the local level has put the mayors and municipal councils under mounting pressure to reverse the visible decline in the level and quality of these services. The municipalities have been addressing the daily problems of keeping up with the provision of municipal services (e.g. solid waste generation has doubled in several areas with high concentration of refugees, contributing to ground water contamination, pollution of water resources and spread of water-borne disease), but has also been asked to find solutions to basic social demands such as education and health, among many.

The traditional intergovernmental structure is best seen as limited deconcentration. Jordan established a municipal system in 1955, assigning a number of authorities and functional areas to municipalities. In spite of attempts to decentralize powers to the lower level however, the Kingdom has retained a centralized structure where appointed governors function as antennas for the central administration and with only limited prerogatives being handed over to municipalities. Recently, the Government has led a number of efforts to increase participation in governorate affairs and improve the financial situation of the municipalities. This includes (i) a recently enacted decentralization law creating elected governorate councils; (ii) an expansion of the transfer pool in 2014; (iii) the application of more equitable municipal transfer formula,

also in 2014; and (iv) the preparation of a new Municipalities Law, under discussion by Parliament. The need to fundamentally address the structural and systemic causes of performance weaknesses and gaps in the municipal sector and strengthen its capacity in terms of level of autonomy, technical, and financial resources is more pressing than ever due to the role of the municipalities and governates in responding to the Syrian refugee influx.

While the Government has shown its willingness to approach decentralization within a longer term strategic framework, there is still a need to rationalize and streamline the intergovernmental system in terms of clarifying institutional arrangements relating to local development, realigning functional assignments, and agreeing on a core set of policy objectives for the role of local actors in promoting growth and development. As indicated in the poverty section, almost all municipalities in Jordan are characterized by the weakness of their economic role and their dependency on the capital city. Despite the existing potential for local development in areas outside Amman, the role of municipalities and governates in achieving balanced socio-economic development still remains fairly limited.

Transport

Given its high urbanization, enabling major urban areas to thrive and to function effectively could have a significant impact on a large portion of the Jordanian population. Approximately 91 percent of the population of Jordan lives in densely populated territories within or close to major cities. The average share in comparable territories in MENA countries is approximately 56 percent. Furthermore, connectivity is high in Jordan across a range of modes relative to other countries in MENA. As such, spatially targeted interventions to increase prosperity in lagging regions are less likely to be effective than in countries with large population shares that are in lagging areas distant from major cities. Alternatively measures that would enable equal access to services and opportunities, and that would enable factor market fluidity such that dynamic urban cores, such as the Greater Amman Metropolitan Area, could better thrive, could offer substantial spillover effects for populations across the country.

Jordan's transport sector is considered the backbone of the economy and an important pillar of the country's economy. Jordan is a small open economy with close trade/financial linkages with the rest of the world. Transport and communications-related services and industries make up an estimated 15 percent of GDP, while employment in transport and storage-related areas absorbed 7.2 percent of all employed persons in the country in 2012.⁵² Jordan also serves as an important regional transport hub between the GCC, Turkey and Europe, and also between Iraq, the Red Sea and the Mediterranean. The volume of transiting commodities passing through the country reached a peak of 83.6 million tons (JD 14615.5 million) in 2011 and is expected to pick up again once the conflict in neighboring Syria abates.⁵³ The importance of the transport sector in Jordan thus goes beyond domestic needs.

For its relatively small size, the institutional setup of Jordan's transport sector is heavily fragmented. The sector is divided between two ministries, three main agencies, and two important local authorities: the

⁵² Jordanian Department of Statistics

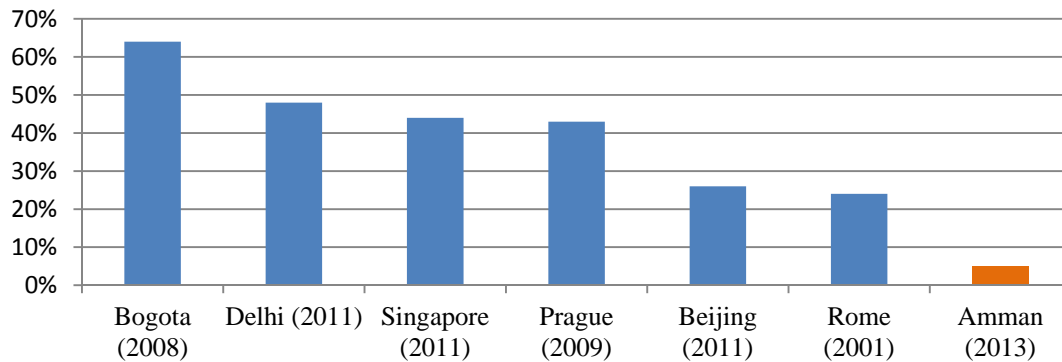
⁵³ Jordan Statistical Yearbook 2012, Jordanian Department of Statistics

Greater Amman Municipality (GAM) which constructs and regulates public transportation within its own boundaries, and the Aqaba Special Economic Zone (ASEZA) responsible for all transport in the Aqaba region mainly the Aqaba ports, the King Hussain airport in Aqaba and public transport in Aqaba. There is the proliferation of state-owned or affiliated companies and authorities operating in the sector: The country's three civil airports are operated by three distinct companies; two railway companies, while the Port of Aqaba, the Kingdom's only outlet to the sea, has four authorities. While the proliferation of agencies and companies has contributed to a high degree of specialization, the current setup has also led to duplication of responsibilities and poor coordination in the sector, particularly regarding the Port of Aqaba and the increasingly important area of public transport.

The organization of public transport providers and trucking services is highly fragmented and would benefit from consolidation among operators. The ownership of taxis, buses and trucks is overwhelmingly in the hands of individuals. 65 percent of large trucks in Jordan are owned by individuals, which reduces the competitiveness of the trucking sector both in terms of quality of service and pricing. Meanwhile, the fragmentation of bus and taxi operators has resulted in low-quality public transportation services that have not evolved to better serve demand.

The insufficient supply of public transport is compounded by its poor quality. Public transport services are not reliable especially in term of schedules as buses wait to be full before departing, therefore substantially delaying trips. The absence of decent and available transportation alternatives to back youth trainings and employment opportunities is considered as major impediments that affected the decision of many young people, notably the disadvantaged percentage of them, to reject job offers or decided to leave work. Transportation was an even bigger obstacle to employment for females due to the sociocultural limitations that they are subject to. The vehicles in use for public transportation in Jordan, including taxi services, totaled 35,252 at the end of 2011. Of these 7,222 (or 20.49 percent) operate on urban routes. 7.46 percent (2,630) of vehicles run on main routes between the cities and 47 percent (16,068 vehicles) are taxis. This large proportion of low capacity vehicles contributes to a high cost per trip and traffic congestion. By comparison, only 2,382 high capacity vehicles (ex: buses) are part of the public transit system. Note that bus transit is mostly concentrated in the capital Amman. The figure clearly indicates that the share of public transport in Amman is well below most other cities, which see their share of public transport in the 20 to 60 percent range.

Figure 6.23: Share of Public Transport in Modal Split



Source: World Bank Urban Transport Diagnostic Tool, 2013

The government’s decision to stop subsidizing gasoline in November 2012 led to the increase in the cost of daily transportation given the absence of alternatives. The price increases ranged from more than 33 percent for diesel and kerosene for transport and heating and a 14 percent on lower grade petrol which makes owning and operating a vehicle particularly expensive. With the absence of mass transit systems, and despite the government’s plan to build a Bus Rapid Transit line (BRT), there are no alternatives for the population.

Vehicular traffic on Jordan’s road network is subject to increasing congestion, with little apparent impact from higher retail fuel prices. Besides that, and According to Greater Amman municipality, the cost of delay due to traffic congestion in Amman is estimated to be JD 567,000,000 (2006)⁵⁴ which constituted about 1.75 percent of total GDP.⁵⁵ A recently completed World Bank study on traffic congestion in Cairo puts the costs of congestion in Cairo at \$8 billion US\$ in 2010, about 4 percent of Egypt’s GDP. While Cairo’s size and worst traffic implies higher costs in absolute value than in Amman, as the Jordanian population continues to increase especially in the Greater Amman area (rapidly now with influx of Syrian refugees), traffic congestion is becoming worse and the need to address this congestion is becoming more urgent. Road traffic growth is estimated to continue growing through 2030 with an average annual increase of five to six percent, outpacing projected GDP growth.

Jordan’s road infrastructure ranks 53 out of 128 countries, with recurrent cost funding being a major shortcoming.⁵⁶ Experts estimate that 60 percent of Jordan’s road network is in good condition, 28 percent in fair condition and only 12 percent in poor condition. Comparing it to Lebanon (the other upper middle income services-oriented economy in the region that most resembles Jordan’s), only 15 percent of Lebanon’s main road network is in good condition, with 65 percent in fair condition and 20 percent in poor condition. However, there is clear imbalance of expenditures in favor of costly reconstructions over regular maintenance. Due to insufficient funds, and the existing large backlog of maintenance, Ministry of Public Works and Housing (MOPH) is giving priority to repairing those roads that have largely deteriorated. Some

⁵⁴ <http://www.ammancity.gov.jo/en/services/tran1.asp>

⁵⁵ <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?page=1>

⁵⁶ http://www.weforum.org/pdf/Global_Competitiveness_Reports/Profiles/Jordan.pdf

infrastructure bottlenecks have been removed through the partial opening of the Amman Ring Road, the ongoing expansions in the new Aqaba port, and the upgrade of the road corridor to the Saudi borders.

Jordan's losses due to road crashes (mostly due to fatalities and injuries) stand at 1.6 percent of GDP, which is lower than most other countries in the region, but remains quite high when compared to developed countries.

