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Report No. 35665-JO

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**AND INTERNATIONAL FINANCE CORPORATION**

**COUNTRY ASSISTANCE STRATEGY**

**FOR**

**THE HASHEMITE KINGDOM OF JORDAN**

**FOR THE PERIOD FY2006-FY2010**

April 6, 2006

Jordan Country Management Unit  
Middle East and North Africa Region

The International Finance Corporation  
Middle East and North Africa Region

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## The Date of the Last Country Assistance Strategy was January 21, 2003

### CURRENCY AND EQUIVALENTS

Currency Unit = Jordanian Dinars (JD)  
1 US\$ = 1.40940 JD (As of December 2005)

### FISCAL YEAR

January 1 – December 1

### ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	ICT	Information and Communications Technologies
AFD	Agence Française de Développement [French Development Agency]	IDB	Islamic Development Bank
BOP	Balance of Payment	IFC	International Finance Corporation
CAS	Country Assistance Strategy	IT	Information Technology
CBOs	Community-Based Organizations	JAED	Jordan Authority for Enterprise Development
CGAP	Consultative Group to Assist the Poorest	JD	Jordanian Dinars
CPI	Consumer Price Index	JOHUD	Jordanian Hashemite Fund for Human Development
CSOs	Civil Society Organizations	JRF	Jordan River Foundation
CVDB	Cities and Villages Development Bank	KfW	Kreditanstalt für Wiederaufbau [German Development Credit Agency]
DFID	Department for International Development (United Kingdom)	MENA	Middle East and North Africa
DPL	Development Policy Lending	MFA	Multi Fiber Agreement
EIA	Environment Impact Assessment	MFI	Micro-Finance Institutions
EIB	European Investment Bank	NAF	National Aid Fund
EJADA	Euro-Jordanian Action for the Development of Enterprise	NGO	Non-Government Organization
EPP	Enhanced Productivity Program	NHF	Nour El Hussein Foundation
ERFKE	Education Reform for Knowledge Economy	OECD	Organization for Economic Cooperation and Development
ESW	Economic Sector Work	OED	Operations and Evaluations Department
EU	European Union	PEP-MENA	Private Enterprise Partnership for the Middle East and North Africa
EU-AA	European Union Association Agreement	PER	Public Expenditure Review
FDI	Foreign Direct Investments	PPI	Public Private Investment
FTA	Free Trade Agreement	PPP	Public Private Partnership
FY	Fiscal Year	PSD	Private Sector Development
GAFTA	Greater Arab Free Trade Area	QIZs	Qualified Industrial Zones
GDP	Gross Domestic Product	SETP	Social and Economic Transformation Program
GEF	Global Environment Facility	SMEs	Small and Medium Enterprises
GNFS	Goods and Non Factor Services	TA	Technical Assistance
GNI	Gross National Income	TIMSS	Trends in International Mathematics and Science Study
GOJ	Government of Jordan	UNDP	United Nations Development Programme
GTFP	Global Trade Finance Program	US	United States
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development

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## EXECUTIVE SUMMARY

- i. This Country Assistance Strategy (CAS) sets out a four year program to help Jordan meet its key development challenges of reducing poverty and creating jobs while maintaining fiscal stability and development sustainability.
- ii. This CAS differs from the previous in that the Jordan context for reform has matured, a greater sense of urgency prevails given the regional volatility, and recent analytical (largely in poverty, expenditure management and the investment climate) and project work (largely education) have enabled the World Bank Group to better focus for results and organize for the agility needed to be responsive.
- iii. Jordan's economy performed well over the past five years with a growth rate of 5-7 percent, despite regional uncertainties and a poor resource base. This growth has been broad-based, supported by exports and manufacturing expansion. Jordan has also performed well in terms of human development—education, health and closing the gender gap in access to basic services. In governance, Jordan has outpaced most countries in the region, though further improvements are needed.
- iv. Comprehensive structural reforms over the last decade have underpinned the good economic performance. These reforms have helped improve the environment for private investment, liberalized the trade regime, supported a robust privatization program, and initiated establishment of modern regulatory and institutional framework in some key areas, such as energy and water. In the 1990s, Jordan ranked as one of the best reformers, not only in the region but also compared to other middle income-countries. This process of structural reforms has been accompanied by a painful, but effective, fiscal consolidation that has steadily reduced government debt from above 200 percent of GDP in the early 1990s, to around 82.2 percent at year-end 2005. The past three CASs have focused on these reforms.
- v. In juxtaposition to the gains, over the past two years, Jordan has experienced a double external shock: (i) diminishing external grants; and (ii) doubling of the price of oil. These shocks are experienced by the population through increasing energy prices and austerity measures dictated by sharp fiscal constraints which threaten public services and the robust economic growth rate needed to maintain and improve public welfare.
- vi. Despite the improved economic performance, high unemployment, particularly among the young, and deep pockets of poverty persist. Jordan's population growth is among the highest in the region and nearly seventy percent of the population is under the age of 30. Looking forward, about 60,000 new jobs and continued strong growth of seven percent plus would be needed each year to avoid higher levels of unemployment and poverty. Distribution of the gains is geographically uneven. Poverty reduction and job creation remain Jordan's most important challenges.
- vii. Sustaining gains, advancing reforms, and cushioning hardships for the vulnerable while managing external shocks, are the developmental challenges confronting Jordanian economy in the coming years. This requires carefully calibrated adjustments to the fiscal situation and maintenance of the pace of structural reform for growth, including a radical upgrading of the quality of education, modernizing the public sector and modernizing institutions to support private sector development. These efforts need to be particularly focused on expanding the opportunities and access of the poor and unemployed to share more fully in Jordan's growth, while strengthening safety nets and social protection measures.
- viii. To meet these challenges, Jordan has recently developed a National Agenda—a strategic plan that covers the main development areas, and establishes objectives and broad strategies in an integrated way. Its main objective is to increase the welfare for Jordanians and to reduce poverty and create jobs through sustained and broadly-shared growth, while achieving fiscal sustainability and external balance.

ix. This Country Assistance Strategy, in support of the National Agenda objectives, aims at tangible progress in poverty reduction and job creation, while assisting the country in its transition through the medium-term economic shocks.

x. The Bank program's under the CAS is organized in 4 cross-sectoral clusters:

- Strengthening the investment environment for a skill-intensive and knowledge-based economy;
- Supporting local development through increased access to services and economic opportunities;
- Reforming social protection and expanding inclusion; and
- Restructuring public expenditures and supporting public sector reform.

xi. The first two clusters tackle issues related to private investment and job creation, respectively at the macro level and at the local level. The third cluster deals with programs to support those who cannot by themselves achieve sufficient welfare through market mechanisms. The last cluster is focused on the supporting improvements in the government budget and the administration, as the main tools of public policy. Important cross-cutting issues, such as gender and the environment, will be mainstreamed into the clusters. Various sectoral concerns, such as water and energy, will be integrated in these programmatic clusters through thematic approach.

xii. The CAS is designed to provide flexibility for interventions. It is not expected that all activities contemplated in the program will be undertaken. Rather the Bank will respond to Jordan's main challenges flexibly through the strategic thrust of the clusters. Thus, the CAS mix among policy lending, investment lending, and analytical services reflects the emerging needs with respect to short-term financial challenges and longer-term institutional developments, with a lending ceiling of up to US\$540 million over four years. The total CAS envelope for IBRD lending is US\$440 million in the base case, US\$175 million in the low case and reaching US\$540 million in the high case.

xiii. Development Policy Lending (DPL) will be considered flexibly in any of the 4 clusters, or could be designed across the 4 clusters, and be strongly linked to the implementation of the National Agenda to underscore the ownership of the policy program supported by the Bank policy lending. Investment lending will focus on implementing institutional reforms, leveraging other donors' resources, and linkages to analytical and technical assistance activities. Partial risk guarantees will be considered on request, provided the overall framework for Public Private Partnership is satisfactorily enhanced.

xiv. IFC's strategy will seek new investment opportunities in the private sector to increase its portfolio, provide strategic and Technical Assistance for private sector development, and carry on advisory services for private participation in infrastructure and privatization.

xv. The collaboration between IFC and IBRD has significantly improved, working closely on privatization, Public-Private partnerships, and enhancing the enabling environment for the private sector. Going forward, the collaboration will include (i) the design of IBRD's private sector development (PSD) diagnostic assessments in order to identify and implement IFC's technical assistance activities, (ii) joint identification of Private Participation in Infrastructure opportunities, and (iii) identification of opportunities for providing sub-national financing through the Municipal Fund. The IFC new field office in Amman has advanced collaborative efforts. The PSD consultations for this CAS were jointly prepared and led by the two institutions.

xvi. While many large donors are present in Jordan, the World Bank Group's comparative advantage is in providing integrated support for complex institutional reforms, coupled with its ability to provide critical financial support if needed. As in many middle-income countries, the Bank's advantages can only

be realized through matching our counterpart's sophistication and challenges with a more focused program, higher quality services, more flexibility and a better understanding of its mission in the country.

xvii. The following issues are suggested for Board discussion:

- Does the CAS provide for sufficient flexibility and responsiveness?
- Is the lending scenario appropriate?
- Is the Analytical and Advisory Activities (AAA) program responsive to both deepening knowledge as well as addressing progress in institutional development and resource management?

# I. COUNTRY CONTEXT: A TOP DEVELOPMENT PERFORMER IN A DIFFICULT ENVIRONMENT

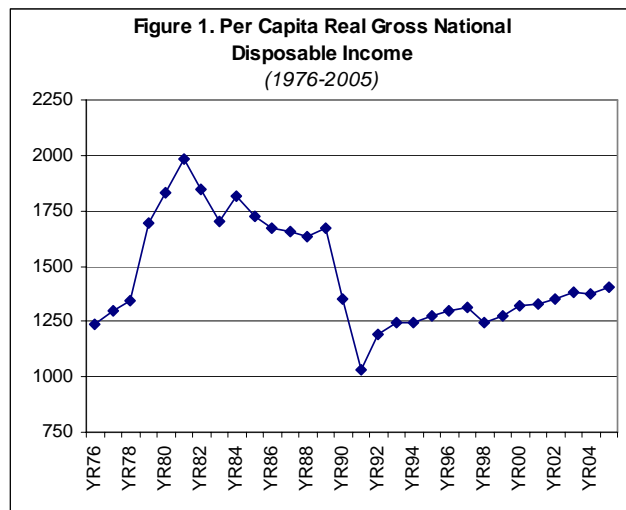
## A. COUNTRY BACKGROUND

1. The Hashemite Kingdom of Jordan, with 5.5 million inhabitants, is notably resource-poor, with limited agricultural land, no oil resources, and considerably scarce water. Its only natural resources are potash and phosphate. The population is urbanized at around 80 percent, and is one of the youngest among lower-middle income countries, with 38 percent under the age of 14. Although demographic growth, currently at around 2.6 percent per year, is slowing, total population is expected to reach almost 7 million by 2015.

2. Notwithstanding the difficult regional political environment and the lack of resources, **Jordan has achieved above-average development outcomes compared to other lower middle-income countries.** This favorable situation can be credited to sound development policies, recent capital inflows and to one of the world's highest levels of unilateral transfers, in the form of workers' remittances and public grants, together amounting to between 20 and 25 percent of GDP.

3. **However, Jordan has not caught up with the levels of per-capita income it had attained in the 1980s boom, punctured by the financial crisis of 1989.** The subsequent

structural adjustment period of the 1990s, while restoring some positive economic growth, saw per capita incomes eroded by strong population growth. **Poverty and joblessness are the most important problems to be solved.**



## B. RECENT ECONOMIC DEVELOPMENTS

4. **In 2004, Jordan experienced a “permanent” double external economic shock: (i) the price of oil more than doubled and free oil delivery from Iraq stopped; and (ii) external grants were sharply reduced.** These shocks caused major fiscal stress through the rising cost of oil subsidies, to which the Government responded by adopting a strict plan to remove the oil subsidy gradually by 2007 and fully liberalize the domestic oil market in the beginning of 2008. The external shocks came at a time of strong economic growth spurred by structural reforms, fiscal consolidation and capital inflows. Average growth moved from below 3.5 percent on average over 1996-2000 up to 5 percent per year in the 2000-2004 period, despite the Iraq war-induced recession of 2003. Notwithstanding the shocks, real GDP growth reached 7.7 percent in 2004, and 7.2 percent in 2005. Thus, the economic situation has become much more complex. Jordan is now entering a period of transition. Following the 1989 recession, more than a decade of structural and fiscal reform began to show results and so far has helped Jordan to absorb harsh external shocks. Looking forward, managing the countervailing and increasingly complex demands of fiscal discipline, debt management, service delivery, and poverty alleviation will require increased capacity, agility and self reliance.