**Table 6.2: National GDP Loss Caused by Traffic Accidents
(World Health Organization)**

Country	GDP Loss
Jordan	1.6%
Lebanon	3.2%
Kuwait	3.0%
Morocco	2.0%
Turkey	1.1%

Transport, trade, and welfare

The World Bank's *Logistics Performance Index*⁵⁷, which benchmarks countries' performance on trade logistics, reveals that import and export costs in Jordan are relatively high but are following a decreasing trend. In fact, Jordan ranked 102 out of 155 countries in 2012 but improved to 68 in 2014. The table below shows that Jordan has acceptable costs of exports and imports is relatively cheap compared to the region and similar income countries. Jordan also serves as an important regional transport hub between the GCC and Turkey and Europe, and also between Iraq and the Red Sea and the Mediterranean. The volume of transiting commodities passing through the country reached a peak of 83.6 million tons (14615.5 million Jordanian Dinars) in 2011 and is expected to pick up again once the conflict in neighboring Syria abates.⁵⁸ The importance of the transport sector in Jordan thus goes beyond domestic needs. According the LPI, the major impediments to logistics in Jordan is cumbersome procedures.

Table 6.3: Export/Import Costs, US\$ (World Bank Logistics Performance Index)

	Jordan	Middle East & North Africa	Upper middle income
Export cost - Port or airport supply chain	1078	837	1285
Export cost - Land supply chain	848	1886	1607
Import cost - Port or airport supply chain	976	1688	1384
Import cost - Land supply chain	1149	1131	1488
Lead time to Import	5 days	7.1 days	4.9 days
Lead time to export	3 days	3.1 days	3.3 days

⁵⁷ <http://lpi.worldbank.org/>

⁵⁸ Jordan Statistical Yearbook 2012, Jordanian Department of Statistics

Transport costs due to internal distance have remained high even in the developed world; the total trade and transport costs as a share of the value of goods can be split as follows:

- 20 percent transport costs
- 45 percent border-related trade costs
- 55 percent retail and wholesale distribution costs⁵⁹

The transport sector employs about 7 percent of Jordan’s working population (taxis, trucks, buses, airlines). An additional 1 or 2 percent work on transport infrastructure. More importantly, investments in the country’s transport infrastructure would have major effects on employment and growth. A recent study by the World Bank on infrastructure and employment creation in the Middle East and North Africa estimated that in the short run, every US\$ one billion in infrastructure investment in the region would create 185,000 jobs. A US\$ one billion investment in road construction alone would create 97,000 jobs, more than twice as many jobs than if it were invested in any other infrastructure sector. In the long run, every one percentage point in additional growth as a result of infrastructure investment in the Middle East region would create nine million additional jobs over 10 years for the region.⁶⁰ Much needed investments in public mass transit for the country or road rehabilitation and maintenance would thus confer significant employment benefits for Jordan in addition to lowering economic costs and financial burdens for the poor and the youth.

Table 6.4: Effect of US\$ One Billion in Construction Investment on Employment Creation in the Middle East (comparison across several infrastructure sectors)

Sector	Number of Jobs
Electricity	13,000
Building	16,000
Roads and bridges	97,000
Water and sewage	38,000
Electricity stations	18,000
Transport and communication	9,000
Other	18,000

A trade and service oriented economy such as Jordan depends heavily on its transport system for the moving of people (tourism/airline), and goods (trade and transit business). The civil aviation sector in Jordan is an economically important sector that contributes significantly to Jordan’s development. Air transport to, from and within Jordan creates three distinct types of economic benefit, i.e., contribution to GDP, jobs and tax revenues generated by the sector and its supply chain. As per a study carried out by Oxford Economics in 2011, the Jordan aviation sector contributes JOD 421 million (2.2 percent) to Jordanian GDP. In addition, the connections created between cities and markets represent an important infrastructure asset that generates benefits through enabling foreign direct investment, business clusters, specialization and other spill-over impacts on an economy’s productive capacity.⁶¹ Jordan has relatively

⁵⁹ World Bank (2009) “World Development Report, Reshaping Economic Geography”. Washington DC

⁶⁰ Infrastructure and Employment Creation in the Middle East and North Africa, 2013

⁶¹ Oxford Economics in 2011

good airline connectivity to the region, and the world. Its national airline has an established niche on short and medium-range routes and good global connectivity through alliances. The airline operates over 500 flights per week, with at least 110 daily departures. It employs about 5,000 staff (4,507 staff in 2008). When compared to other airports worldwide, Queen Alia International Airport performs very well, especially in quality of service. This success of the QAIA could be attributed to a combination of both substantial private sector investment and management expertise provided within a PPP framework.

Transport is a sector where the tradeoff between equity and efficiency is very strong. From an efficiency perspective, the price of transport needs to rise: the fuel price will be cost reflective, and there are significant congestion and environmental externalities which call for higher prices. But from an equity and job market perspective this has adverse consequences, because it risks pricing out the poor who already spend a lot on transport. Thus the solution is going to involve some sort of pricing mechanism to capture the externalities (e.g. taxes on fuel over and above cost recovery and perhaps even tolls) but also investment and other instruments which mitigate the effect on the poor, most notably through public transport which is an obvious self-selection mechanism for poor households. There also has to be a regulatory component as some issues at least in Amman clearly pertain to planning and enforcement issues.

Despite these glaring deficiencies, the government has not chosen to prioritize the transport sector in the way that the above analysis would warrant. Partly it is an issue of accountability: the poor have had insufficient weight in transport sector decisions. Partly it is that seems like transport got caught up in other governance dynamics, most notably at Greater Amman Municipality (GAM). Transport projects, especially those aimed at inter-modal coordination are complex, there is relatively little local expertise and unlike has been the case for other initiatives such as privatization, a reluctance to bring in foreign expertise. As a result decisions have languished. For example, the government has been studying a Light Rail between Amman-Zarqa since 2007, and is now they are studying/implementing a BRT instead. The lack of fiscal space has also been a deterrent to transport projects, given the upfront costs and diffuse benefits.

Chapter 7 Prioritization

The SCD analysis concurs with many other studies of Jordan on identified constraints, and it divides them into two broad areas for the purposes of prioritization. One set of constraints pertains to policy implementation, which in turn relates to the government's ability to strengthen its capacity to cope with risk, mobilizing resources for productive investment, and ensuring a more effect labor market. The second set relates to constraints along specific dimensions which affect different sectors in different ways, but nonetheless have scope to be addressed at the sector rather than systemic level.

At the sector level, the SCD follows a fairly standard methodology. Specifically; each constraint will be assessed against a number of filters:

- **Preconditions:** This would critically assess the foundational constraints (risk and markets) that are pre-requisite for sustained high growth and shared prosperity
- **Maximizing impact on the twin goals and sustainability:** This will assess the potential impact on sustainable poverty reduction and improvement in the welfare of the bottom 40 percent. However, particular attention will be given to the channels of poverty reductions- with a greater role for labor market participation and targeted safety net programs and less reliance on public sector employment and untargeted subsidies
- **Complementarities:** This would assess the degree to which programs/policies could have positive impacts in other domains that are key to address constraints to growth, inclusion and sustainability (for example investment climate reform)
- **Sequencing:** This would assess the time frame of impacts and weigh quick wins against longer-term impacts. It will also support the process of carefully sequencing reforms.
- **Citizen Participation:** This filter will use the degree to which citizen involvement in the form of increased information, authority or participation is going to impact the pace and modality of progress towards the twin goals. It will also inform the extent to which actions support the building of ownership not just on the “what” but on the “how” of the reform agenda.

Regarding implementation, the SCD preparation mobilized input on a range of commonly-cited causes of implementation difficulties. These are as follows:

- Excessive discretion: officials at various levels, especially lower administrative levels, have too much power to make arbitrary and unaccountable decisions
- Lack of authorizing environment: officials at various levels perceive that they can't make any decisions without referring them up the hierarchy
- Silos and fragmentation: ministries, departments, and agencies are each responsible for a small segment of an issue but none of them takes the overall situation into account
- Dilution: policy effort is spread over too many areas and seemingly incidental issues consume too much time of public administration
- Absence of consensus: Apparent consensus in strategies and plans has not translated into a common understanding at ground level about what needs to be done, so it doesn't get done

- Lack of level playing field: public administration may be personalized and not based on rule of law.
- Absence of transparency: key administrative information is not available within the government or to the general public
- Absence of accountability: officials are not seen as being held to satisfactory performance standards either internally or vis-à-vis the general public

Implementation challenges were the most frequently raised issue in the SCD consultations and the varied explanation for these challenges revealed several common underlying elements. At a high level, it is an interaction of the political structure with the SCD hypothesis regarding risk management. The incentive system in the public sector makes officials more attuned to the downsides of action rather than inaction. An issue that lingers for months or years without resolution is less costly than a clearly attributable decision which has downside risk. The track record (e.g. on privatization or the energy crisis) shows that this “decision aversion” is mitigated by the involvement of the King, either directly or through a clear whole-of-government mandate to resolve an issue.

What can we learn from cases of slow implementation to replicate success stories such as privatization and energy sector reform? An implementation deficit can result from weaknesses in one or more of the following stages of the implementation process: The agenda creating stage: mechanisms to put findings and recommendations on government’s agenda; The action plan endorsement stage: mechanisms which lead to a concrete action plan; The core implementation stage: mechanisms to ensure that action plans are implemented; The post-implementation stage: mechanism to ensure sustainability and learning from experience. In Jordan, there are weaknesses in all four stages, but particularly so in the downstream stages (core-implementation and post-implementation). This is indicated by a survey of a select group of WBG TTLs on the quality of government processes in each of the above stages in Jordan. The TTLs surveyed are either working on Jordan at present or have done so in the past. Thus the exercise captures the knowledge of people who, between them, have several years of experience and familiarity with the workings of the Jordanian government. The survey consisted of 22 statements related to different stages of implementation. TTLs were asked to rate each statement on a four-point scale (i.e., whether the statements were mostly true, sometimes true, rarely true or not true at all). The statements were worded such that a “mostly true” answer is the most favorable from the implementation point of view and “not true at all” the most unfavorable. The questionnaire was sent to 30 TTLs, of which 20 responded. The detailed results, with the complete list of statements, are provided in Annex 3. The performance of the government is weak in all stages.

Weaknesses are more pronounced at the downstream stages, i.e., at the implementation and post-implementation stages compared to the upstream stages of agenda creation, endorsement of the action plan and the early stages of mobilizing for implementation. Thus, for example, the government appears to be relatively better at defining mandates of various government agencies and identifying clear responsibilities for implementation (with 85 percent and 70 percent respectively of survey participants responding that the related statements are sometimes or mostly true). Next in rating comes the early-stage processes of incorporating the results of diagnostics, analysis and stakeholder dialogues in development plans and strategies, proceeding from development plans to action plans and building consensus in government around the action plans (50 percent, 50 percent, 55 percent rated the related statements as sometimes or mostly true). Nonetheless, there is much scope for improvement even with these processes.

Six out of the 10 dimensions of the “core implementation stage” covered by the survey have serious weaknesses with less than 40 percent of the respondents reporting some incidence of good practices.

Three dimensions are particularly weak: adequate resourcing to implementation teams, feedback processes, and knowledge sharing. The size and complexity of government makes it difficult to direct resources required to implement actions to the responsible agencies. The results-orientation is weakest link in the chain. There is little or no practice of seeking feedback from stakeholders on implementation quality and, to the extent, any alerts on implementation quality are obtained, there aren’t any good procedures to act on them. Attention to long-term sustainability of actions is poor and there is very little attempt to learn from experience and disseminate that knowledge within government.

At this level, the binding constraint is that access to rents has detracted from the apparent urgency of many envisaged reforms. In particular, the political system has yet to find a way for national priorities to permeate through the functions of government. The creation of the authorizing environment has to find a balance between the traditional role of the King, and the increasing executive and legislative powers of the council of ministers and Parliament, respectively. Since the King cannot be involved in every area, policy reforms must derive their legitimacy by being part of a national program, jointly owned by the council of ministers and parliament. In the current political structure of Jordan, this implies that the government must be effective in making the case to Parliament for its proposals on a case by case basis, since the Parliament does not appoint the government. This makes it all the more important that national strategies such as Vision 2025 make a credible transition to a policy platform.

Lack of progress on critical areas of social and political reforms is likely to continue to undermine implementation momentum towards improved growth and prosperity. Reforming the country’s political system (in particular the electoral law) and promoting its citizen’s voice and engagement in policy making – as emphasized in Vision 2025 – will strengthen the legitimacy of reforms initiated by the government. Delivering on its commitments for enhanced integrity, improved transparency and access to information will also go a long way towards generating a sense of fairness and inclusiveness that is essential for improved growth and promoting a sense of shared prosperity. Addressing constraints on service delivery, including housing, at the local (municipal) level will also be critical for addressing community tensions particularly those resulting from the influx of refugees.

But aside from the pace of political reform, implementation is a binding and cross-cutting operational constraint that needs to be tackled in parallel with the remaining constraints identified below. As experience shows, implementation constraints can be overcome. This is illustrated when there is a widely understood mandate, originating from the King, and ministers who are empowered to staff reform teams with high capacity and motivated members. By contrast, initiatives have languished when they are left to inter-ministerial mechanisms without clear criteria for escalation and when reform teams have experienced staffing constraints (usually rationalized on grounds of a hiring freeze).

These divergent implementation outcomes reflect also risk: in the latter case, policymakers see adverse consequences to acting given unclear signals about the authorizing environment. Furthermore, Jordan’s development partners unwittingly enable this stasis, because fragmented projects offer the appearance of addressing important structural challenges (with associated “nameplate” benefit for

donors) while actually postponing action. There is also a risk that accountability initiatives have unwittingly heightened the risk of attracting attention by pushing issues forward.

The implementation constraint also explains the absence of a strategic management approach in government. At first sight it seems odd that a country with so many strategic documents should lack a strategic orientation. But in fact, the operational implications of the findings of strategy exercises are often not absorbed. Even where profound sustainability risks are identified, such as in water or climate change, it has been difficult to get line of sight on how these priorities are being absorbed in the government apparatus. Donors have made this problem worse by cherry-picking the most easily “projectized” elements of strategy, so that the policy component is left as a shell.

The implementation deficit diagnosis implies that constraints need to be scrutinized as to how they would be addressed, because past approaches have tended to reinforce reform-resistance. In general, interventions which begin at the policy level but get progressively re-scoped as development projects have been vulnerable to this problem. There is nothing wrong with beginning with a project-level approach to a policy reform, especially when formally established as a pilot, but as noted above, the weakness has been in generating and deploying knowledge gained from such interventions to inform the broader agenda which they were meant to tackle. Examples of interventions which are prone to this pitfall include overly selective product, skills, and activity promotion e.g. single-line export development, scattered SME support, and vocational training. There is a growing body of evidence from global experience that vocational programs in particular have extremely low impact.

Some constraints have more potential to generate genuine reform momentum and thus can be classified as reform-oriented. Two examples warrant particular mention. First, investment climate issues are critical to the sustaining of FDI and inducing more domestic capital and managerial skills into higher productivity formal sector enterprises which could compete effectively with incumbents. Second, progress in tackling gender disparities would get at fundamental elements of the socio-political bargain, which have the effect of limiting the economic participation of women and enabling the status quo.

Sector/Thematic Priorities

In terms of the sector or thematic constraints, Table 7.1 presents a consolidation from the sector analyses in which the identified constraints are mapped to the SCD dual hypotheses. This listing is based on going through the identified sector-level issues with the filter of the dual hypotheses, and showing how the key issues are manifestations of the hypotheses. For example, budget deficits contribute to risk management problems by embedding a risk of forced fiscal adjustment (first hypothesis) while also distorting the allocative role of the capital and labor markets through crowding out. The remainder of this section shows how the SCD filters can be used to tailor an action framework for addressing this seemingly formidable list.

Table 7.1: Mapping of the Sector Constraints to SCD Framework

Sector	SCD Hypotheses	
	Management of Risk	Functioning of markets for jobs, capital, and knowledge
Fiscal and Debt Profile	<p>Persistent budget imbalances embed risk of forced adjustment.</p> <p>Transition to fiscal model less reliant on salaries and subsidies will increase household vulnerability.</p> <p>Fiscal imbalances reflect an underlying risk on external balance sustainability: chronic external imbalance has been carried by being funded via the government.</p>	<p>Large deficit finance requirement leads to crowding out in financial markets.</p> <p>Fiscal consolidations have squeezed public investment and O&M expenditures.</p> <p>Public sector job preference undermines job market dynamism for private sector.</p>
Business Environment	<p>Slow pace of development of structured finance including PPPs impedes risk-sharing on big projects.</p> <p>High costs of formalization mean disproportionate burden of adjustment (e.g. to refugee influx) falls on the informal sector.</p> <p>Unwillingness to take risks on big liberalization leads to fragmentation and lack of scale in success stories.</p> <p>Export promotion activities with limited success: favoring existing products/markets rather than new products/markets.</p>	<p>Investors are deterred by the prospect of arbitrary and uncertain regulation.</p> <p>Investors perceive renegotiation risk on major projects.</p> <p>Basic administrative transactions still move too slowly despite long-held ambition of “one-stop shop”.</p> <p>Few linkages between FDI and domestic investment (need better targeting of FDI type / more coherent industrial policy).</p> <p>Limited productivity gains in labor-intensive sectors creating low-wage low-skill jobs that do not appeal to Jordanians.</p>
Financial Markets	<p>Households have insufficient access to credit, insurance, and pension instruments to help them manage financial risk.</p>	<p>Credit availability not responsive to lower monetary policy rates.</p> <p>Access to credit too dependent on pre-existing bank relationship and personal finances</p> <p>Weak credit market infrastructure.</p>
Employment	<p>Household risk coping strategies contribute to severe labor supply segmentation.</p>	<p>Skills mismatch arising from misaligned expectations, career paths and industry needs.</p>
Social Safety Net	<p>SSN is not responsive to household income shocks and overly dependent on subsidies to mitigate risk.</p>	<p>SSN design (categorical basis, lack of activation measures) creates disincentives for labor market participation and saving</p>
Governance/Public Sector	<p>Public administration emphasizes <i>ex ante</i> compliance and control at expense of line autonomy and overall risk assessment.</p>	<p>Public sector job benefits and access to services leads to high reservation wage.</p>

	Lack of clarity about authorizing environment for initiatives leads to reluctance to act.	Excess payroll and compression of the wage structure weakens performance incentives.
Education	Education system discourages risk-taking in career choice and fails to address inequalities in quality through emergence of multiple tiers.	Education system provides weak general purpose skills which impede job market dynamism.
Health	Inequities in multi-tier healthcare system leave households, especially outside the public sector, concerned about access and facing high out of pocket costs	Health financing creates strong preference for public sector or formal private sector so as to access employment-based healthcare
Energy	Large fiscal risks embedded in electricity market structure. Energy major contributor to import bill; role short and long-term vulnerabilities in the current account.	Uncertainty about energy sector pricing and investment framework has had negative spillover effects on investment within the sector and throughout the economy.
Water, natural resources, and environment	Profound sustainability concerns not yet reflected in sector policies. Climate change risks not internalized at a high level of government.	Inadequate market signals due to price distortions and externalities.
Transport		Transport costs have disproportionate impact on the poor and limit their mobility and access to markets.
Gender	Gender major source of differential lifetime outcomes especially in risk of dependency, access to legal services	Gender roles and gender constraints impede access to labor market opportunities.