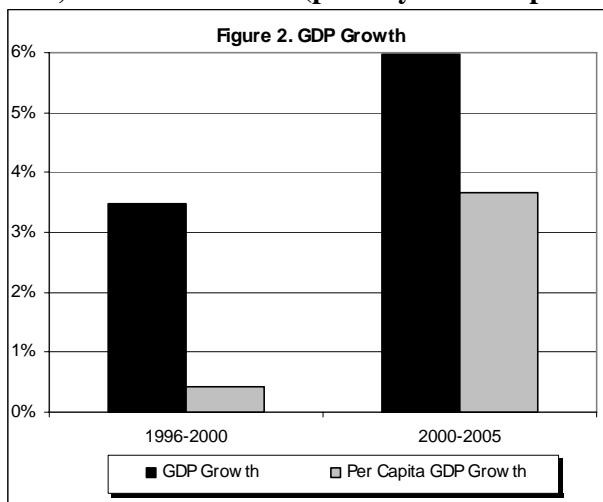
5. **The recent robust growth of the Jordanian economy, overall, is a symptom of the economy’s ability to take advantage of evolving positive external circumstances, which allows it to absorb negative shocks (such as those affecting the energy or tourism sectors).** The surge in economic



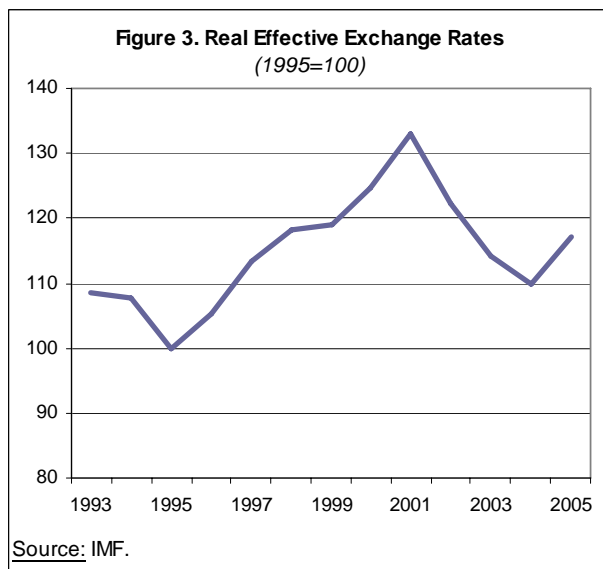
activity has been broad based, and not limited to the robust exports of textiles from Qualified Industrial Zones (QIZs) and exports to Iraq. (Estimates that take properly into account the low domestic value added of QIZ exports show that QIZ exports have added on average around 0.7 percentage point of GDP per year.) Manufacturing value added over 2001-2004 (excluding the slump year 2003) has contributed more than 35 percent of GDP growth, while the transport and communications sector has contributed another 20 percent, and the financial service, retail and construction sector around 10 percent each. This predominance of the manufacturing, transport and communication sectors in driving economic growth from the supply side was even more pronounced in 2004, and continued in 2005.

**6. In 2004 and 2005, the influx of Iraqi immigrants and money, as well as the higher Foreign Direct Investments (FDI) from oil-rich Gulf countries, has been massive (possibly above 5 percent and 10 percent of GDP, respectively), and has also helped fuel economic growth.**

However, the macroeconomic impact of these capital inflows has been offset to a large extent by increased foreign asset holding of the banking sector, lower external grants, and by the terms of trade shock represented by the higher oil prices. The most visible domestic impact of the short-term inflows has been a real estate price boom, and an almost 20 percent increase in private real consumption, which has led to a 40 percent increase in non-energy imports. On balance, although the capital inflows create some potentially detrimental inflationary domestic pressures and vulnerabilities, they have also leaked outside through imports and banking assets.



**7. The external shock led to a sharp increase in the current account deficit in 2005 to around 17.7 percent of GDP, and, in the years to come, Jordan will require continued high capital inflows to sustain a stable external position.** The current account surplus melted away due to a larger oil bill and booming non-fuel imports, although larger net capital inflows allowed the Central Bank to hold on to a high level of foreign reserves, which stood at around 5 months of goods and services imports at the end of 2005.



**8. Painful but effective fiscal consolidation has steadily reduced government debt from above 200 percent of GDP in the early 1990s, to around 83 percent at year-end 2005. The budget deficit (before grant), however, remained high—at around 10 percent of GDP in 2005 despite significant fiscal consolidation effort in response to sharp increase in the cost of oil subsidies and diminishing external grants.** Over the next four years, a number of factors will make fiscal adjustment particularly pressing: the anticipated continued reduction in foreign grants, the need to continue reducing the cost of fuel subsidies, and the end of the Paris Club debt rescheduling period after 2007.

9. **Exchange rate policy has been stable. Since 1995, the Jordanian Dinar is fixed to the dollar at a constant rate. The nominal anchor has helped reduce inflation and stabilize the economy.** A share of Jordan's trade and external debt is however denominated in other currencies, especially the Euro, so that the large Dollar/Euro fluctuations of the last five-six years entailed large fluctuations in the Dinar real effective exchange rate with contrasting effects on external debt, and on Jordan's price competitiveness. Since 2005, Jordan real effective exchange rate has depreciated by more than 15 percent, and is now back to its 1994 level. Inflation was tamed thanks also to the fixed currency peg to the dollar. The recent surge in economic activity has, however, led to some overheating, with the GDP deflator growth rate above 4.2 percent in 2004 and 2005 (Consumer Price Index (CPI) increased by 3.4 percent in 2005).

### C. POVERTY AND UNEMPLOYMENT – THE TWIN CHALLENGES

10. **The recent Poverty Assessment jointly prepared by the Government and the World Bank shows that income poverty has been retreating by around a third from 1997 to 2002, with the national poverty line dropping from 21.3 percent to 14.2 percent of the population.** Low per-capita income growth during the period considered, at 0.8 percent per year, coupled with a slight worsening of inequality, could not explain such a stark reduction in poverty. Both the survey data and the national account show, however, that per capita private consumption, increased by a significantly fast 3.5 percent during the same period. The divergence between income and consumption dynamics seems to be explained by the changing pattern of growth, which has seen a reduction in public consumption and real estate investment in favor of private consumption and business investment. The positive trend should not hide the existence of numerous pockets of deep poverty, as 11 out of 73 sub-districts witness a poverty incidence above 35 percent. There is no significant difference in aggregate poverty levels between female and male headed households. Also, the data show that, although unemployment incidence is higher among the poor, around three-fourths of the working-age poor were actually in active employment.

11. **Unemployment has been hovering between 13 and 15 percent of the labor force in the last four years, around 12-13 percent for males and 20 percent for females.** Jordan has a small labor force relative to its population, a combination of a high dependency ratio and a low female labor participation rate. The peculiarity of the labor market is the high number of Jordanians working abroad (estimated at around 25 percent of the total labor force), mainly in the Gulf countries. At the same time, Jordan employs numerous low-skilled immigrant workers, especially in the agriculture, construction and domestic services.

12. **The higher economic growth and the lower poverty rate have not translated yet into a widespread perception of enhanced welfare by the population.** Perceptions of inequality and favoritism are a rising concern in the country. The Government is aware of this sentiment and has tried over the last four years to tackle the situation with both short-term and long-term measures. In particular, it launched in 2002, the Social and Economic Transformation Plan (SETP), a mainly off budget, donor-funded investment program whose objective was to implement poverty-related projects and reforms that could show a quick tangible impact on the ground. This initiative has been integrated into the 2004 budget. The recent evaluation of the SETP, however, indicated relatively positive results.

### D. GOVERNANCE AND PUBLIC ADMINISTRATION

13. **International assessments of Jordan's systems for governance generally give the country good marks in comparison with most other Arab states, though some problem areas persist.** The Constitution specifically guarantees the rights of Jordanian citizens, including the freedoms of speech and press, association, academic freedom, political parties, freedom of religion, subject to "the provisions" or "limits" of the law, which has meant in practice that freedoms guaranteed in the Constitution are implemented in a more relative manner. A national dialogue has opened on key political reforms and anti-

corruption measures, including new laws to enable diversity of political parties, elections and greater local participation and voice in matters of resource allocation. Issues receiving attention include oversight or accountability, the judicial process, guarantees of free speech, press, and association, and instances of discrimination based on gender and origin.

14. **Comparative international indicators, as well as casual observations, support the view that corruption in Jordan is relatively low.** Jordan ranks 37 out of 145 countries in the 2004 Transparency International Corruption Perception Index, and is the country with less perception of corruption among all lower middle-income and low-income countries, and fares better than some Organization for Economic Cooperation and Development (OECD) countries, such as Italy, Greece, and South Korea. However, there is a perception among Jordanians that nepotism and connections or “wasta” can influence social and economic opportunities in Jordan, and affect critical personnel decisions in the Civil Service. The Government has adopted transparent hiring procedures, particularly for senior officials.

15. **Research carried out for the Middle East and North Africa (MENA) Governance Report<sup>1</sup>, and the recent Jordan Public Expenditure Review showed that Jordan’s public administration quality ranks well in relation to other countries in MENA and also compared to countries with similar income in other parts of the world. The comparative results also indicate, though, that the quality of Jordan’s administration has significant room for improvement to achieve a successful transition to the more prosperous society envisaged by the leadership and expressed in such documents as the recent National Agenda document.** In the last three years, public sector reforms have overall progressed slowly, with limited progress in punctual areas, such as e-Government, single-treasury account, or customs, but only with marginal improvement in public expenditure management and civil service management, where reform leadership and coordination by the key central ministries requires more effort. The Government has, however, embarked on a very ambitious plan to re-launch its public sector reform program. **The Authorities have sought to address some of the key problems in the sub-national government system, such as how to restructure the transfer system, standardize budget formats, and train council members and staff on strategic planning. While these efforts have helped to address some system weaknesses, fundamental structural problems persist in the sector.** From a governance perspective, power-sharing relationships between the center and local governments have not been clearly established and, therefore, mandates and authorities overlap and responsibilities are often confused. The decision in 2004 to introduce a regional level of local government has the potential to strengthen local development, but will also need substantial institutional building.

## **II. RECENT STRUCTURAL REFORMS: PROGRESS AMID SETBACKS AND GOVERNMENT VOLATILITY**

16. In the last three years, reflecting a transition from the reforms of the 1990s, the country has shifted towards more complex institutional reforms, often leading the way in the MENA region with respect to second generation reforms. While progress overall has been good, the short life span of the Government has slowed down progress on some of the more complex or ambitious reforms. Below is a summary of structural reforms, key issues and the remaining agenda.

### **A. HUMAN DEVELOPMENT AND EDUCATION**

17. **In terms of human development, Jordan is above average globally with respect to lower middle-income countries.** These positive results are based on consistent levels of spending—more than 25 percent of GDP—on human development (education, health, pensions, social safety nets). Public

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<sup>1</sup> Better Governance for Development in the Middle East and North Africa, 2003, The World Bank, Washington, D.C.

provision dominates at 17 percent of GDP. In Addition, Jordan ensures a high level of gender parity in access to basic public services. In Education, the Government launched in 2003 a comprehensive cutting-edge modernization program, aimed at radically overhauling the basic education system to align with the needs of a knowledge-based economy. School enrollment rates at each level of education are close to other countries at Jordan's income level. In terms of quality, Jordan ranks above international averages in science, but still below average in math. Population pressures and increasing income levels are placing demands for further expansion of education and health services. The key issues and remaining agenda concern continuing and expanding reforms for better access to higher quality education to match skills for productive jobs created for a competitive economy.

## **B. ENERGY**

18. **On the whole, the energy sector of Jordan has performed relatively well, following the implementation of the Government's energy sector reform agenda started in 1995.** Significant institutional modernization has been achieved, especially in the electric power sub-sector, because of the strong commitment of the Government, making Jordan a leader in energy sector reform in the region. The power sector has started a major shift toward natural gas use, following the thirty-year Gas Purchase Agreement with Egypt of 2001. Conversion of the Aqaba power plant to natural gas in 2003, Rehab and Samra power plants in early 2006, means that today, around 70 percent of Jordan's net installed capacity is relying on natural gas, and this trend is projected to increase in the future.

19. **The Government is addressing the main weakness of the energy system, namely the highly subsidized pricing of energy products, which is shielding consumers (including the electricity sector) from the volatility of international oil prices, and proving totally unsustainable for the budget given the current international prices.** The end of the Iraqi oil grant and the recent sharp rise in oil prices has increased the value of fuel imports: crude oil (64 percent) and crude oil and oil products (57 percent) in 2004, and crude oil (58 percent) and crude oil and oil products and gas (54 percent) in 2005. For these reasons, the management of the energy sector in the years to come will be critical to Jordan's overall economic prospects. **The Government has decided to remove all fuel subsidies by 2007. Challenges are to design and take efficient** compensatory measures for those most affected by the subsidy removal. The policy has started to be implemented with increases of petroleum product prices once in 2003 and twice in 2005 (an additional increase is scheduled for April 2006).