The sector constraint prioritization exercise for Jordan requires considerable tailoring to the current context: a substantial reform agenda is already unfolding, albeit at different pace across different sectors. The key example is the energy sector. A SCD written in 2010 would most likely have identified the energy sector as the top constraint in terms of risks, fiscal impact, threats to energy supply, and overall urgency. In 2011, the risks that would have been embedded in such an assessment were realized, and a long-discussed move to cost-reflective electricity tariffs is now under phased implementation, while liquid transport fuel subsidies have already been eliminated. As this SCD has shown, water is now the “next frontier” for such an adjustment, and depletion concerns heighten the importance far beyond fiscal costs. An associated reform program is currently under discussion with the government within the framework of a new programmatic DPL.

Despite the recent positive steps on subsidy reform, addressing Jordan’s fiscal and debt profile represents a precondition for achievement of the twin goals and sustainability. When combined with the undiversified export base, the fiscal situation embeds a “sudden stop” risk in terms of reliance on external inflows to finance the structural savings-investment gap. On the expenditure side, achieving more fiscal space is linked to the sector priorities discussed further below, notably on private sector job creation and social safety net (SSN) reform, to reduce the reliance on the public budget for jobs and subsidies. On the revenue side, there has been considerable analysis of the scope for revenue mobilization and several

efforts at streamlining tax exemptions and broadening the base of the income tax. Implementation constitutes the major impediment to effectiveness of these measures, which in turn is linked to a lack of consensus among stakeholders about the need for them. Of course, support from partners in meeting the budgetary needs identified in the Jordan Response Plan (US\$8 billion between 2016 and 2018) would address some of the loss in fiscal space due to the Syrian influx.

Fiscal adjustment is also a precondition for a more effective allocative role for markets. Constraints associated with the structural fiscal stance pertain to crowding out of bank finance, sparse domestic debt markets due to overreliance on guaranteed external bond issuance, the lack of domestic fiscal space for public investment or O&M expenditures, and the distortive role of the public sector job preference in the labor market.

With responses to energy and water constraints already part of an emerging consensus in policy discussion, the remaining constraints lie in the domain of implementation and citizen participation. Energy and water pricing are at a stage where although there is a technical consensus around the need for adjustment, there is much less agreement around the modalities, especially in water. Since any adjustment will involve tariff increases, a lack of confidence of the public in the motivation for or impact of pricing reforms could seriously undermine reform momentum. Popular discussion in Jordan already exhibits skepticism about the finances of NEPCO and the Water Authority of Jordan (WAJ) and the associated rationale for price adjustments, especially in terms of a perception of asymmetric price adjustment (i.e. tariffs adjust upwards when energy costs increase but not downwards when energy costs decline). Plans to boost water supply (through the Red-Dead link and ancillary projects) are very complex in terms of their infrastructure and environmental implications. These implications could be challenging to explain to the public, whose buy-in is needed for sustainability.

In other sectors, the reform agenda is at an earlier stage, and the prioritization filters are very useful to determine sequencing.

Removing obstacles in the business climate, especially sector entry and level-playing field in currently restricted sectors, is essential to energizing private investment. Without this, a focus on the labor market alone will not be effective. The process of combining capital and knowledge to generate high quality jobs is not working at sufficient scale to make a major dent in Jordan's labor supply overhang. Special economic zones and selective liberalization have created a "greenhouse" for some investors, but this mode of private sector facilitation effectively puts the government in the position of picking winners as well as diluting the impact of policy reforms. It also raises fundamental issues of access and level playing field regarding private sector development policies. Realizing the potential of the 2014 Investment Law to shift the focus from projects to policies is vital, but the law left some important issues (e.g. income tax) to the regulatory stage which could continue the challenge of discretionary implementation of exemptions.

The top priority in sequencing therefore is providing investors, domestic and foreign, with confidence that they will face a stable and effectively administered regulatory and legal environment throughout the life cycle of their investments. For these investors, project delays and uncertainties fundamentally undermine their willingness to invest. Other investment locations in Jordan's region have and will continue

take corresponding advantage in attracting investment flows. Instruments which contribute to risk reduction while Jordan reinforces its credibility in this domain will be particularly important in the near-term.

A related cluster of issues concerns the financing of investment. For this constraint area, complementarity provides a strong filter, because there are multiple determinants of the total stock of physical capital in Jordan and resulting need for multiple entry points depending on the nature of the capital. For public capital, getting an effective public investment management (PIM) system operational will enable a comprehensive perspective on existing assets, operations and maintenance thereof, and a vetted project pipeline to which Jordan's development partner funding inflows can be allocated. Technical work on the PIM system is already underway. Given the political influence that comes with control of the capital program, operation of a good practice PIM system will be especially prone to the implementation constraint.

If one particular area of PIM should be selected as a priority, it is integration of the capital program into the multi-year budget strategy and annual budget preparation. This will bring the needed coordination between the allocation of development partner financing, domestic revenue mobilization, and comprehensive multi-year budgeting for all costs including recurrent costs of new capital projects. It would also help with internalization of incentives which currently contribute to a proliferation of projects.

Infrastructure finance is another area where progress is already being made, due to the current efforts to build on earlier privatization successes and operationalize the recent PPP law. Because of Jordan's risk exposure and complex project needs in certain sectors (e.g. renewable energy, water), having an investment framework that attracts high capacity investors is important. These investors will be looking to share risk with partners in the country (most likely the government) and with fellow investors. In this setting, the role of a "first mover" investor in signaling prospects and resolving uncertainty is strongly warranted. A solid PPP framework provides clear "rules of the game" for such coordination, but other modes of investment (e.g. syndication) may be equally viable depending on the circumstances. Finally in this respect, PIM provides the high level decision process to ensure that conventional public investment and investments with private participation such as PPPs are each contributing cohesively to the national capital stock.

Access to finance for smaller firms and households is not amenable to quick improvement; indeed to push too far in this direction would lead to an overcrowded MSME sector and pose risks to financial stability. The priority here is not a single initiative, but rather phasing of a set of reforms that will alleviate different constraints over different horizons. The current banking sector structure with two large banks in stable and conservative business lines and major gaps in credit market infrastructure will struggle to promote access in the short-term. Over time, reduced fiscal deficits should reduce the appeal of financing the government, and growing experience in the SME sector should increase banks' capacity for this segment.

But even with overdue improvement in credit market infrastructure centered on insolvency, moveable collateral, and creditors' rights, banks alone cannot respond with the scale, speed, or scope needed to make the financial sector more dynamic. This will require better-functioning securities markets, enabled through improved corporate governance and transparency and disclosure requirements on the Amman Stock Exchange. Financial markets would be more diversified through the participation of

venture capital and private equity – but these players will want to see good prospects that promising projects can actually move to implementation and profitability.

Another cluster of issues is around social safety nets, education, and health. In fact, these are all part of helping households manage shocks at various horizons and in response to various random and life-cycle events (income loss, unemployment, health, and livelihood opportunities).

The first key message here is that Jordan has already done a lot to put the technical prerequisites for strong social sector performance in place, but these need to be completed urgently so that policy design which relies on them can be activated. The fuel subsidy removal cash transfer compensation scheme showed the ability to scale up a cash-based safety net when the right conditions are in place. The ongoing construction of a National Unified Registry (NUR) will offer a comprehensive platform for SSNs and social service delivery. The growing capability with cash transfer programs should also converge with programs for refugees, where the information base is substantial.

In the long-term, universal health coverage will improve well-being, reduce inequitable health outcomes, and complement labor market dynamism by weakening the distortion towards public sector employment as a means of accessing healthcare. The NUR also provides a path to universal coverage, and thus is a foundational initiative for implementation of the National Health Strategy.

The direction of cash benefit policy reform also needs to be maintained. The labor market diagnostic indicates that the categorical basis and lack of activation measures in the current SSN creates disincentives for labor market participation. While a realistic time horizon for responding to these shortcomings is long, this policy area scores highly because of its complementarity with other reforms and, ultimately, its strong link to the twin goals.

Constraints related to gender ultimately pertain to the ability of women for autonomous participation in society. Obstacles to women exercising agency in Jordan are caused by a combination of the treatment of women versus men under applicable legal frameworks, with gaps further widened by restrictive social norms that can govern women’s behavior. In concrete terms, issues pertain to the imbalance in power and legal rights between women and male relatives. Recent legislative and regulatory reforms, if implemented effectively, have the potential to increase women's agency through expansion of rights and improvements in service delivery including legal services.

The education sector illustrates the point that the issue is not whether the overall sector is a priority – it is – but the sequencing of reforms within it. For example, although skills gaps will have to be narrowed from both the supply and demand side, which will take time, several types of reform can be frontloaded.

First, high quality general purpose skills will be needed even if some portion of near-term cohorts of young Jordanians will be looking for jobs in the region rather than at home. Every day that these issues are not addressed, the pool of difficult-to-employ youth is growing. Constraints begin with difficulties in access to early childhood education, which in turn negatively impact the labor market participation of women.

Second, the education sector needs more autonomy to be able to flexibly manage core operational issues such as teacher assignments and implementation of a modern curriculum. At the tertiary level, the public universities have a very constricted expenditure envelope, while private colleges have expanded within a deficient regulatory framework which has adverse effects on quality. Clear signals about autonomy and regulatory direction can be sent in the short-term to instill confidence in education quality and relevance at all levels.

The transport sector is at the nexus of several reform areas. The necessary price adjustments in energy have nonetheless exacerbated constraints to mobility, especially in urban areas. Relaxing constraints in transport thus scores highly on improving functioning of the labor market. But it also goes directly to the ability to meaningfully participate in the economy and society. Access and quality problems in modes of transport used by lower income households and basic regulatory and planning shortcomings (e.g. pedestrian facilitation) undermine the rhetoric of improvement and highlight the technocratic orientation of policy reforms.

The refugee crisis provides further impetus to address these long-standing constraints in the economy. Overlaps between a developmental approach to coping with the refugee influx and the aforementioned constraints include the following: First, improving the business climate for tradable goods, enabling investment to allow for higher productivity employment growth that will then absorb the refugees as well as local workers without lowering wages; this will also help broaden the tax base. Second, strengthen local service delivery so that additional students and patients do not break the systems. Third, as accountability improves, shift funding down the chain (to municipalities and facilities) increasing flexibility to respond to local demand. Fourth, the emerging experience with humanitarian cash transfers to refugees can over time converge with SSN reforms for nationals to create a resilient social protection system which will improve labor market functioning. And finally, strengthen financial markets which can more effectively intermediate refugee assets along with local savings and enable investment, including in housing supply.

Public sector reform is perhaps the single most challenging area to prioritize. Some simplification of this large agenda is achieved by recognizing that certain constraints that normally fall within this domain have been extracted as cross-cutting implementation constraints, already discussed above. But even with this reduction in scope, the public sector remains a common element to numerous constraint areas: fiscal (because of its size and rigid cost structure), labor market (distorted wage setting), and social and administrative service delivery (performance management). However, the track record of public sector reform efforts in Jordan is dismal. This most likely reflects that public sector employment is intrinsic to the socio-political bargain, undercutting the feasibility of standard approaches to reform.

It may be that while a direct large-scale approach to public sector reform would fail, well-targeted modifications within the current structure could have relatively large impacts. The recent ability of the Ministry of Education to control recruitment of teachers, as opposed to being allocated candidates from a central administrative pool, is a case in point. More generally, consultations in Jordan and experience in other countries have consistently pointed to the need to work with the grain with the senior and middle management layer in ministries, while helping them more effectively elaborate the constraints that they

face. This is a matter of sustained facilitation and dialogue within ministries, departments and agencies – and not parachuted technical assistance. If done patiently and consistently, these critical personnel can be more willing to acknowledge gaps in managerial skills, the absence of relevant strategies to guide policy, and the degree to which inertia in operational frameworks continues to drive current decision making.

Table 7.2: Linking Reform Potential to the SCD Filters

Sector	SCD Framework	
	Reform Orientation	Key SCD Filter
Fiscal and Debt Profile	Fiscal policy has often been used as a buffer to absorb incomplete reforms; with tighter fiscal constraints, other reforms will have to be more comprehensive.	Precondition
Business Environment	Need to move away from tendency for selective reforms (e.g. zones) towards broad-based entry liberalization.	Complementarity Sequencing
Financial Markets	Interventions across a range of financing segments are necessary from MSME, mid-size firms, to securities markets and structured finance for PPPs. MSMEs will need supporting interventions to graduate from concessional financing and subsistence/informal business activity.	Twin goals impact (B40).
Employment, social safety net, and gender	Low labor force participation is one outcome of the socio-political bargain and has validated the role of the state in managing risk for households. If households had more employment paths out of poverty, the reliance on the state for managing risk would decline.	Twin goals impact (B40) Complementarity
Governance/Public Sector	Public sector employment is a key component of the socio-political bargain and a complementary outcome to low labor force participation. Narrow function-based ministries and weak performance incentives have circumscribed past reform efforts both of the public sector itself and in other sectors.	Participation and complementarity.
Education and Health	Social sectors are emerging areas of inequality which in turn is affecting labor market participation. Initiatives in these sectors will need to be contextualized in terms of the labor market, public sector performance, and household risk management.	Twin goals impact (B40)
Energy, water, natural resources, and environment	Recent years have seen major progress on addressing sustainability concerns in these sectors, but stresses due to climate change, population growth, conflict spillovers are also increasing. Enhanced reform orientation will require addressing interests related to land use, irrigation, etc.	Twin goals impact (Sustainability) Participation

The reform orientation and SCD filters jointly determine priorities not just for what should be done, but how it should be done. Table 7.2 consolidates the major constraint areas from Table 7.1 and characterizes them both in terms of their reform orientation and the particular SCD filters to which they are most responsive. For example, fiscal stability addresses preconditions, business climate scores well as complementing other reforms, while education and health interventions will address non-income inequality arising from access and quality issues and thus improve the welfare of the bottom 40 percent. However, each area also has a reform orientation: it can either reinforce reform momentum by shifting outcomes away from the current inertia and stasis in many areas, or it can retard reform by absorbing and isolating the positive impact of interventions. In the past, fiscal policy was used in this way, as it provided a buffer to limit the scope of subsidy reforms. Certain interventions such as product-based development and promotion, vocational training programs, and stand-alone SME finance are particularly prone to this challenge, because on their own they are “pushing on a string” and not addressing the underlying distortions which give rise to the associated outcomes.

Knowledge Gaps

Significant information will become available over the next 12 months which will shed further light on demographic and poverty dynamics. Analysis of the 2014 household income and expenditure survey is about to begin, while a census will be undertaken towards the end of 2015. The census will be the first opportunity to rigorously and comprehensively measure the total resident population and understand its characteristics. The 2014 survey will be informative about the impacts of the major shocks experienced by Jordan in recent years, several of which have unfolded since the 2010 survey. It will be particularly useful to link household welfare to labor market characteristics and income sources, as many puzzles about the labor market relate to these linkages. Housing is also a critical component of welfare and comparatively little is known about its impact on the welfare of the bottom 40 despite the clear correlation of poverty with household size and the housing supply strains in many areas.

Ongoing work regarding refugee impacts on host communities will fill a major knowledge gap, but will not be available within the SCD timeframe. It will however be available for the CPF. The objective of the Syria refugee crisis impact project (P153563), being undertaken by the Poverty GP, is to assess the socio-economic impacts of the Syrian refugee crisis on Syrian refugees and hosting communities. This project will implement newly designed household surveys in Jordan, Lebanon, and Iraqi Kurdistan using a unified survey instrument to be administered on both Syrian refugees and hosting countries’ communities. It will compare a range of outcomes across the groups in each of the three countries, as well as camp and non-camp refugee populations. The analysis can provide insights into the efficacy and lacunae in humanitarian response, the effect of the crisis on local economic conditions including prices, employment, and service delivery; and identify development interventions for the immediate and medium term.

There are significant knowledge gaps in the education sector, and higher education in particular presents pressing questions on which the Bank currently lacks the knowledge to respond. Tertiary institutions are proliferating despite uncertain job prospects for their graduates and deficiencies in quality

control. It is likely that a mix of credentialing, cultural factors, and disguised unemployment are driving some of these outcomes but no quantitative evidence is available. On education and B40 linkages, Jordan would need to define a national standard for assessing social vulnerabilities. Education data should be systematically disaggregated by the nationally defined categories of vulnerabilities (gender, poor, ethnicity, disability, cultural and social class system etc.). This would allow answering questions and issues such as: i) to what degree boys and girls with economically under-privileged family background have equitable opportunities to access and experience longer school-life expectancy?; ii) which are the social vulnerability types that are best predictors of students' poor performance in the schooling system? iii) to what extent is transition from school to work constrained by socioeconomic background when graduates from vocational and academic streams are compared? Overlaying these questions on the challenges faced by refugee children is strongly warranted.

There is little information available on the precise contribution of water to the economy, and to poverty reduction. This is a knowledge gap that extends far beyond Jordan. As for basic data on sector performance, data are collected but are not always easy to access – both for government and public. The Ministry of Water and Irrigation produces annual reports, but more information on water resources, their allocation and management for both surface and groundwater are still required.

The most critical analytical constraint for social safety nets is the lack of a safety net module on the national household survey that can assess the targeting performance of SSN programs. NAF is currently the only program surveyed. Moreover there is need to better understand how other existing targeted safety net programs are functioning and how efficient are they in terms of reaching the poor and vulnerable. In addition, there is need for more robust performance indicators on the current fuel subsidy cash compensation scheme to assess their targeting accuracy, coverage, leakage, as well as poverty impact (in view of the associated subsidy reform program that has an impact on poverty in Jordan).

Despite evidence that land market dysfunctions are contributing to suboptimal spatial development, limited analyses have been done on the land market in Jordan. An up-to-date analysis of local governments and their service delivery and management performance would help in identifying constraints to improving service delivery and housing, and to enabling cities to facilitate environments for inclusive growth.

Annex 1 ICT Sector in Jordan

Overview of sector

Jordan is at the forefront of the information communication technology (ICT) sector in the MENA region, thanks to the drive and innovation of its entrepreneurs as well as continued concerted effort by the government to advance the sector. It is estimated that over 50 percent of the country's startups are in the ICT field, including telecom, IT, mobile online businesses, and game development⁶². Over the last decade, the country's ICT sector has thrived due to its strong human capital base, close regional and international trade as well as a competitive deregulated market and increased penetration of ICT infrastructure. Growth has been buttressed in particular by outsourcing and data processing and hosting markets⁶³. According in ICT Association of Jordan (INT@J) and the Ministry of ICT, IT exports grew 8 percent to record high of \$324 million between 2012 and 2013, albeit telecom revenues fell by 6.4 percent to \$1.6 billion over the same period⁶⁴. While revenues are shrinking due to various factors including government tax hikes and weak macroeconomic environment, the expansion of ICT exports (represents only 2 percent of total exports of goods and services) offers significant opportunity, both for job creation and growth.