## **C. GENDER**

20. **Jordanian women benefited extensively from the Government's equitable gender policies in education and health but setbacks have also occurred.** Jordan has achieved 90 percent parity in literacy, full parity in primary and secondary enrollment, and increased life expectancy for both sexes. Gender mainstreaming is proceeding in the National Agenda action plans. Women have also benefited from the strong development of microfinance in Jordan over the last few years, whereby, women borrowers amounted to 57.4 percent of clients served by the 4 major local microfinance institutions in 2004. Still, female labor force participation is low and women's unemployment rates are significantly higher than men's. In addition, there is little information about access of poor and vulnerable women to public services especially in remote and rural areas. Setbacks have also occurred. In 2001, women activists, NGOs, and civil society joined together and drafted amendments to laws that were regarded as compromising to women's rights. Despite gaining government approval, the proposed temporary laws enhancing women's rights and protection were turned down in 2003 when the Lower House of Parliament voted against three of the amendments.

## **D. WATER**

21. **The performance of Jordan's water sector has seen significant progress through efforts to improve the operational efficiency of both water supply and irrigation sub-sectors. However, the**

severe scarcity of water in the country dictates a more comprehensive and pro-active approach for sector reform, taking into account not only conservation, but also socio-economic factors. The Ministry of Water and Irrigation has been trying to address the country water issues, and the reform performance of Jordan is comparatively good. Jordan is one of the ten most water-poor countries in the world, already running at a water deficit of 500 million cubic meters per year, with a disproportionate share of available water (62.5 percent) going to agriculture which accounts for only 2.1 percent of GDP. Thus, the challenges are daunting. In order to augment the country's water resources, recent major investments in capital improvements have both increased the supply of bulk water and enhanced the wastewater treatment capacity. The Government is also working to invest in expensive non-renewable sources (e.g. Disi-Amman transfer). The capital expenditure and financing cost of the project will cause significant financial strain.

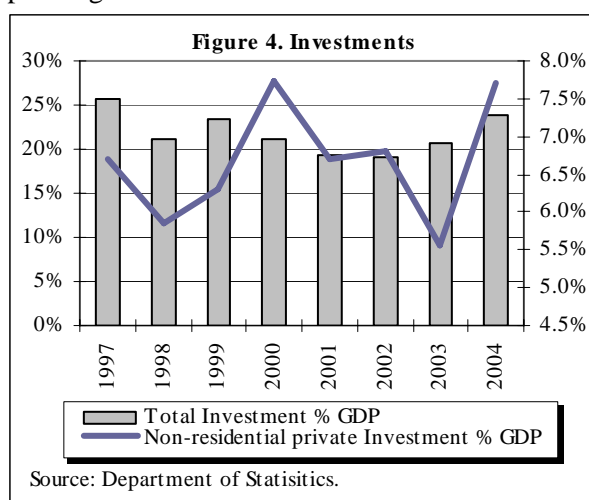
22. **As large and costly investments are made to increase supply, a holistic strategy and action agenda is required, including demand management of the existing resources.** Low water prices have not encouraged efficient irrigation methods and agriculture still absorbs the largest share of available water. Investment in water-use-efficient irrigation technology requires a broad transition towards high-value-added agriculture, targeting high-price export and domestic markets.

#### E. ENVIRONMENT

23. **During the last three years, Jordan made substantial efforts in strengthening its environmental institutions by establishing a Ministry of Environment, and in enacting an environmental protection law and environment impact assessment (EIA) regulations.** However, more progress is needed to consolidate the institutional setup for environmental management, particularly on EIA and pollution management (monitoring, enforcement). In addition, management of solid waste consumes increasing public resources and requires both a comprehensive strategy and innovative approaches.

#### F. FINANCIAL SECTOR DEVELOPMENT

24. The financial sector is dominated by the banking system, which is nearly entirely privately owned. Credit to the private sector is approximately 77 percent of total credit, among the highest in the region. Interest rate spreads remain relatively high, however, and most commercial loans are short-term or trade-based. Although the number of private banks operating in the Jordanian market would indicate relative competition in the banking sector, market share is concentrated among a very small number of large banks. Only recently has fairly assertive price and product competition started to emerge in some business lines. SME access to finance however still depends largely on whether the borrower has adequate collateral. In a positive trend, banks have begun to turn toward retail and household lending as a source of earnings, reducing their dependence on corporate business. Jordan is particularly renowned for having spearheaded the development of a market-based residential mortgage finance system in the region. Today Jordan's residential mortgage market is expanding at a fast pace, with competition among retail lenders acting steadily to improve pricing and term structures that make housing finance and thus housing more affordable to Jordanian households.



25. **In recent years, the Central Bank has strengthened banking supervision, now considered to be of a relatively high standard.** It has been active in addressing issues related to non-performing loans and selected banking cases of undercapitalization. Overall, the capital market including new financial instruments needs to be much further developed to keep pace with the increasing sophistication of private sector needs. Efforts are needed to intermediate available liquidity to productive investments. In particular, more sophisticated instruments are needed: better leasing mechanisms, better credit standards and a legal and institutional basis for modern securitization. The domestic bond market in particular is not yet well developed, constraining the volume of funds that can be mobilized internally, and making government borrowing more expensive. Early emphasis also needs to be focused on preparing for securitization and on the deepening and expansion of the mortgage market. Further attention also needs to be given to microfinance, as identified by the Government's National Strategy for Microfinance Development, as a priority to be aimed at poverty reduction. Well structured microfinance programs are currently active in urban areas, though not in rural areas, where experience in the past has been more problematic.

## **G. PRIVATE SECTOR DEVELOPMENT**

26. **Structural reforms of the last decade have liberalized the private investment regime, opened the trade regime, and established modern regulation and institutions for the private sector development and privatization.** To complement these structural reforms, Jordan has entered free trade agreements (FTA), the EU Association Agreement (EU-AA), the Greater Arab Free Trade Area (GAFTA), and the US FTA, giving Jordan free access to a market of almost one billion people. Despite the significant structural reforms and open access to markets, the job-creating private sector response has been weak. The indicators of Doing Business of the last two-three years show that Jordan, while performing slightly above regional averages, it is far from being top of the class in MENA, and compares less favorably with some of the most dynamic emerging economies in Asia and Latin America. Progress requires three inter-linked actions: (i) a coherent overarching investment and trade policy with a correspondingly effective legal and institutional framework; (ii) an effective, unified institutional structure for private sector support in contrast to the plethora of agencies that now deal with the private sector; and (iii) reforms in some critical aspects of financial, capital and labor markets.

27. **Jordan has achieved good results in privatization, but private sector participation in infrastructure has been overall disappointing.** Cumulated privatization receipts reached above 13 percent of annual GDP, and above 10,000 new direct and indirect job opportunities were created owing to privatization and opening up the sectors to private investments, in particular in telecoms. In contrast, a recent review by the World Bank of the Public Private Investment (PPI) experience in Jordan shows inconsistent results, while suggesting that some of the reasons are a lack of an overall policy for private participation, lack of incentives in the Government's expenditure management and procurement processes, inability to address in a satisfactory way the issue of subsidies, shallow capital markets and risk mitigation instruments, and lack of transactional capacity.

## **H. TELECOMMUNICATIONS**

28. **Reform in the Telecommunications and in the Information and Communication Technology (ICT) sectors in Jordan has been dynamic in the last few years, and will continue to drive the growth of the ICT services sector.** The 2004-2007 National Strategic Plan for the ICT and postal sectors provided the basis for *inter alia* the introduction in 2005 of the full liberalization of fixed telephony, a fourth mobile operator, and the successful privatization of Jordan Telecom. The success of the telecommunications reform demonstrates that the private sector is ready to invest when the Government provides stable policies. This is expected to translate into the creation of 20,000 direct jobs by end-2006 (from 8,200 at end-2003), and positive impacts in terms of revenues and exports of ICT services, as well as in support of the Government's strategic programs in "education for the knowledge economy" and e-government. The main issues faced by the Government today in the telecommunications

sector relate to Internet access (low PC penetration, high Internet prices) which calls for further liberalization of the international leased line and gateway segment in order to reduce the cost base of broadband ISPs.

### **III. THE POVERTY AND JOBS CHALLENGE: BUILDING ON RECENT PROGRESS**

29. **The two main development challenges in Jordan are the persistent pockets of poverty and unemployment.** Achieving sustained growth with enhanced competitiveness, equitable distribution of the gains, and better targeting of public expenditures directed at poverty reduction in the context of a tight budget and external volatility are the challenges which will define this CAS period.

#### **A. POVERTY REDUCTION AND OUTLOOK**

30. **Reducing poverty and improving the living standards of the population at large are key priorities of the King and the Government.** The prospects of poverty reduction up to 2010 range from almost halving the poverty headcount from 14 to 7-8 percent of the population to a more mitigated reduction to 11-12 percent.

31. **It is unlikely that the excess of private consumption growth over GDP growth, which was responsible for the recent fast poverty decline, will prevail again in the next few years.** Consequently, the rate of GDP growth will be key, and Jordan's ability to sustain 6 or 7 percent growth will be one factor for achieving strong poverty reduction targets. As poverty is reduced further, it might be more difficult for economic growth to benefit the remaining poor, so that it might be unlikely that a given amount of economic growth will have the same impact on poverty reduction. This implies that the calculated elasticity of 1.9 of the poverty headcount to economic growth for 1997-2002 might be lower in the year to come. Fostering growth in poor areas and providing opportunities for the poor through broad-based growth will thus be important in attaining strong poverty reduction.

32. The increase in energy prices resulting from the phasing out of government fuel subsidies, and the second round effect thereof, will also have a significant impact on incomes and poverty, which will offset part of the effect of GDP growth. A technical IMF report on the impact of subsidy removal estimated the direct and indirect impact of fuel subsidies removal for the 20 percent poorest of the population at around 5 percent of total per-capita expenditure, which is almost equivalent to two years of per capita income growth. Compensatory measures for the poorest will therefore be critical to shield the poor from this price effects.

33. The National Aid Fund (NAF) is the Government's main poverty alleviation cash transfer program. The Poverty Assessment showed that the NAF did reduce poverty by 0.8 percentage points, but inadequate targeting means that about two-thirds of its hand-outs went to people above the national poverty line. Also, the way the NAF handouts are currently designed create a disincentive towards accepting low-paid jobs. The relevance of these issues was confirmed by grassroots Non-Government Organizations (NGOs) representatives during the CAS consultations. Increasing the efficiency of the NAF through better targeting could potentially help reduce poverty, especially among the 4 percent of chronically poor who are less able to participate in the market economy.

34. The Bank's Poverty Assessment indicates that the third and fourth deciles of the population above the lower poverty line have an average per capita consumption which is 20 and 44 percent higher than the poverty line, respectively. Poverty reduction in Jordan, therefore, also means creating durable projects of economic and social improvement for the large vulnerable share of the population, and making the

country resilient to the kind of economic shocks that could bring back a large group of the population under extreme poverty.

## **B. UNEMPLOYMENT OUTLOOK**

35. **Labor force growth in Jordan is still at around 4 percent per year, which implies, with the current labor demand elasticity, a growth rate of at least 6 percent to absorb new entrants to the labor market.** The projections are complicated by two additional factors: (i) the participation rate of women is fairly low, and is subject to sharp variations; and (ii) the impact of large labor migration flows inwards and outwards. On the former factor, there is evidence from the QIZs that women move directly from being inactive to direct employment, so that the unemployment rate is not affected. On the later factor, large immigration of unskilled workers also means that GDP growth rates might not result in the projected reduction in unemployment. Overall, given the projected GDP growth rates, the unemployment rate is likely to stay stable or to slightly increase over this CAS period. However, employment creation should be strong and cover most of the new entrants in the labor force.

36. **The Poverty Assessment estimates that, although poverty incidence is significantly higher among unemployed, around 75 percent of the working age poor are employed. This implies that job creation is not by itself the ultimate solution to reducing poverty.** There is a need to equip the working poor for higher productivity jobs, and to design job-friendly income supplement for them.

## **C. SPURRING ECONOMIC GROWTH THROUGH ENHANCED COMPETITIVENESS**

37. **Maintaining economic growth at around 5-7 percent over the next four years could bring down, other things being equal, the poverty headcount by an additional 2-3 percentage points.** Economic growth above 6 percent per year is also necessary to reduce unemployment.

38. **The sources of growth of the Jordanian economy are likely to come from manufacturing exports to world markets and from service exports to regional markets.** The EU-AA and the FTA with the US will open large and deep markets to Jordanian exporters. Jordan has the opportunity to penetrate a large number of small niches, which, given the size of those economies, will provide large export markets. However, given the unpredictable nature of future lucrative industrial niches, it might not be productive to rigidly target incentives to specific sectors. In the service sectors, Jordan has clear assets in tourism and has an edge in medical services and private provision of higher education. In tourism, the variety of attractions would enable the marketing of Jordan as a self-standing package destination. In the ICT sector, in addition to activities aiming at increasing Internet penetration, the National Strategic Plan emphasizes the importance of Information Technologies and Business Process Outsourcing (respectively ITO and BPO), and the international call center industry as means to increase exports and foreign direct investments. These new axes together with a liberalized market have the potential to accelerate sector growth, but substantial investments made possible by an improved investment climate and an enabling legal and regulatory framework, are needed to consolidate those trends.