The ICT sector is one of the key industries of Jordan, contributing to 14 percent of the country's GDP and 1.25 percent of the total workforce⁶⁵. In the Global Information and Technology Report 2015, Jordan ranks number 52 out of 143 countries on ICT and Network Readiness Index, above most other MENA countries such as Egypt (94), Lebanon (99), and Tunisia (81) as well as above some EU countries like Italy (55) and Greece (66)⁶⁶. According to the report, Jordan positioning in the ICT sector is boosted by its favorable ranking on business and innovation environment, affordability, and skills; however, it is hampered by (i) poor infrastructure, namely reliability of power, secure internet servers and bandwidth availability; and (ii) political and regulatory environment, specifically effectiveness of law making bodies and enforcement of contracts.

Constraints/Challenges

Weak macroeconomic conditions coupled with industry-specific challenges and intense competition has increased pressure on the ICT sector in Jordan. In the telecom sector, the GoJ doubled taxes on to 16 percent and 24 percent in 2014 on telecom operators and mobile subscriptions⁶⁷, respectively, which has significantly impacted their revenues. Decline in profitability has also been fueled by rising electricity costs

⁶² <http://knowledge.wharton.upenn.edu/article/growing-pains-for-jordans-tech-entrepreneurs/>

⁶³ Industry News - Too Little Government Support In Jordan's ICT Sector

⁶⁴ Abou-Ragheb, L. "ICT in 2014: A Year in Review". <http://www.venturemagazine.me/2015/01/ict-2014-year-review/>

⁶⁵ <http://jordantimes.com/experts-warn-of-decline-in-jordans-ict-sector>

⁶⁶ <http://reports.weforum.org/global-information-technology-report-2015/economies/#economy=JOR>

⁶⁷ Venturmagazine

which has significantly increased operators' operational costs. Since telecom operators are one of the major spenders, they are less likely to contract local companies down the value-chain that invest in new products, solutions, and value propositions⁶⁸. Additionally, given the fiscal pressures facing the government, reduction in taxes and reinstatement of subsidy is unlikely in the near future and thus will negatively impact on related ICT industries. Limited fiscal space and absence of public-private partnerships has also hindered maintenance and improvement of technological infrastructure, which is critical to the growth of many IT businesses and technology firms. Specifically Government policy (e.g. tax, labor) coupled with strong non-oil growth and more stable business environments in GCC economies in particular has also resulted in a brain drain of Jordanian talent. In 2013, over 50 Jordanian tech companies moved their ventures to outside of the country⁶⁹. Others argue, however, that the relative size of MENA regional markets, including that of Jordan, drives many start-ups and entrepreneurs to go outside their host countries to achieve scale. Lastly, as the ICT sector in Jordan has advanced rapidly, there has been a lag at the tertiary level to keep abreast the latest needs and requirements for the sector. The issue of skills mismatch is a major impediment for the private sector--75 percent of employers in the ICT sector in Jordan note of having difficulty finding well-educated staff. Many ICT operators therefore send their staff to post-graduate external courses to reinforce and upgrade their skills base.

Opportunities

In MENA, Jordan has emerged as a technology hub as around 600 tech companies and 300 startups have sprung up in the country over the last several years⁷⁰. This success has been underpinned by Jordan's focus on ICT education, conducive regulatory environment (*deregulated market with no restriction on non-Jordanian ownership*) that has increased competition in the sector. Both public and private stakeholders are focused on supporting a digital based economy. The Central Bank of Jordan has introduced a strategy to develop the legal framework for all e-payments systems in Jordan⁷¹, while financial institutions and private companies are concentrating on strengthening e-commerce platforms. To further entrepreneurship and give starts ups international exposure, initiatives such as Umniah's Plug 'N Play were launched to allow local entrepreneurs to learn from Silicon Valley experts on how to grow their business and build connections. In order further enhance the human capital base across the ICT sectors, and address the skills mismatch issue, there is potential growth opportunities in the vocational education and training (VET) institutes as well as room for greater collaboration between higher education and prospective employers to help ensure Jordan maintain its edge in this sector.

Within the sub-sectors of ICT, a number of opportunities exist to support firm growth as well as create employment opportunities.

- **Mobile:** The market for mobile value-added and data services is expected to see strong growth over the next few years, specifically through the expansion or enhancement of services to existing

⁶⁸ Ibid

⁶⁹ http://www.jordanbusinessmagazine.com/cover_story/losses-and-gains-brain-drain

⁷⁰ <http://www.menaictforum.com/uncategorized/jordans-ict-sector-infographic/>

⁷¹ Jordan- Telecoms, Mobile, Broadband & Forecasts

customers. With the introduction of 4G and fiber optic broadband services, mobile operators can also offer these services to increase customer base and loyalty through product-bundling schemes.

- **Broadband:** Given the low broadband penetration with only fixed broadband penetration at a mere 4.5 percent⁷², the potential for growth is sizable especially by improving the capacity of broadband infrastructure to provide higher speeds and reliable and secure connections.
- **Export-oriented growth:** Jordan seeks to become both regionally and internationally recognized exporter of ICT products and services, for example business process outsourcing and call centers. At present, roughly 25 percent of Jordan's ICT exports go to Saudi Arabia, a little over 20 percent go to the United States with significant potential for future growth.
- **Venture Capital Funds:** While access to finance for SMEs and entrepreneurs alike remains constrained, the recent emergence of VC and PE Funds such as Badia Impact Fund, Wamda, iMena and Oasis500 have helped fill the gap.
- **E-commerce:** With expected improvement in broadband services including through the introduction of 4G data services, the demand for e-commerce is likely to increase.

⁷² Arab Advisors Group, "An Overview of the Broadband Markets, e-commerce, and online banking" Nov.2013
http://www.jordanecb.org/Public/English.aspx?Site_Id=1&Page_Id=539&menu_id=38

Annex 2 Renewable Energy Sector in Jordan

Overview of sector

Diversifying its energy sources is a top priority for Jordan as at present the country imports approximately 97 percent of its total energy requirement (including electricity generation) at the expense of 25 percent of its annual GDP⁷³. The issue of energy security has been a persistent challenge given Jordan's heavy reliance on imported fossil fuels and natural gas (primarily from Egypt) to meet its energy needs. This has proven to be both costly and unreliable, especially due to the disruptions in Egyptian gas flows since 2011. According to data from the Ministry of Energy & Mineral Resources (MEMR), the cost of consumed energy in Jordan grew from \$2.6bn in 2010 to \$4.6bn in 2012, a hike of 43 percent⁷⁴. To reduce its vulnerability to gas supplies, oil price volatility as well as ease the economic burden of rising energy demand and costs, the Government of Jordan (GoJ) is pushing ahead with a number of renewable (wind, solar) schemes. Several developers have reached financial close in for solar energy projects (worth up to \$560 million) under the first phase of the state's feed-in tariff (FIT) program, for which power-purchase agreements (PPA) were signed with 12 developers in June 2014⁷⁵, while the second round tendering in 2015 has led to record low FIT (lowest bid at 6.13 cents per kWh), with four lowest bids at prices 50 percent below the first tender⁷⁶. This is quite significant as it means that photovoltaic (PV) prices have finally reached grid parity and can compete with conventional power⁷⁷.

Through these efforts, the GoJ aims to increase the contribution of renewables in the energy mix from 1.5 percent in 2014 to 10 percent by 2020 (600-100 MW wind, 300-600 MW solar, and 30-50 MW biomass)⁷⁸. Broadening its energy mix will help to stimulate local industry systems and clusters by driving down their operational costs in the immediate term and ensures sustainable energy supply in the medium to long-term.

Progress to date in promoting RE and remaining constraints

Over the past decade, GoJ has made a concerted effort to realize the renewable energy potential of Jordan by formulating a strategic vision for the energy sector, setting renewable energy targets, and introducing a number of laws to help pave the way for large-scale investments. In 2005, the National Energy Efficiency Strategy called for the promotion of energy efficiency measures in all sectors, development of local energy resources including renewable energy and adopting a rational pricing policy for meeting high energy demand⁷⁹. In 2007, this strategy was updated and helped introduce a number of incentives including 100% exemption from income tax over 10 years to encourage independent power producers (IPPs) to generate electricity on a Build Own Operate (BOO) and Build Own Transfer (BOT) basis. Other measures that were

⁷³ "Financing Indicative Of Renewables Push" (2013). BMI.

<https://bmo.bmiresearch.com/article/view?article=820381&iso=JO>

⁷⁴ "Reforms Boost Jordan's economy" (2015). MIDDLE EAST ECONOMIC REVIEW (MEED).

⁷⁵ Ibid

⁷⁶ <http://analysis.pv-insider.com/jordan-pv-tariffs-drop-50-second-tender-round>

⁷⁷ <http://analysis.pv-insider.com/pv-hits-grid-parity-jordan-uae-mena-capacity-surges>; "Employment of Renewable Energy in Jordan"

⁷⁸ "Employment of Renewable Energy in Jordan"

⁷⁹ <http://www.naruc.org/international/Documents/ALMASHAQBA-%20EE%20Roadmap.pdf>

part of the strategic plan included a progressive removal of oil and electricity subsidies (to reflect their true costs), the establishment of an energy data bank, the elimination or reduction of a sales tax and customs duties on relevant materials, and the provision of renewable energy grants and loans, among others⁸⁰. Despite making energy security and sustainability an area of strategic importance, the GoJ was slow in making meaningful progress on above measures and initiatives. However, in 2011 the economy was confronted with growing fiscal and current pressures due to Jordan's dependence on subsidized and low cost natural gas imported from Egypt which was hampered due to the Arab Spring turmoil. As a result in 2012, Jordan announced it would phase out its fuel subsidies as well as passed the Renewable Energy and Efficiency Law (REEL) in April 2012 (the first of its kind in the region) and subsequent by-laws⁸¹ to help facilitate private sector investments in renewables. Today, Jordan has positioned itself as one of the front-runners in the RE space in MENA as it has developed a legal and regulatory framework for renewables and there is strong political will to push this agenda forward. Nevertheless, there is still room for improvement across several key areas.