39. **While pursuing policies to expand its skill base and improve its investment environment, Jordan will also have to continue to deepen policy reforms in a number of areas where it has already achieved significant progress.** Strengthening the skill base in a way that is flexible and responsive to unknown market demands will be key for Jordan's manufacturing sector. Also key will be to improve the business climate in Jordan both for local and international investors. In addition, the country needs to continue strengthening macro stability through lower public debt and more flexible expenditure patterns. In particular, the fiscal situation will require further action both on the revenue and expenditure sides. It is important that expenditure reduction be made within a clear strategic framework that preserves social and investment expenditures.



40. **The considerably serious water scarcity of Jordan poses a significant threat to the country's long-term economic growth prospects.** A buoyant economic growth across all sectors would create even greater stress on limited resources. Ensuring water sustainability, consistently with the country's economic development patterns, will be an important signal to investors.

#### **D. TARGETING PUBLIC EXPENDITURES FOR POVERTY REDUCTION**

41. **The apparent inability to improve the social conditions of some segments of the population, in the face of otherwise widespread access to basic services, seems to indicate that the current service delivery mechanisms, while working well for the majority of Jordanians, are unable to reach the remaining poor and excluded people.** Social policy should consider some of the following options: (i) introduce more innovative targeting mechanisms in the key programs focusing on the poor and on special needs categories, such as the disabled, the uninsured, etc.; (ii) strengthen decentralization and deconcentration in the delivery of certain public services; and (iii) introduce more flexible and locally adapted public delivery systems, such as those founded on community-based development.

### **IV. THE GOVERNMENT'S DEVELOPMENT PROGRAM: AN AMBITIOUS VISION TO ACHIEVE A QUANTUM LEAP IN DEVELOPMENT**

#### **A. LONG-TERM VISION**

42. Transforming Jordan from a lower-middle income country into a modern knowledge-based economy with higher value, increased productivity and employment is at the core of King Adballah II's long-term development vision. This vision implies a bold modernization of the country's economic, institutional and political infrastructure, based on the enhancement of its human capital, and the amelioration of poverty. Education, improving the business environment, and attacking deep poverty are at the center of this vision, and the Government is well aware that this requires a modern and efficient administration, and a more open and participative polity.

#### **B. NATIONAL AGENDA AND GOVERNMENT POLICIES**

43. The King has asked a broad-based Commission to put forth an integrated ten-year development platform, called the National Agenda. The National Agenda was completed and presented to the King in late 2005, and covers all the main development areas under eight themes. It contains broad strategies, policies and quantifiable objectives in an integrated way, which will provide general guideline actions for the Government in the years to come. Its main objective is to increase the welfare for all Jordanians. It targets a doubling of income per-capita over the next ten years. The National Agenda also include a number of Key Performance indicators to measure its implementation, which should be used for monitoring and evaluating the Government's action, through the Government Performance unit set up in the Prime Minister's Office. The National Agenda has been a main the guiding framework for this CAS, in particular its results framework.

44. The new Government that was formed in November 2005 has indicated its intention to start implementing the National Agenda, and has set up the necessary administrative mechanisms in this regards. The new Government's program presented to Parliament runs along many of the same lines of the National Agenda, in particular expanding freedoms and participation in society by pushing through political reforms at the national and local level, removing remaining gender discrimination, and enhancing the independence and fairness of the judiciary (new anti-corruption, financial disclosure and Ombudsman's Bureau laws). Continuing education reform, and fighting poverty and unemployment are the top development priorities of the Government.

## **C. MACROECONOMIC FRAMEWORK**

### **(i) Macroeconomic Policy**

45. The external economic shocks that hit Jordan after 2003—the drop in external grants and the rise in oil prices generated large twin deficits in fiscal and current account. The increase of oil prices by the Government in July and September 2005 (an additional increase is scheduled for April 2006) and further planned increases are necessary. The budget deficit before grants still remained high at 10 percent of GDP (5.5 percent after grants) in 2005. Large privatization proceeds are expected in 2006, but their use is restricted by law to prevent financing of the deficit. On the external front, considerable tensions on the balance of payments are expected. The current account deficit climbed to 17.7 percent of GDP in 2005 from a small deficit in 2004; and it is expected to remain high in the next two years.

46. The Government considers that medium-term adjustment is critical, both on the fiscal side to ensure reduction of the government deficit, and on the structural side to support strong exports and FDI revenues to finance the balance of payments. At the same time, the Authorities plan to maintain a sustainable annual real growth rate of at least 5 percent with the objective of 6 percent or more to sustain job creation and poverty reduction. To this effect, the Authorities intend economic policy to smooth the short-term transition through flexible and consistent financing strategies on domestic and external debt.

47. The fiscal stance of the Government entails a continued gradual reduction in the share of public debt in GDP, on the assumption that real GDP growth will stay on average at 5-5.5 percent per year. The Government is keenly aware of the importance of keeping a credible debt-reduction strategy, as a key element of improving the attractiveness of Jordan as a stable investment destination. This requires a reduction in current expenditures by more than 9 points of GDP over four years, including through abolishing fuel subsidies, putting greater emphasis on investment spending, and strengthening revenue performance. Under this fiscal stance, the budget will still require much higher financing, first due to the projected decrease in foreign grants and then due to the rollover of a larger shorter maturity domestic debt. Deepening the domestic debt market, by developing longer-maturity instruments, and securing a sufficient level of external borrowing, appear critical to achieving a macro-economically stable financing. World Bank lending (including budget support as needed) could help in this regards.

48. On the external front, the current account deficit is projected to remain high in the next two years at around 14-16 percent of GDP, before decreasing to around 6.1 percent of GDP in 2010. Critical to the medium-term external adjustment is a sustained export performance, and the ability to attract substantial amounts of Foreign Direct Investment. The privatization program is expected to generate large investment inflows in 2006, which will cushion the trade shock. Looking forward, the Authorities expect large capital inflows—particularly in the form of foreign direct investment, which increased by 50 percent in 2004 and more than doubled in 2005—to continue, providing non-debt creating financing. Jordan will likely have to step up its external borrowing if these expectations do not fully realize. Although there has been some decrease in external reserves in 2005 compared to 2004, the Authorities consider maintaining an adequate level of external reserves a key element of their macroeconomic framework. The following table presents key macro-fiscal variables under the base case scenario, incorporating the Government's medium-term fiscal adjustment plan and expected evolution of some key macroeconomic parameters over the period ahead, barring any external shocks.

**Table 1. Base Case Selected Macro Indicators**

	2004	2005	2006	2007	2008	2009	2010
Growth Rate of GDP	7.7%	7.2%	5.0%	5.0%	5.0%	5.5%	5.5%
GDP Deflator Inflation (p.a.)	4.7%	4.2%	5.5%	5.0%	4.0%	4.0%	3.0%
Total Revenues (excluding grants)/GDP	25.5%	28.1%	27.0%	26.9%	26.7%	26.2%	26.2%
Total Expenditures/GDP	37.3%	38.2%	33.6%	31.6%	30.4%	29.7%	29.2%
Budget Deficit (excluding grants) % GDP	-11.8%	-10.1%	-6.6%	-4.7%	-3.7%	-3.5%	-3.0%
Budget Financing Requirements (including grants) % GDP	-1.8%	-4.6%	-4.3%	-3.5%	-2.6%	-2.5%	-2.1%
Gov. Long Term Ext. Debt Amortization incl. IMF % GDP	4.5%	4.6%	3.7%	3.5%	3.7%	3.7%	3.4%
Disbursement of M-L Term External Debt % GDP	1.8%	0.1%	1.6%	2.6%	1.8%	1.6%	1.4%
Total Government Debt/GDP 1/	88.1%	78.3%	72.9%	67.9%	64.2%	60.4%	57.7%
Foreign Government Debt/GDP 1/	64.3%	52.9%	44.1%	37.7%	32.5%	27.6%	24.0%
Current Account Balance % GDP	-0.1%	-17.7%	-15.7%	-13.6%	-10.4%	-7.7%	-6.1%
Private Foreign Investment (net) % GDP 2/	2.5%	18.3%	15.4%	12.2%	9.9%	8.7%	8.0%
CB Gross Reserves (months imports GNFS)	6.7	5.3	5.3	5.3	5.3	5.3	5.3
Gross Reserves excluding Gold of the Mon. Auth. US\$m	5,271	5,255	5,429	5,728	6,009	6,409	6,820
M2/GDP	129.0%	135.6%	133.7%	132.1%	131.8%	131.2%	131.9%
Private Credit/Total Credit	73.3%	80%	82%	82%	86%	86%	87%
Average Nominal Interest Rate on New Domestic Government Bonds	3.3%	6.5%	7.8%	7.3%	6.3%	6.3%	5.3%

Source: Official data and staff projections

1/ Central Government gross debt stock

2/ Includes direct foreign investment and portfolio investment

Note: using World Bank definitions.

## (ii) Outlook and Risks

49. **The economic outlook of Jordan is characterized by a high level of uncertainty, related to the evolution of world oil prices, the level of foreign grants, the regional security situation, the flows of short-term external capital, and the impact of the Multi-Fiber Agreement removal on Jordanian exports. Economic policy will have to be agile to adapt to the evolving situation.**

50. **The Government's macro policy represents a narrow path between the objective of maintaining growth and of minimizing significant macroeconomic risks.** As noted in paragraphs 4-9 above, Jordan's recent growth performance has been broad based, spurred by structural reforms and fiscal consolidation efforts to date, as well as private capital inflows and optimism of private investors about the country's economic outlook, despite external shocks and complicated regional environment. Sustaining the growth momentum in the near future, in the face of tightening fiscal and monetary policy, and continued regional uncertainty will undoubtedly be a challenge, and will require a credible medium-term fiscal stance, coupled with greater efforts to preserve economic competitiveness. On the other hand, managing the financial risks, in particular the financing of the current account deficit under the fixed peg regime, will require a high level of adaptability of the government policy instruments in face of the effective evolution of private capital inflows. **This will require a much increased effort to build financial management capacity in the Government.** The IMF's advice has been that expeditious efforts to eliminate macroeconomic imbalances, including additional fiscal consolidation measures beyond 2006, as necessary, coupled with greater efforts to preserve economic competitiveness would allow for a more sustainable policy stance, which would reduce some of the risks associated with the Government's macro policies

51. **The resilience of economic growth at a level around 5 percent in 2006-08, as envisaged by the Government, will need to be monitored. In particular, the Government will have to watch carefully that the adopted fiscal stance and the financing mix do not put undue pressure on domestic interest rates and inflation.** While the base case projection incorporates expected slowdown linked to the impact of higher interest rates, higher fuel prices, it also assumes relatively gradual fiscal consolidation, continued strong exports performance, and good progress with implementation of key social and economic reforms, which, combined, will provide reasonable economic dynamism. On the downside, however, the rise in fuel price has started having an inflationary impact, which, if added to

surging government internal borrowing and raising domestic interest rates, can potentially lead to an increase in short-term capital inflows and fuel a vicious circle of low growth, exchange rate appreciation, pushing slowly the country into an unsustainable external situation. In the event of surging interest rates, the Government will have to consider whether to adjust its fiscal or monetary policies, even though this could have, in the short term, negative impact on economic growth, or review the budget financing mix to relieve pressures on the domestic financial markets.

**52. The realization of a high level of capital inflows in the medium-term is critical to the viability of the government's policy stance.** A key underlying element of this strategy is continued large capital inflows in the medium-term, including significant privatization receipts in 2006. The government expects that given the high liquidity in the region, the continued solid macroeconomic management and further efforts to improve the investment climate will help maintain the recent high level of capital inflows, particularly foreign direct investments. The regional security situation and the inherent volatility of capital flows entails a degree of uncertainty in this regard, making management of macroeconomic imbalances, especially the external current account, more challenging over the medium-term. This risk and its implications for financial stability and sustainability of the growth momentum are recognized by the Government. A greater emphasis on developing risk mitigating policies, in particular, planning more flexible financing policies, will need to complement the Government's policy of pursuing further macroeconomic adjustment and structural reforms to increase productivity and competitiveness of the economy. A greater coordination of the fiscal and monetary policies and vigilant debt management, particularly as the government plans to increasingly access the domestic capital markets, are equally important. As discussed in paragraph 47 above and paragraph 54 below, deepening the domestic debt market and securing a sufficient level of concessional external borrowing are critical in this respect while still being consistent with a reduction of Jordan's external debt both in absolute number and as a ratio to GDP.

### **(iii) Country Financing Strategy**

**53. The National Debt Law in Jordan stipulates that government debt not exceed 80 percent of GDP by the end of 2006, and that external debt drop below 60 percent of GDP by the same date.** Concomitantly, the Government rightly wants to further tap the domestic financial market to finance and re-finance their government debt, with a view to reducing the country's macro-economic vulnerability. The projected reduction in total foreign grants, however, implies that the Government's overall financing requirements are likely to increase compared to the average levels in 2003-2005.