- **Network:** Grid infrastructure, upgrades, and management necessary to support large scale power supply from renewable sources is an emerging challenge. It is expected that the grid will need to accommodate 1.8 GW of additional generation capacity from renewable energies in the next ten years⁸². Additionally, significant infrastructure investments will be needed to transmit power from the south (where solar farms are concentrated) to Amman and the north (where the energy demand is most intense)⁸³. Similarly, integration of a smart grid, which remains at an infant stage in Jordan, is critical, as it allows for more efficiency and reliability of power and greater transparency in service, as well as the need to develop storage capacity. Some progress has been made on grid infrastructure including through the NEPCO Green Corridor project, a multi-component program to reinforce Jordan's high voltage electricity grid for integration of more renewable generation capacity and to improve reliability of supply, funded by European Investment Bank (EIB)⁸⁴. Other proposals put forth to expand RE network capacity include a grant of \$310 million⁸⁵ (part of a broader 1GWp solar IPP proposal) in June 2015 from Hanergy, a China-based renewable energy company, and similar proposal by Masdar in 2014. However, neither of these proposals have progressed forward to date.
- **Financing:** So far the financing of large-scale renewable energy projects has gone through a government solicited competitive tendering processes. Although, the success of Round I tendering has increased the appetite of commercial banks (both regional and global) to fund renewable IPPs in Jordan. The availability of financing schemes for smaller-scale investments in RE however is still limited as local banks lack experience in providing project finance in RE space as well as often do not have the appropriate risk appetite and/or special financing programs to support renewable energy and energy efficiency projects⁸⁶. Also, regulations set by Central Bank of Jordan, for

⁸⁰ <http://www.iea.org/policiesandmeasures/pams/jordan/name-24769-en.php>

⁸¹ Ministry of Energy & Mineral Resources. <http://www.memr.gov.jo/Default.aspx?tabid=291>

⁸² IMF Working Paper (May 2015). New Energy Sources for Jordan: Macroeconomic Impact and Policy Considerations

⁸³ Ibid

⁸⁴ <http://www.eib.org/projects/pipeline/2009/20090711.htm>

⁸⁵ <http://cleantechnica.com/2015/06/11/hanergy-funds-renewable-energy-grid-jordan/>

⁸⁶ Jaber, J.O., Elkarmi, F., Alasis, E., & Kostas, A. "Employment of Renewable Energy in Jordan". *Renewable and Sustainable Energy Reviews* 49 (2015) 490-499.

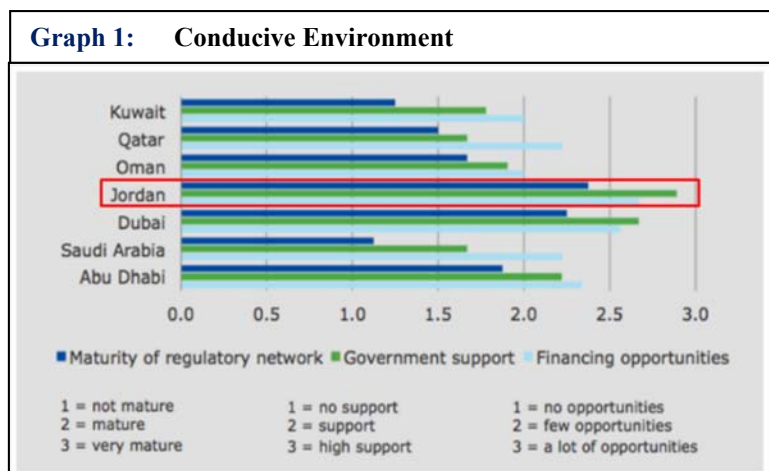
instance, on loan tenor, makes local funding less competitive and attractive when compared with financing options available to investors from international IFIs or DFIs. Some other alternative sources of funding include the Jordan Renewable Energy & Efficiency Fund (JREEEF), which is a branch of the MEMR. While JREEEF was established in 2012, it finally launched in June 2015 and is set to disburse JD25 million to provide financial and technical assistance to sustainable energy projects including equipping homes with PV systems in rural areas⁸⁷.

- **Implementation of RE legal framework:** While there is a strong level of commitment by GoJ to implement its RE strategy through the developed legal framework, the lack of coordination among the host of governmental institutions concerned with RE approvals and licensing (MEMR, ERC, NEPCO, EDCO, MoEnv, MoF, etc.)⁸⁸ can be a source of frustration to investors due the opportunity costs associated with delays⁸⁹. In addition, the GoJ needs to ensure that the remaining obstacles in the legal and regulatory frameworks are addressed to help attract private investors to invest in Jordan RE space. Some key areas include developing FIT for residential solar (currently only net-metering available) as well as addressing the distortions in the current model which rewards generation (i.e. kWh produced) rather than the investment (i.e. installed capacity).

Opportunities for scale up

In Jordan, the demand for energy is expected to continue to rise (5.5 percent per annum), especially as the economy becomes more dependent on services and manufacturing sectors as well as shifts structurally towards urban centers. While the GoJ has already initiated the process to develop RE projects (through direct proposals, competitive bidding, or EPC Turn-key) such as Tafila Wind and 7-Solar PVs, there remains significant

investment opportunity for private investors to finance the pipeline of projects to help meet the growing demand and Jordan’s RE target of 1000MW of wind and 600MW of solar generation by 2020. According to a survey conducted by DNV GL, Jordan is seen as the market with the highest short and long-term potential in the region⁹⁰ given the conducive regulatory environment for RE and solar growth prospects for the country (see graphs). As the proportion of renewables increases in the energy mix, there is potential to support the supply-chain of RE technologies by encouraging and promoting local industries to manufacture



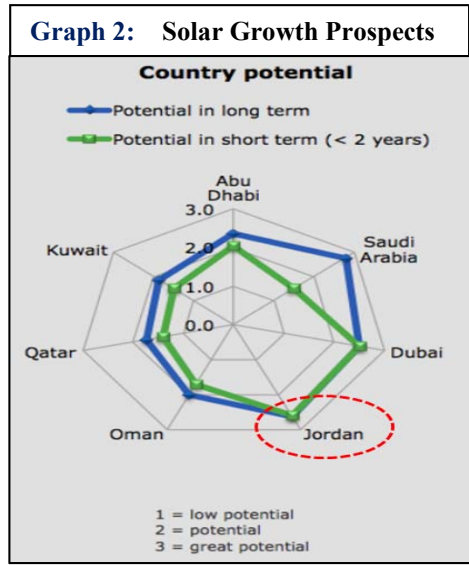
⁸⁷ <http://www.venturemagazine.me/2015/08/fund-activates-jd25-million-for-renewable-energy-projects/>

⁸⁸ Ministry of Energy & Mineral Resources (MEMR); Electricity Regulatory Commission (ERC); National Electric Power Company (NEPCO); Electricity Distribution Company (EDCO); Ministry of Environment (MoEnv); Ministry of Finance (MoF)

⁸⁹ Jaber, J.O., Elkarmi, F., Alasis, E, & Kostas, A. “Employment of Renewable Energy in Jordan”. *Renewable and Sustainable Energy Reviews* 49 (2015) 490-499.

⁹⁰ http://www.pv-magazine.com/news/details/beitrag/survey--dubai--jordan-and-saudi-arabia-mena-high-potential-markets_100019709/#axzz3k9aRbfAK

renewable energy components for the domestic and regional markets. However, this would require significant upgrade and expansion of industrial capabilities and research and development capacity as well as training of individuals (e.g. engineers, other related professionals). In the long-run, there is also potential to capitalize on Jordan’s interconnectedness with its neighbors (esp. with respect to electricity) which can help pave the way to one-day even export excess supply of energy sourced from renewables.



Conclusion

In order to meet Jordan’s growing energy demand and recognizing its vulnerability to the vagaries in the oil market and dependency on imported gas (especially since 2011), the government stepped up its efforts to roll out an ambitious renewable energy agenda. Thanks to a strong regulatory and legal framework for renewables, Jordan has been able to achieve significant progress in attracting private investors to develop its renewable energy projects. The success of the Round I tenders, followed by record low FIT in Round II bidding has had a strong demonstration effect on the overall sector. It has not only helped increase commercial banks (global and regional) appetite to fund RE projects, but also served to highlight the increased efficiencies, falling costs, and grid parity advances of the renewable industry, particularly solar and wind. Despite the impressive growth, however, it is important to address the remaining challenges facing the sector including network capacity, additional sources of funding, and streamlining of the regulatory process, which would help ensure Jordan meets its target of 10 percent of renewable energy in the overall energy mix by 2020.

Annex 3 Survey on Quality of Implementation Processes

A survey was conducted of a select group of WBG TTLs on the quality of government processes in Jordan. The TTLs surveyed are either working on Jordan at present or have done so in the past. Thus the exercise captures the knowledge of people who, between them, have several years of experience and familiarity with the workings of the Jordanian government.