**54. Financing will come primarily from internal borrowing, although, given the tightening of monetary policy and the need to reduce pressure on domestic interest rate and maintain foreign reserves, external financing will still have to play an important role in the years to come, though maybe not as important as during the 1999-2002 period.** The external financing will have to be obtained through borrowing from multilateral agencies and bilateral donors, but also by accessing international capital markets. The level of external borrowing will still be consistent with a reduction of Jordan's external debt both in absolute number and as a ratio to GDP.

**55. Given the large amount of domestic borrowing envisaged, proactive debt management is key.** The efficiency and depth of the domestic sovereign market can rapidly improve, if specific regulatory and technical reforms are taken, in particular: (i) introduce four-five standard maturities to establish a good yield curve, make issuance more transparent, and build liquidity; (ii) stimulate competition, expand the domestic investor base with non-bank financial institutions and foreign banks; and (iii) facilitate the shortage of repos.

## V. BANK SUPPORT AND STRATEGIC ISSUES

### A. LAST CAS PERFORMANCE AND LESSONS LEARNED

56. The CAS Completion Report assessed the implementation of the Bank's FY2003-2005 country assistance strategy as moderately satisfactory. The CAS program, essentially a follow-on of two earlier CASes, reflected a good understanding of the national challenges and was relevant to, and aligned with the Government's long-term development goals spelled out in the *Social and Economic Transformation Plan*, and much of the AAA and technical assistance was internalized. Its implementation, however, was somewhat less satisfactory. The CAS program was not sufficiently selective, and due to the availability of grant aid from donors (uncertain at the time of the CAS preparation) overestimated Jordan's financing needs, and Jordan's ability to carry out Public-Private Partnerships (PPPs).

- **Important successes were registered in areas where the Government's commitment to reforms was the strongest.** The Government sought Bank's assistance on key policy issues and requested critical lending in specific areas, where the Bank was able to assist the Government in developing a **clear, country-owned integrated policy framework financed by various partners and accompany the Government's reform efforts over a long period of time** while enhancing substantially the institutional development aspects of its activities: education (PESW and lending), pension reform (TA), poverty assessment (ESW), privatization (TA), public expenditure (ESW), and one of the major infrastructure and development project around the capital city–Amman Development Corridor (lending). Those activities will continue under the new CAS to provide continued support to the implementation of the reform programs.
- However, **on the AAA side, several activities were prepared in silos**, addressing issues that are cross-sectoral in nature, within the narrow perspective of a single sector. This limited their impact. In addition, small unplanned-for-tasks were added over the years. This demonstrated the responsiveness of the Bank to Government's requests but deprived the program of overall coherence. The results of most AAA work were not disseminated beyond the Bank's primary interlocutors in the Government and, therefore, failed to generate debate or lead to a wide stakeholder ownership.
- Three critical projects positioned at the core of the Government's reform effort were approved. However, lending came to only US\$173 million from the US\$455 million planned. Out of six operations planned, three were not delivered – the two planned guarantees and the adjustment lending did not materialize. This is due to two factors: availability of grant aid which rendered the adjustment lending unnecessary and Jordan's **inability to carry out the PPPs envisaged.**
- In the **water sector**, the Bank was unable to reach an agreement with the Government on the coverage of the PESW which was expected to provide an integrated, cross-sector, and holistic approach to water.

57. The experience offers important lessons to guide the new CAS:

- **More realistically estimate the financing needs** of the country in determining the lending envelope, including better use of partnership with the other donors in determining the levels of grants they are likely to provide. However, given the uncertain nature of future grant aid, the Bank will need to remain flexible in assessing the lending envelope and seek to replicate the successes of the Education Reform for the Knowledge Economy (ERfKE) and Amman Development Corridor projects by **assisting the preparation of sector-wide strategies and policy frameworks** whose implementation donors can finance with or without Bank financing.
- **Ensure that the activities in the program are prepared and implemented using a cluster approach to ensure flexibility to respond to the demand, a better ability to conduct complex cross-sectoral AAA, and the complementarity of findings and recommendations.** To

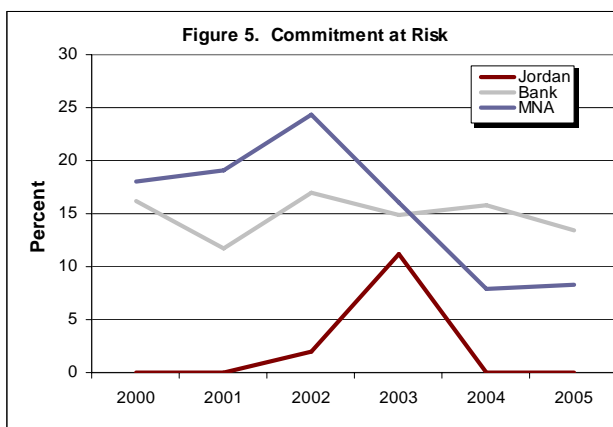
maximize development impact, Bank assistance needs to emphasize selectivity. Given the limited Bank staff resources available, the Bank should limit its engagement to a few areas and sectors and support these continuously over time.

- **Adopt a cross-sectoral approach to water issues.** Given the acuteness of the problem facing Jordan, continue to press the Government on taking a holistic approach to water.
- **Assist the Government in implementing the recommendations of the Bank's report on Public-Private Partnerships** in Jordan to remove obstacles to PPI. Jordan's infrastructure needs are huge and the fiscal space is tight. Thus it is crucial for the Government to attract as much private investment in infrastructure and service delivery as possible. IFC is giving special attention to PPI in its privatization advisory program in Jordan.
- **Improve the impact of policy recommendations in the Bank's ESW.** Future AAA will need to involve a wider group of stakeholders both in the preparation and dissemination of AAA to build a constituency for reform through communications and outreach.
- Ensure full collaboration between IBRD, IFC, and MIGA on private sector development advisory and technical assistance activities.

## B. CURRENT PORTFOLIO

58. **Historically, Jordan has maintained good portfolio performance. Strong ownership of the projects by the country and the generally good project implementation capacity of Jordanian institutions have been the main factors behind the portfolio's success.**

59. **Jordan's portfolio consists of six active IBRD projects, one Global Environment Facility (GEF) Grant, and one Montreal Protocol for a total of US\$278 million.** Education accounts for 56 percent of the portfolio, public sector reform for 5 percent, water 20 percent, transport 14 percent, environment 4 percent and rural development 2 percent. Overall performance of the portfolio both from the perspective of implementation and development impact is good. All projects are expected to achieve their objectives, albeit some requiring an extension of the closing date.



60. **All indicators of portfolio management continue to be strong, and no change in the supervision strategy is envisaged at this time.** The disbursement ratio during the FY03-05 CAS period averaged 23 percent, well above MENA's average of 15.5 percent and in line with the Bank's average of 21.3 percent. No project is currently at risk. OED project ratings in terms of outcome, sustainability and institutional development impact of Jordan's closed projects have been high relative to all projects Bank-wide and to other countries in MENA. This includes both adjustment and investment projects. During the last CAS OED undertook four project evaluations. Three projects were rated satisfactory and one moderately satisfactory. All the projects that have closed during the last CAS or are scheduled to close during FY06 required on average an extension of 18 months. Overly ambitious project timetables are generally considered to be the main reason for the delays. The largest project in the portfolio will continue to be managed by staff located in the Bank's Lebanon Country Office which allows for proactive and flexible supervision.

61. **Jordan has one of the largest grant portfolios in the MENA region.** The implementation of the Grants has been generally satisfactory, but the disbursement rate is generally slower than that of the projects. During the CAS implementation period eight Trust Funds were approved. While the grants have achieved or are expected to achieve their objectives, fragmentation increases the risk of unsustainability

which puts a heavy burden on the Bank's already stressed Country Budget. Over the next CAS period, the Bank and the Government are expected to continue to strategically use Trust Funds to support the four clusters while attempting to be more selective to ensure the sustainability of all the grants.

### C. NEW BUSINESS CONTEXT AND STRATEGIC FRAMEWORK

62. **The business environment for the Bank in Jordan is at a turning point: Jordan is becoming more of a typical middle-income borrower.** Higher growth, stronger local capacity, a more open and vocal political scene, the presence of large grant donors on the lending side and of large consultancy firms on the AAA side, suggest a reorientation from the past business-as-usual approach.

63. Changing conditions imply:

- **Less fragmented interventions, tightly focused around core Government priorities** to leverage the Bank's competitive edge in institutional reforms and innovative approaches, as opposed to multiple tasks that respond to idiosyncratic internal or external demands;
- **More cross-sectoral work and pooling together the activities of the different parts of the World Bank Group** to respond to more sophisticated client requirements;
- **Clear, country-owned policy frameworks** before entering into new initiatives;
- **Better communication, image and outreach** to support a better public understanding of the Bank's role in the policy field; and
- **More flexible instruments to respond to volatility and changing political direction**, including more flexible financial instruments, and some quick-response unallocated TA capability.

### D. CIVIL SOCIETY CONSULTATIONS

64. **The Bank, in full coordination with the Government, held as series of consultations with different segments of the civil society in Jordan.** The consultations included one seminar with leading opinion leaders invited by the Center of Public Policy in Amman, two consultations with private and financial sector representatives, and a series of regional consultations with grassroots Non-Governmental Organizations (NGOs) that culminated with a half-day seminar in Amman with the Bank CAS team. These consultations were intended to inform the Bank team analysis, and identify issues that are of particular importance to a wide range of stakeholders. Some key suggestions have been incorporated in the analysis. A summary of issues discussed is included in CAS Annex III.

### E. DONOR SUPPORT

65. **Because of its strategic regional role, and its good development outcomes, Jordan's development program has benefited from large foreign aid support.** Most bilateral and multilateral development agencies have an active presence in Jordan, with the United States, European Union and Japan being the largest contributors. This extensive support has given the Government choices in selecting the most appropriate assistance. The Ministry of Planning and International Cooperation has been effective in ensuring coordination at the strategic level. This process could be further strengthened by better integration of donors' funds with the domestic budget process. Donors have established a donors/lenders group, with secretarial support from United Nations Development Programme and a rotating chair arrangement, which has also helped in sharing information more regularly.

66. **However, in certain cases of weak or fragmented institutional responsibilities, a lack of coherent sector strategies and operational coordination has often resulted in fragmented donor assistance, activities within inappropriate policy or institutional frameworks, weak ability to select and scale up successes, and ultimately little on-the-ground impact.** This appears to have been the case for instance in the areas of private sector development, social protection, and financial management reform. In contrast, the experience of the education program has been a good example of donors'

coordination at both the strategic and operational level through leadership by the Ministries of Education and Planning and International Cooperation. During consultations with the existing donors/lenders coordination group, the issues were openly acknowledged and the group was willing to pursue them with the Government as part of its upcoming coordination agenda.

67. The Bank's comparative advantage is based on three factors:

- the AAA's program's ability to diagnose issues and design sector strategies;
- international experience that can be brought to bear on policy-makers; and
- the financial resources of loans, grants, guarantees and private sector investments to catalyze, leverage and replicate development activities.

68. **Donor assistance in the years to come will be both complementary and alternative to the World Bank program.** The focus of the US development support is private sector development, water, health and governance; the EU's development support is focused on public sector reform, private and financial sector development and employment policy; Japan's main focus areas are water, environment, health and vocational training. The UN Development Assistance Framework for the period 2003-2007 sets two key priorities: the development of national capacity to promote and implement human development approaches, and support of good governance and public sector reform. CAS Annex II shows indicatively the main areas of intervention of the various donors for the years to come.

## F. PROGRAM DESCRIPTION

69. **The Bank Group Assistance Program will support the Government's overarching objectives of poverty reduction and productive jobs creation.** The specific activities of support will be clustered around four pillars to maximize impact, enhance synergy, increase the efficiency of Bank support, while avoiding fragmentation and provide agility over the CAS period. The activities will be chosen in accordance with each cluster's strategic objectives. Not every activity in the program described in Table 2 will necessarily go forward and activities not now contemplated may be added. However, both flexibility and selectivity will be achieved through use of a results framework that specifies desired outcomes and defines intermediate indicators.

70. The four clusters are:

- Productive job creation through strengthening the investment environment and human resources for a skill-intensive and knowledge-based economy;
- Local development through increased access to services and economic opportunities;
- Social protection and expanding inclusion; and
- Public expenditures' restructuring and public sector reform.

71. **The four programmatic clusters are directly aligned with the poverty reduction and job creation objectives of the Government.** The first two clusters tackle issues related to private investment and job creation, respectively at the macro level and at the local/grassroots level. The third cluster deals with programs to achieve acceptable and sufficient welfare through market mechanisms. The last cluster is focused on the supporting improvements in the government budget and the administration. The clusters are designed to ensure tangible and monitorable impact of the Bank's program in supporting comprehensively the Government's poverty-reduction and job creation objectives. Some "horizontal" issues, such as gender or the environment, will be mainstreamed into the clusters.