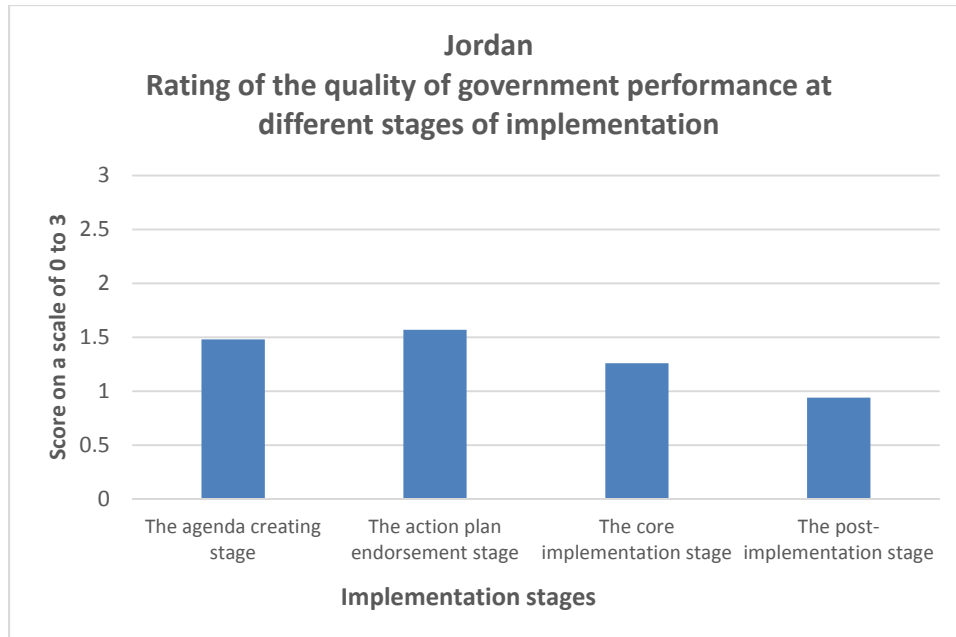
The survey consisted of 22 statements related to different stages of implementation. TTLs were asked to rate each statement on a four-point scale (i.e., whether the statements were mostly true, sometimes true, rarely true or not true at all). The statements, examples of which are provided in the box below, were worded such that a “mostly true” answer is the most favorable from the implementation point of view and “not true at all” the most unfavorable. The questionnaire was sent to 30 TTLs, of which 20 responded.

Examples of statements included in the survey

1. Good mechanisms are in place to carry out public-private dialogues and are regularly used by government to engage the private sector.
2. Once a subject has been put on the government’s agenda for action, there is an efficient process at work to move from there to a point where a detailed action plan has been prepared and endorsed.
3. The action plans typically identify clear responsibilities for implementation.
4. Mandates of various government agencies are well-defined.
5. Good mechanisms are in place to ensure that the required resources (financial, technical, human) are available to implementing agencies.
6. Good mechanisms are in place to gather just-in-time information on implementation progress and alert management/oversight authorities.
7. There are stakeholder feedback loops on implementation progress.
8. There are post-project implementation monitoring mechanisms in place.

To facilitate analysis, summary scores were generated from the responses in the following manner. First, a weighted average score was calculated for each of the 22 statements.⁹¹ The maximum score a statement can have is 3 (i.e., if all respondents rated it as “mostly true”). The weighted average score for all the statements related to each stage of implementation were then averaged to get an average score for each of the four stages. These scores are presented in the chart below.

⁹¹ The weighted average scores were obtained using the following equation: $S = (3.S_1 + 2.S_2 + 1.S_3 + 0.S_4)$, where S=weighted average score for a statement; S_1 =proportion of respondents rating that statement as “mostly true”; S_2 =proportion rating as “sometimes true” S_3 =proportion rating as “largely untrue” S_4 =proportion rating as “not true at all”.



The following table provides examples of areas where the survey reveals serious weaknesses.

Statements about various aspects of implementation	Weighted average score	% of respondents saying that statement is sometimes or mostly true
<i>The core implementation stage: mechanisms to ensure that action plans are implemented</i>		
1. Good mechanisms are in place to ensure that the required resources (financial, technical, human) are available to implementing agencies.	0.94	5.9
2. Good mechanisms are in place to ensure coordination in government.	1.24	35.8
3. Turf battle amongst government agencies is not a serious issue.	1.00	29.4
4. Good mechanisms are in place to hold the implementing agencies accountable. There is a requirement for regular monitoring of implementation progress.	1.18	29.4
5. There are stakeholder feedback loops on implementation progress.	1.07	12.6
6. There are well laid out procedures to discuss and act on these monitoring reports and just-in-time alerts.	0.88	5.9
<i>The post-implementation stage: mechanism to ensure sustainability and learning from experience</i>		
7. There are post-project implementation monitoring mechanisms in place.	0.82	11.8
8. There are processes in place to learn from experience, and to disseminate that knowledge within and outside government.	0.77	11.8
9. Stakeholders are engaged to get feedback on long-term implementation.	0.83	17.7

Summary of survey responses on implementation quality (based on responses from 20 TTLs)

Statements about various aspects of implementation	Weighted average score (3=mostly true; 0=not true at all)	% of respondents saying that statement is sometimes or mostly true
<i>The agenda creating phase: mechanisms to put findings/recommendations on government agenda</i>		
1. Good mechanisms are in place to carry out public-private dialogues and are regularly used by government to engage the private sector	1.35	40
2. The Government has good mechanisms/processes in place to deliberate internally on the findings of diagnostic and analytic reports, or recommendations coming out of stakeholder dialogues, prioritize them and put them on the government's formal agenda (e.g., through development strategies, plans etc.).	1.55	50
3. Based on the historical record in Jordan, development strategies or statements of policy intent can be taken seriously.	1.53	47
<i>The action plan endorsement stage: mechanisms which lead to a concrete action plan</i>		
4. Once a subject has been put on the government's agenda for action, there is an efficient process at work to move from there to a point where a detailed action plan has been prepared and endorsed.	1.55	50
5. The action plans typically identify clear responsibilities for implementation.	1.80	70
6. The action plans typically contain clearly defined milestones and an M&E framework with specific outputs, intermediate outcomes and outcomes.	1.50	50
7. Resources to implement the action plans are clearly identified.	1.45	45
8. Typically, consensus is built within government behind action plans.	1.55	55
<i>The core implementation stage: mechanisms to ensure that action plans are implemented</i>		
9. Good mechanisms are in place to ensure that the required resources (financial, technical, human) are available to implementing agencies.	1.00	10
10. Good mechanisms are in place to ensure coordination in government.	1.25	45
11. Mandates of various government agencies are well-defined.	2.00	85
12. Turf battle amongst government agencies is not a serious issue.	1.15	35
13. There is good information flow within government.	1.30	40
14. Government leverages resources of other partners, such as knowledge possessed by the private sector, to support implementation.	1.47	42
15. Good mechanisms are in place to hold the implementing agencies accountable. There is a requirement for regular monitoring of implementation progress.	1.20	30
16. Good mechanisms are in place to gather just-in-time information on implementation progress and alert management/oversight authorities.	1.20	35
17. There are stakeholder feedback loops on implementation progress.	1.11	16
18. There are well laid out procedures to discuss and act on these monitoring reports and just-in-time alerts.	0.90	5

<i>The post-implementation stage: mechanism to ensure sustainability and learning from experience</i>		
19. Action plans pay attention to the sustainability of the actions/projects after project ends, with sustainability plans drawn up.	1.30	40
20. There are post-project implementation monitoring mechanisms in place.	0.85	10
21. There are processes in place to learn from experience, and to disseminate that knowledge within and outside government.	0.75	10
22. Stakeholders are engaged to get feedback on long-term implementation.	0.85	15

Relatively Strong Areas

Very Weak Areas

Annex 4 Existing Studies

World Bank

Resolving Jordan's Labor Market Paradox of Concurrent Economic Growth and High Unemployment (2008)

Policies for High and Sustained Growth for Job Creation (2012), Development Policy Review

Jobs or Privileges: Unleashing the Employment Potential of the Middle East and North Africa, World Bank MENA Development Report (2015)

Jordan Competitiveness and Innovation Partnership (2013)

Mansour, Wael. 2012. The patterns and determinants of household welfare growth in Jordan: 2002-2010. Policy Research working paper; no. WPS 6249. Washington, DC: World Bank. <http://documents.worldbank.org/curated/en/2012/10/16867259/patterns-determinants-household-welfare-growth-jordan-2002-2010>

Dang, Hai-Anh H.; Lanjouw, Peter F.; Serajuddin, Umar. 2014. Updating poverty estimates at frequent intervals in the absence of consumption data: methods and illustration with reference to a middle-income country. Policy Research working paper; no. WPS 7043. Washington, DC: World Bank Group. <http://documents.worldbank.org/curated/en/2014/09/20230001/updating-poverty-estimates-frequent-intervals-absence-consumption-data-methods-illustration-reference-middle-income-country>

World Bank. 2013. Country gender assessment : economic participation, agency and access to justice in Jordan. Washington DC: World Bank. <http://documents.worldbank.org/curated/en/2013/07/18423362/country-gender-assessment-economic-participation-agency-access-justice-jordan>

Jordan Economic Monitor, Fall 2015. A Hiccup Amidst Sustained Resilience And Committed Reforms

Verme, Paolo; Gigliarano, Chiara; Wieser, Christina; Hedlund, Kerren; Petzoldt, Marc; Santacroce, Marco. 2015. The welfare of Syrian refugees: evidence from Jordan and Lebanon. Washington, D.C. : World Bank Group. <http://documents.worldbank.org/curated/en/2015/12/25737494/welfare-syrian-refugees-evidence-jordan-lebanon>

External

A comprehensive library of external reports was assembled by MOPIC as part of the preparation of Vision 2025 Blueprint; see <http://inform.gov.jo/en-us/>.

Jordan 2025: A Blueprint for Sustainable Growth and the Prosperity of all Jordanians (2015), Government of Jordan

Jordan National Agenda 2006-2015 (2005), GoJ

Job Creation Survey Annual Report (2012), Department of Statistics

Evaluating Tax Expenditures in Jordan (2013), USAID

Other References

World Development Report 2014. *Risk and Opportunity: Managing Risk for Development*.

Pritchett, L and L H Summers (2014), “Asiaphoria Meets Regression to the Mean”, NBER Working Paper 20573