72. The CAS framework is intended to be sufficiently flexible to respond to evolving government priorities and needs, leaving scope for dialogue to appropriately design future investment and development policy lending operations in line with the overarching objectives and within the four clusters. The CAS does not provide an exhaustive list of Bank Group activities for the next four years.



Internal and external developments, progress in the implementation of the reform agenda, political, economic, and social developments that are not entirely foreseeable will influence specific opportunities. Therefore, flexibility in the selection of specific operations within the three scenarios is essential to achieve results through different mixes of support. Selection of the Bank lending intervention during the second part of the CAS implementation will be decided during the preparation of the mid-term CAS Progress Report.

***CAS Cluster 1: Strengthening the Investment Environment and Building Human Resources  
for a Value-Added, Skill-Intensive and Knowledge-Based Economy***

73. **The objective of this Cluster is to help the Government implement its strategy to generate private sector jobs.** The achievements of the outcomes under this cluster will be measured by progress in the non-residential investment rate, in overall job creation, and in the quality of education. Intermediary benchmarks for the Bank's contribution to these objectives will be closely aligned with the content of the 4 mentioned strategic areas of Bank activity in this cluster.

74. ***Policy Issues: A small open economy with a strategic location in the Middle East, Jordan's economic growth depends on the ability of private sector firms to competitively access regional and international markets.*** This will require both a very attractive business environment to spur local and foreign investment, as well as building a strong competitiveness based on the excellence of the Jordanian labor force. Beyond the prevailing security situation in the region, such prospects are today limited by: (i) remaining vulnerabilities of the fiscal situation, notwithstanding the improvement of the last decade; (ii) continued high-levels of red tape and remaining weaknesses in Government service delivery as evidenced in the Cost of Doing Business Indicators; (iii) a number of other weaknesses in capital markets, infrastructure, water and logistics; (iv) lack of alignment between various sector policies and institutions to sustain investment; and (v) a weak link between growth and jobs, deriving from the peculiar labor market mechanisms, where the most educated segment of the labor force leave, while large numbers of immigrant workers take unskilled jobs in the face of high local youth unemployment.

75. ***Government Policy: An emphasis on making Jordan a most attractive location for knowledge-based private investment, in order to support job creation, is a key element of the Government policy and National Agenda.*** The National Agenda places the Jordan Authority for Enterprise Development (JAED) as an umbrella organization aimed at ensuring greater policy and operational consistency between the numerous programs and policies directed to support the private sector including private participation in the provision of public goods. Improving the quality of labor is key to raising employment opportunities given Jordan's labor as market position in the region. Thus, education continues to be one of the top Government priorities. The Government's policy for the next 5-ten years envisions the continuation and deepening of the reforms begun under the ERfKE-I program, in addition to new reforms. Fundamental reform of the higher education sector is also a key element of the National Agenda. In the education sector (all stages up to secondary education including early childhood education), the Government's objective is to: (i) expand access to pre-primary and post-basic education, as well as reach the poor who are being left out of basic education; (ii) improve the quality of education; and (iii) enhance management and governance of the sector and the Ministry of Education. Finally, the Government is aiming at strengthening the efficiency of the labor market by enhancing its links with education, by putting in place policies to ensure that Jordanians get the jobs inside Jordan, both at the high and low end of the skill scale, and ensuring that labor regulations are consistent with the overall investment policy.

76. ***World Bank Group Support:*** This cluster is the Government's highest priority, and will be addressed in a comprehensive manner by the World Bank Group. This will entail a mix of financial support through Bank lending and analytical work, priority investments and technical assistance by IFC, and guarantees by MIGA. This will involve: (i) help to operationalize a broad-based, multisectoral

investment strategy for the country, though both ESW and survey based analytical diagnostic; (ii) the promotion of activities through TA or a project that can have a catalytic and sizeable effect on exports, competitiveness and job creation; (iii) supporting the greater attractiveness of Jordan for Public Private Partnership in all sectors of activity, but especially in the area of large infrastructure finance and provision; and (iv) supporting enhanced quality of education and skills of the Jordanian population at all levels, and support better linkages with the labor market.

77. The Government's Private Sector Development agenda is reasonably clear, however implementation remains a major challenge and concern of the Government. This is because decision making is difficult and needs an analytic underpinning, technical assistance is needed to support implementation, and financial resources are needed to resolve market failures in areas like export market development and vocational training. An example of this model can be found in the recent report on Public Private Partnerships completed by the Bank. This analytic work supported the recent Government decision to establish a policy and legal framework. The Bank and IFC in partnership with the EU and USAID plan to provide the necessary technical assistance and the Bank, MIGA and IFC will address market failures in areas such as long term infrastructure financing with lending and guarantee operations.

78. The Banks analytic work will include a study on the labor market, an investment climate assessment and an overall study on investment incentives. Technical assistance from the Bank will focus on public private partnerships and privatization to stimulate investment, vocational training, and follow on technical assistance identified by the labor market and vocational training studies. Bank lending will focus on resolving market failures identified in the vocational training, infrastructure financing and the private sector.

79. IFC's Strategy in Jordan places a high priority on seeking new investment opportunities in the following areas: (i) promoting export-oriented and foreign exchange generating investments particularly in manufacturing and services, (ii) encouraging private participation in Infrastructure, (iii) attracting foreign private investments, particularly to the Aqaba Special Economic Zone (ASEZA); (iv) developing the financial sector through promoting housing finance, microfinance, and trade finance; and (v) contributing to improving the private provision of health and education, and support the tourism and ICT sectors. IFC's approach would diversify its exposure, provide long-term debt financing, and take selective equity stakes.

80. In addition, as a result the establishment of IFC's regional Technical Assistance facility—the Private Enterprise Partnership (PEP-MENA)—TA activities in Jordan has significantly increased covering a wide range of areas that contribute to private sector development. These activities are being strategically selected and positioned to fill gaps, complement what others are doing, respond to client demands, and ensure effective implementation. For example, IFC is currently engaged in reviewing the legal and regulatory framework for leasing, improving the corporate governance practices for Banks, providing management training for SMEs, improving business regulations (e.g., inspections), and advising the Government on the private participation for the expansion of Queen Alia International Airport , among other activities. (see CAS Annex IV for a full account of IFC's current and planned activities in Jordan)

81. ***MIGA Activities: MIGA's objective is to raise its business development activities in Jordan, both for Jordanian companies and for foreign investors potentially interested in investing in Jordan.*** A primary goal is to provide confidence to investors and lenders who may worry about the political risks of investing in the region. MIGA's particular focus in Jordan will be on: (i) support for larger-scale infrastructure, cross-border, oil and gas and mining projects; (ii) guarantees for Jordanian investors and banks, such as Arab Bank, as they venture into other countries in the region; and (iii) support for Jordanian companies' and banks' access to the international capital markets. MIGA's guarantees (against the risks of transfer/inconvertibility, expropriation, breach of contract, and war, civil disturbance, terrorism, and sabotage) can have a significant effect in large-scale infrastructure and

privatization projects by attracting investors and lenders who might otherwise not be willing to invest, as well as by lengthening the tenors and reducing the interest rates associated with financing those projects. Similarly, by assuming the Jordanian sovereign risk, MIGA's guarantees can allow Jordanian companies going to the international capital markets to significantly exceed the (currently sub-investment grade) sovereign ceiling of Jordan and achieve significantly higher ratings, resulting in both increased investor interest and lower all-in financing costs. Banks can also use this program when arranging mortgage-backed securitizations or private placements in the international capital markets. In its efforts, MIGA is working closely with the IFC's representative in Jordan, as well as with local institutions, especially the Jordan Loan Guarantee Corp. In addition to providing guarantee products that may be requested, MIGA will support the Jordan Investment Board and the Aqaba Special Economic Zone Authority with some TA.

### ***CAS Cluster 2: Supporting Local Development through Increased Access to Services and Economic Opportunities***

82. **The objective of this cluster is to support the Government's aim of achieving regionally balanced and equitable growth.** The achievement of outcomes under this cluster will be measured by increases in access to services, employment opportunities and new private investment attracted outside the capital Amman and the Aqaba economic zone. Intermediary indicators of Bank contribution will be defined by adoption of specific government policy measures to promote the sustainability and financial solvency of sub-national institutions; greater engagement of citizens, NGOs and the private sector in participatory planning and budgetary processes; and increased financing for local investments to expand services and exploit local economic endowments.

83. ***Policy Issues: While recent indications of increased economic growth in Jordan have sent positive signals, the benefits of growth have been concentrated mainly in the capital and a limited number of other large cities.*** Outside of Jordan's main economic growth poles, economic opportunities have been slow to materialize, with unemployment and poverty incidence largely concentrated in the regional periphery. Better infrastructure, urban planning, exploitation of cultural heritage assets, social services, and land development at the local level would provide nascent manufacturing and service industries, including tourism, small-scale manufacturing and crafts, an opportunity to invest and grow. Capacity constraints in local planning and management, lack of financing, land use constraints, and underutilization of public-private and NGO partnerships are currently major factors in hindering this potential. The scarcity of natural resource endowment in many areas of Jordan also limits economic opportunities to small micro-activities well adapted to their environment. Micro-credits appear to be the best vehicle to potentially support this kind of grassroots development, but the current successful development of micro-credit institutions in Jordan has until now largely avoided the rural areas. Finally, while agriculture does not weigh heavily in contribution to GDP, it is a critical economy in some selected areas. To be viable and sustainable over the long-term, however, it needs to shift towards more appropriate water use and crop patterns, which are currently not supported by the structure of the water, trade, and subsidy policies.

84. ***Government Policy: As a cross-cutting theme, local development comprises a wide range of different elements, strategies, institutions and beneficiaries. The Government's local development strategy does not attempt to employ or address all of them, but rather seeks to achieve an appropriate and realistic blend of catalytic interventions that will improve the livelihoods and living conditions for all Jordanians in an equitable manner.*** The Government's strategy includes: (i) promoting decentralization through three development regions, with locally elected councils to foster local development initiatives closer to the citizens; (ii) strengthening municipalities by developing sound budgeting, investment and physical planning, and financial management capacities, while enabling them to better exploit local economic endowments, (iii) providing capital, particularly through microfinance schemes for local investment; and (iv) undertaking a comprehensive reform of the cooperative sector that encourages local initiative and reduces government intervention in the sector.

85. ***Envisaged World Bank Group Support:*** The cluster adopts four strategic intervention strategies, including (i) increasing local voice and participation in resource allocation and related decision-making; (ii) developing the capacity of sub-national institutions to plan, implement and manage their development programs; (iii) improving the sustainable use of local endowments and assets as a means of catalyzing local economic development; and (iv) leveraging small-scale entrepreneurial initiatives through increased access to credit and support services, as well as expanding public-private partnerships at the local level.

### ***CAS Cluster 3: Reforming Social Protection and Expanding Inclusion***

86. **The objective of this cluster is to reduce poverty through better targeted and coordinated social services, and to extend social services to marginal groups of society who have not been reached through mainstream provision.** The achievement of outcomes in this cluster will be measured by the reform of Jordan’s major social safety net programs, and extension of basic social services to marginal or vulnerable groups of society.

87. ***Policy Issues:*** Jordan today has multiple anti-poverty programs including the National Aid Fund (NAF), the Enhanced Productivity Program (EPP), the Social and Economic Transformation Program (SETP), the Zakat Fund, and special programs under the different ministries of social development, agriculture, health, and others. While poverty has indeed gone down between 1997 and 2002/2003, it is not clear whether this has been a result of the anti-poverty programs. Indeed, Jordan’s main safety net program—the NAF—has been shown not to be well targeted (two-thirds of its transfers go people above the National Poverty Line). Going forward, the nature of poverty (much more localized and harder to address just by economic growth) in Jordan will command that anti-poverty programs be well-targeted, efficient, and coordinated. Jordan also needs to worry about segments of society, such as disadvantaged children and youth, disabled persons, other marginal poor communities, who are not being reached by mainstream social services.

88. As noted in paragraph 41 above, it is timely to review the spectrum of activities of social assistance within a unified strategy, to reduce duplication, enhance targeting, expand impact, and ensure adequate monitoring and evaluation. A key element of this strategy is a paradigmatic reform of the NAF. A robust and strengthened safety net system can help Jordan absorb shocks that may come either from external factors (geo-political) or from the need to undertake difficult domestic economic reforms that have negative repercussions on the poor (such as removal of energy or other kinds of subsidies). Jordan is ready to consider other structures of safety nets, which are more innovative and which other countries tried successfully, such as conditional cash transfers and social/local-development funds. A key element for any safety net program to be effective is to have good targeting—which is not the case currently in Jordan’s safety net programs, and to be strongly aligned with government policies and market incentives in other areas, such as in the TVET, microfinance and local development sectors, as well as with the labor market.

89. ***Government Policy:*** **The National Agenda Committee on Social Welfare was mandated to look at poverty, social security and healthcare.** In the poverty area, the Committee concluded that there is a need for a “national social policy” which brings all poverty alleviation programs into a coherent framework. The Committee has adopted the target of reducing poverty from 14.4 percent in 2004, to 12 percent in 2012, and 10 percent in 2017.

90. **Among the Committee’s specific recommendations is the establishment of a “Higher National Council for Social Development and Poverty Alleviation”,** to be chaired by the Minister of Social Development and reporting to the Prime Minister. The Council’s main function is to formulate social policy, approve national poverty alleviation strategies, monitor the effectiveness and financing of poverty alleviation programs, and ensure coordination among the many different ministries, agencies, civil society organizations and NGOs working in this area. The committee also recommended that the

NAF be restructured and focus its objective on reaching the chronic poor (4 percent) who are not able to work and the transient poor (11 percent) when they fall below the poverty line. Linking NAF transfers to outcomes will also be part of the reform of the NAF). The Committee also recommended the establishment of a unified database which would include information on all social benefit recipients and would, therefore, reduce duplication. Improving targeting of social programs under the Ministry of Social Development is also a main objective of the National Agenda. A major improvement in the capacity and human resources of the Ministry of Social Development is to underpin the above changes. The Ministry of Finance views the reform of the NAF as a priority in order to act as a cushion for the most vulnerable parts of society in light of potential economic shocks brought about by the need to increase fuel prices.

91. ***Envisaged World Bank Group Support:*** The Bank will support the Governments' objective of poverty alleviation and social protection through a combination of AAA and financial support organized around the following strategic areas: (i) developing a comprehensive social protection and safety net strategy which would pick up where the recently completed Poverty Assessment and the Public Expenditure Review ended; (ii) a project to assist the Government to reform the social assistance and social protection system, and develop robust targeting and monitoring and evaluation systems; and (iii) other instruments to be determined such as a social/local development fund that could increase the quality and quantity of basic services provision to the most disadvantaged areas.

#### ***CAS Cluster 4: Restructuring Public Expenditures and Supporting Public Sector Reform***

92. **The objective of this cluster is to strengthen the Public Administration's ability to design and implement development polices, through a better-aligned public expenditures management system and the enhancement of the service delivery infrastructure. The program includes support for reforming those public institutions which underpin the structure of public expenditures, enhancing monitoring and evaluation capacities and addressing service delivery dysfunctions.**

93. ***Policy Issues: A decade of fiscal adjustments has led to dramatic improvement of Jordan overall fiscal and macroeconomic stability.*** The quality of public expenditure, in terms of composition and effectiveness, has however not improved much in parallel, and effectiveness can still be further improved. At the same time, fiscal vulnerabilities remain, and continued fiscal consolidation is needed. Higher demand for public services, as well as the Government's ambitious development objectives require that the structure and quality of expenditure, as well as budgetary and financial management, improve significantly in the next phase. This will require that the financial authorities of the country be able to insert their fiscal concern in a longer-term expenditure restructuring strategy, rather than acting on the basis of short-term expediencies and urgency. The restructuring of public expenditures is also critically linked to key reforms of the institutional set up of the public sector, such as civil service subsidy, budget management and policy making reforms. Better coordination of the donors activities in this field is also required. Long-term fiscal challenges emerging from the pension system, or the health sector, need also to be addressed early on.

94. ***Government Policy: The Government has identified restructuring public expenditures management as a critical priority.*** A comprehensive Public Sector Reform Program was approved by the Cabinet in 2004 which covers three levels of reform. The first consists of modernizing the organizational structure of the Ministry of Finance and strengthening its capacity to ensure more efficient performance and capacity to manage reform initiatives. This will consist in a comprehensive review of the ministry's role and the legislative and administrative framework directing its work. This effort will include probable changes in enlarging and enforcing the role of the ministry in managing public funds. The second level consists of engaging in reform to improve the financial policy to achieve enforcement of the financial stability and avoidance of financial crisis through more efficient allocation of available resources according to national priorities. The third level concentrates on achieving harmonization by encouraging forward and backward relations between the financial management reform agenda and other

dimensions of public sector reform. The components include policy and decision making, performance management and service delivery, the restructuring of government institutions and human resource management. Implementation of this agenda is underway.

95. **Potential World Bank Group Support: The Bank's support in this area would be:** (i) the continuation of analytical and technical work on public expenditure, including financial management capacity assessment, in a programmatic fashion throughout the duration of the CAS to ensure that overall fiscal dialogue and selected sectoral dialogue is maintained in a consistent framework; (ii) continued support for the necessary reforms of public institutions that underpin the structure of public expenditures, through supervision of the Public Sector Reform-Capacity Building project (PSRCB); and (iii) complementary policy assistance through a programmatic operation including public sector reform elements.

#### *Cross-Cutting Issues and Cross Sectoral Concerns*

96. **A number of important sectors and thematic issues will be addressed in the CAS within the activities of the 4 operational clusters.**

97. **Water:** Although the Bank will not be engaged in the water sector through a specific cluster, some key issues in water will be reviewed as part of a Water Sector Review, within the public expenditure review (PER) work on subsidies, particularly looking at smart subsidies for on-farm irrigation techniques and a possible pilot OBA scheme for a small to medium sized urban center, as well as in the work on the investment regime, where issues of water sustainability in relation to the country's development trends will be reviewed. The Bank stands ready to increase its involvement in this sector, if Government is ready to move on sector reform, including tariff reform conservation, allocation, cost recovery, and efficiency improvements.

98. **Gender:** The CAS activities will focus on gender from the standpoint of creating an environment more conducive to the higher participation of women in the labor force and investment in the private sector. Thus removing obstacles that discriminate against the hiring of women, addressing challenges that women face in balancing work with family duties, fostering the development of local employment opportunities and means to income generating activities at the grassroots are necessary. Likewise, ensuring accessibility to employment opportunities and markets through safe means of transportation, are likely to further increase female economic activity. The analysis of the labor market will also look at the gender dimension in unemployment and labor force participation.

99. **Environmental Issues:** Environmental issues will be addressed selectively, building on their link with local development—in particular the impact of eco-system degradation on poor populations—and looking at the role of environmental safeguard regulations in the quality of the investment regime. Creative applications of Carbon Finance under the Kyoto protocol's Clean Development Mechanism will be considered.

**Table 2. Indicative Assistance Program**

Engage-ment	Lending	Loan Amount (US\$ million)	Analytical and Advisory Activities
<b>Base Case</b>	<ul style="list-style-type: none"> <li>• Cultural Heritage, Tourism, and Urban Development</li> <li>• Municipal &amp; Regional Development Project</li> <li>• Social Assistance &amp; Social Policy Project</li> <li>• Employer-Driven Skills Development Project</li> <li>• Higher Education Development Project II</li> <li>• Education Reform for Knowledge Economy II</li> <li>• Additional Investments in Clusters 1, 3, and 4</li> <li>• Development Policy Loan (1 to 2)</li> <li>• Guarantee(s)</li> </ul>	<p style="text-align: right;">35</p> <p style="text-align: right;">20</p> <p style="text-align: right;">10</p> <p style="text-align: right;">10</p> <p style="text-align: right;">25</p> <p style="text-align: right;">60</p> <p style="text-align: right;">80</p> <p style="text-align: right;">200</p> <p style="text-align: right;">100</p>	<p><i>Diagnostic</i></p> <ul style="list-style-type: none"> <li>• CEM</li> <li>• Poverty Profile and Assessment</li> <li>• Public Expenditure Management and Financial Accountability</li> <li>• Pension PESW</li> <li>• Social Protection and Safety Net</li> <li>• Labor Market Study</li> <li>• Investment Climate Assessment</li> <li>• Review of the Incentive Regime for Investment</li> <li>• Public-Private Partnership Study</li> </ul> <p><i>Notes</i></p> <ul style="list-style-type: none"> <li>• Country Environment Analysis</li> <li>• PSD Diagnostic</li> <li>• Country Systems</li> <li>• Water Mgt Reform and Rural Development</li> <li>• Water Sector Review</li> </ul> <p><i>Technical Assistance</i></p> <ul style="list-style-type: none"> <li>• MIGA: TA to Strengthen the Institutional Framework</li> <li>• Poverty Institutional Framework</li> <li>• IFC PEP-MENA Support</li> <li>• CGAP Support</li> <li>• Cooperative Sector Restructuring</li> </ul>
	<p><b>Total (including guarantees)</b></p> <p><b>540</b></p> <p><u>Grants</u></p> <ul style="list-style-type: none"> <li>• Privatization Trust Fund</li> <li>• Carbon Fund: CMD/Solid Waste Management Project</li> <li>• PPIAF on Private Public Partnerships in Infrastructure</li> <li>• GEF – Promotion of a Wind-Power Market</li> <li>• Sub-Sovereign Lending to Municipality (IFC and Municipal Fund)</li> <li>• GEF Rift Valley</li> <li>• Output-Based Aid</li> </ul>		
<b>High Case</b>	<ul style="list-style-type: none"> <li>• Development Policy Loan</li> <li>• Rural Development Project</li> </ul>	<p style="text-align: right;">60</p> <p style="text-align: right;">40</p>	

## VI. LENDING SCENARIOS, TRIGGERS, BANK GROUP EXPOSURE, AND RISKS

### A. LENDING ENVELOPES AND SCENARIOS

100. The maximum lending envelope in the Base Case is US\$440 million over the four-year CAS period, i.e. an average of US\$110 million a year. Investment lending is projected to be around US\$240, and the remaining US\$200 million would be disbursed as budget support loans on a need basis. Another US\$100 million over four years will be available as Partial Risk Guarantees.

101. In a low case scenario, defined by inappropriate fiscal and macro policies that would put undue pressure on domestic interest rates and inflation or respond inadequately to a shortfall in private capital inflows and that would bring Jordan on an unsustainable path, the lending envelope would shrink to US\$175 million over four years, keeping only investment projects directed to social sectors and local development.

102. A high case would be defined by higher sustainable growth—resulting from combination of solid macroeconomic management, positive external circumstances, and rapid progress with structural reforms—which could require additional technical and policy assistance and would involve additional US\$100 million in lending, both investment and budget support.

103. IFC's objective is to raise its overall portfolio in Jordan through selected investments in strategic sectors (See Annex IV).

## **B. TRIGGERS**

104. **Given significant tensions inherent to the policy stance of the Government, linked to the need of continued adjustment in both fiscal and external accounts, while maintaining a reasonable level of economic growth consistent with objectives of poverty reduction and employment generation, the Base Case is defined by a set of fiscal and macro triggers pointing to a stable macro policy.** The Base Case is also underlined by strong reform effort that will ensure that the needed structural adjustment to policies affecting investment and exports performance and, hence, prospect for sustained growth, are in place.

105. The macro triggers for the Base Case are: (i) a reduction of the general government debt to GDP ratio under 80 percent by end-2006 compared to end-2005, and a reduction by 2 percentage points every year thereafter; (ii) central government budget deficit (before grants) be progressively reduced to below 4 percent by 2008; and (iii) foreign reserves of monetary authorities remain at adequate levels in terms of imports of Goods and Non Factor Services (GNFS) (i.e. between 4-5 months) and providing coverage for public sector debt service.

106. **In addition to the Base Case macro benchmarks,** the high case scenario calls for significant progress with structural reforms in social assistance and energy. In social assistance, better targeting of social assistance programs, with leakage of NAF reduced from two thirds to less than 40 percent. In energy, creation of a market-driven energy efficiency fund, and finalization of the legal and contractual framework for renewable energy.

## **C. BANK GROUP INSTRUMENTS: CURRENT PORTFOLIO, LENDING, TECHNICAL ASSISTANCE, AAA, AND COMMUNICATIONS**

107. **The existing portfolio contains six projects, three of which were approved during the last CAS period.** These projects will contribute to achieve the new CAS objectives, as many of them are directly related to the four clusters of the new CAS. The ERfKE and the Higher Education Projects will continue to building a qualified human resources base for Jordan. The Public Sector Capacity loan will provide critical resource to the Government to improve its effectiveness. The Third Tourism Project will support jobs creation and income generation by increasing tourism-related employment opportunities. The Amman Urban Corridor and the Horticultural Projects will contribute to improving the physical and institutional basis for private sector investment.

108. **The proposed program contains tentatively two investment lending operations per year, plus possible** policy-based lending operations. Development Policy Lending (DPL) is envisaged on the basis of likely Government budget financing requirements and balance of payments financing needs.



DPLs will be considered flexibly in any of the four clusters, in which case they could replace some of the proposed sector investment lending operation with high policy content, or they could be designed across the four clusters, and be strongly linked to the implementation of the National Agenda to underscore the ownership of the policy program supported by the Bank policy lending. The activation of the DPLs is directly linked to a prior stable macroeconomic situation defined by the combined realization of all the macroeconomic Base Case triggers. This would guarantee that budget support loans would help implement key structural reforms while the overall economic environment remains sound, and would help the government leverage other external borrowing. The guarantee(s) would facilitate private participation in critical infrastructure projects in water and power provided overall improvement on the issues discussed in paragraph 27.

109. **The Jordan CAS program may also benefit from the use of new instruments.** On the DPL side, given the volatility of the macro environment a Deferred Drawdown Option may work well for the Government. IFC and the Bank are also testing the possibility of promoting sub-national lending from the Municipal Fund with the Amman Municipality, as part of the Local Development Cluster.

110. IFC will provide a blend of lending, equity investment, and TA from PEP-MENA.

111. Communications and outreach are critical to improve the overall effectiveness of the Bank in a context where the political process is more open, and the actors more diverse. As part of the CAS preparation, a client survey is underway that should provide the basis for a communications strategy. The main lines of the strategy are likely to include:

- Establish an editorial committee for the Bank's Jordan Quarterly Update, and include material on global and regional Bank initiatives that exemplify core bank values, and achievements.
- Regular outreach events by task teams to describe Bank programs to stakeholders and local communities, with media coverage.
- Communication of Bank and IFC project and policies through audio and video media. IFC's new field office in Jordan has started this effort.
- Train journalists on the World Bank Group activities in Jordan.

## **VII. MONITORING AND EVALUATION WITHIN A RESULTS FRAMEWORK**

112. **The CAS result framework will be anchored in the Government's own results framework developed under the National Agenda.** The National Agenda provides quantitative Key Performance Indicators to monitor implementation. Under each cluster, project and activities will also put particular stress on establishing appropriate monitoring and evaluation system. Finally, the Public Sector Capacity loan, and an ongoing Institutional Development Grant are supporting the Government overall capacity in monitoring and evaluation.

113. **This will be the first CAS in Jordan to implement an explicit result-framework.** At the same time, the project pipeline is relatively thin. Overall, it will be possible in only a few areas within this CAS period, to have a full range of relevant outcomes indicators that could be affected by the Bank program. In the other areas, this CAS will be setting the baseline for the result-framework of following Bank Assistance programs.

114. The Government's overall monitoring and evaluation system is currently extremely limited, and its introduction in the context of the National Agenda is likely to be uneven, and face initial implementation challenges. However, the quality and frequency of some data, for instance on poverty and unemployment statistics, is sufficiently good to allow good follow up on some of the key objectives of the CAS.

## VIII. CREDITWORTHINESS AND RISKS

### A. CREDITWORTHINESS AND BANK EXPOSURE

115. **Jordan remains a country with a high exposure: at end calendar year 2004, IBRD exposure was US\$971 million (IDA US\$47 million) and projected to remain below US\$1.0 billion at the end of this CAS period.** The share of preferred creditor debt service in total debt service, estimated at over 40 percent in 2004, exceeds the guideline, but is projected to fall under the 40 percent threshold by the end of the CAS period. The other exposure guidelines are currently met: the share of IBRD debt service in public debt service is around 13 percent, ratio of IBRD debt service to exports 1.3 percent. The former is projected to increase to 16 percent by the end of the CAS period, while the latter will decrease to 1.0 percent. Compared to other Bank borrowers, IBRD exposure is also high relative to GNI, exports and population. Overall, under the Base Case scenario exposure is projected to decrease, on the back of large repayments to the Bank.

### B. RISKS

116. Jordan is vulnerable to external shocks, due both to the fragility of the regional political environment, and to the volatility of some key economic parameters. The economy is exposed to commodity price fluctuations, volatile tourism receipts, and dependence on energy imports. External financing has been heavily dependent on current transfers, including large workers' remittances from the Gulf countries, and official assistance, and most recently on private capital flows. At the same time, the country's external and domestic debt burden remains high, notwithstanding progress towards debt sustainability. Risks associated with large external current account deficits have increased notably, as discussed in the macroeconomic section.

117. Jordan is also significantly affected by regional economic and political developments, including the transition in Iraq which has re-emerged as an important trading partner, the developments in the Palestinian territories, and threat of terrorism in the Region. Jordan also faces a number of domestic social challenges related to its demographics, persistently high unemployment, and the domestic repercussions of regional conflicts.

118. Political stability, relatively good governance, and broad-based external support, which have allowed Jordan to weather such volatile environment in the past, are expected to continue in the future. Nevertheless, increasingly complex demands of medium-term adjustment, service delivery, investment promotion in productive economic activities and poverty alleviation will take place in a challenging environment and for the first time over a long period, outside an IMF program. In transition to a more stable, growth stimulating macroeconomic stance, availability of adequate resources, including expected current and capital inflows, channeled increasingly from short term investment instruments and real estate into foreign exchange generating investments, particularly in manufacturing and services, are critical. In a downside scenario, however, macroeconomic instability resulting from inappropriate macro/fiscal policy mix that will promote increase in speculative short-term capital inflows and vicious circle of low growth or inadequate response to a shortfall in external inflows are possible, with repercussions on the economic and social gains of recent years.

**CAS Annex I – Framework for a Results-Based Country Program**

<b>Cluster 1: Strengthening the Investment Environment and Building Human Resources for Value-Added, Skill Intensive and Knowledge-Based Economy</b>				
<b>Country Development Goal</b>	<b>Issues and Obstacles</b>	<b>CAS Outcomes</b>	<b>Milestones</b>	<b>Bank Program (and Partners)</b>
<p>Create jobs and income opportunities by making Jordan a globally attractive location for skill-intensive and knowledge-based private investment, and improving its export competitiveness.</p> <ul style="list-style-type: none"> <li>• Improved business environment.</li> <li>• Increased FDI and DDI (baseline target to be determined).</li> <li>• Job creation of 60k new jobs per annum.</li> <li>• Increased competitiveness as measured by growth in exports.</li> <li>• An education system that promotes critical thinking, problem-solving and other knowledge economy skills, and a higher education system that has higher quality, efficient financing, and graduates which the labor market demands.</li> <li>• An employer-driven training system in place producing skilled</li> </ul>	<ol style="list-style-type: none"> <li>1. Lack of consistent incentives and institutional framework for investment (including environmental regulations).</li> <li>2. Perceived riskiness of investment environment (macro/fiscal stability).</li> <li>3. Shallow capital markets.</li> <li>4. Weak legal and institutional framework for PPPs.</li> <li>5. Weak infrastructure.</li> <li>6. High unemployment rates, coupled with high dependence on non-Jordanian workers.</li> <li>7. An education system which is still rapidly reforming in several areas, such as improving the quality of education and training for both women and men, but which will need continued and sustained efforts from 5-10 years for reforms to have impact.</li> <li>8. Very high demand for higher education which is</li> </ol>	<p><b>1. Improvement in Jordan’s investment climate/business environment as measured by the following indicators:</b></p> <ol style="list-style-type: none"> <li>a. WEF</li> <li>b. Doing business database.</li> <li>c. Investment rating</li> <li>d. Baseline indicators (ICA)</li> </ol> <p><b>2. Education and skills development aligned with knowledge economy and employment needs.</b></p> <ol style="list-style-type: none"> <li>a. Further improvements in Jordan’s performance in 2007 TIMSS (international test in science and math).</li> <li>b. Improvements in scores in National Knowledge</li> </ol>	<p>Adoption by GOJ of a unified investment strategy.</p> <p>Adoption of a simplified private sector led institutional framework for investment.</p> <p>Adoption of key recommendations of PPP study.</p> <p>Adoption of smart subsidy reform (agriculture, energy, and infrastructure).</p> <p>Establish an effective capital market – reflected in yield curve.</p> <p>Curricula, textbooks, and other learning resources for all grades and subjects revised, with appropriate teacher training taking place.</p> <p>Existing National Training and Employment Program under MOL redesigned.</p>	<p><b>Lending Ongoing</b></p> <ul style="list-style-type: none"> <li>- Education Reform for the Knowledge Economy (ERfKE I).</li> <li>- Higher Education Development Project (HEDP).</li> <li>- Horticultural Exports Promotion.</li> </ul> <p><b>Lending Proposed</b></p> <ul style="list-style-type: none"> <li>- ERfKE II.</li> <li>- Partial Risk Guarantee (as required for large projects).</li> <li>- Higher Education Development Project II.</li> <li>- Employer-Driven Skills Development Project.</li> <li>- Additional Investment Operations (direct support to the private sector and public/private partnerships).</li> </ul> <p><b>IFC Lending, Equity, and Corporate Advisory Proposed</b></p> <ul style="list-style-type: none"> <li>- IFC investments in the private sector.</li> <li>- Participation in PPI transactions, e.g. Queen Alia International Airport.</li> </ul> <p><b>MIGA Political Risk</b></p>

<p>workers that employers want.</p>	<p>putting a strain on the financing and quality of the system.</p> <p>9. TVET system not aligned with employer needs or where economy is going.</p>	<p>Economy Assessment (NAFKA) relative to baseline (to be established in 2006).</p> <p>c. Scholarship program for poor students to universities expanded and functioning adequately.</p> <p>d. An independent quality assurance and accreditation system for universities in place and functional.</p>		<p><b>Guarantees</b> As required.</p> <p><b>AAA Ongoing</b> - PPP Study. - Privatization TA (USAID Trust Fund).</p> <p><b>AAA Proposed</b> - Review of Incentive Regime for Investments. - Developing a monitoring and evaluation framework for PSD, together with baseline indicators (ICA).</p> <p><b>Technical Assistance</b> - IFC Private Enterprise Partnership (capital markets, leasing, corporate governance, business regulatory reform, SME management training, financial sector development). - Global Output Based Aid Project to demonstrate subsidy reform. - MIGA: technical assistance to strengthen key components of the institutional framework, e.g. JIB.</p> <p><b>Partners</b> USAID, EC, EIB, Canadian CIDA, KFW, JICA, Arab Fund, DFID, IDB.</p>
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**Cluster 2: Supporting Local Development through Increased Access to Services and Economic Opportunities**

<b>Country Development Goal</b>	<b>Issues and Obstacles</b>	<b>CAS Outcomes</b>	<b>Milestones</b>	<b>Bank Program (and Partners)</b>
<p>Promote pro-poor and more regionally balanced economic opportunities and distribution of resources.</p> <p>Reduced regional income disparities.</p> <p>Reduced regional job creation disparities.</p>	<ol style="list-style-type: none"> <li>1. Assignment of administrative and financial authorities and functions between government levels unclear.</li> <li>2. Perverse incentives created by recurring bailouts of financially troubled municipalities.</li> <li>3. Vertical and horizontal imbalances in central/local resource allocations.</li> <li>4. Eroding CVDB portfolio quality and debt rollover poses rollover poses moral hazard risk.</li> <li>5. Lack of transparency and control in local government operations.</li> <li>6. Insufficient funding for local investment.</li> <li>7. Weak economic infrastructure in peripheral municipalities.</li> <li>8. Potential for broader access to microfinance by the poor.</li> <li>9. Urban environmental degradation.</li> <li>10. Unexploited cultural heritage assets.</li> </ol>	<p><b>Effective local government supporting economic development in place as measured by:</b></p> <ol style="list-style-type: none"> <li>a. increase in capital expenditures by sub-national government [baseline data to be determined].</li> <li>b. Practice of random municipality bailouts eliminated.</li> <li>c. Increase in number of credit-worthy municipalities.</li> <li>d. CVDB operating sustainably and at arms length from Central Government (no evidence of Central Government interference in CVDB operations and no need for Central Government recapitalization).</li> </ol>	<p>Adoption of a clear intergovernmental legal and regulatory framework that rationalizes and clarifies authorities and functional assignments among different tiers of government.</p> <p>Institute a policy of a Hard Budget Constraint.</p> <p>Adopt an Equalization Transfer System.</p> <p>Provide Amman Municipality with access to financing.</p> <p>Leverage cultural heritage assets to generate local economic opportunities.</p> <p>Updated urban planning regulations and guidelines.</p> <p>CVDB adopts new governance structure and appraisal methodology.</p> <p>Restore cultural heritage assets.</p> <p>Activation of commercial microfinance lending by end-2007.</p>	<p><b>Lending Proposed</b></p> <ul style="list-style-type: none"> <li>- Regional and Municipal Development Project.</li> <li>- Cultural Heritage, Tourism and Urban Development Project.</li> <li>- GEF: Integrated Ecosystem Management in the Jordan Rift Valley.</li> <li>- Grant: Solid Waste Management Project (CDM / Kyoto Protocol).</li> <li>- Sub-Sovereign Lending to Amman Municipality (Municipal Fund Grant/IFC).</li> </ul> <p><b>AAA Ongoing</b></p> <ul style="list-style-type: none"> <li>- PER: Review of Transfers to Local Government.</li> <li>- TA: Support Reforms to Cooperative Sector.</li> <li>- TA: Revise Equalization Formula and Municipal Training Program Support to CVDB (WBI).</li> </ul> <p><b>AAA Proposed</b></p> <ul style="list-style-type: none"> <li>- Commercial Microfinance Operation (IFC/CGAP).</li> <li>- Regional Programmatic CDS (Cities Alliance).</li> </ul> <p><b>Partners</b></p> <p>AFD, AUDI, EU, GTZ in the municipal sector.</p>

**Cluster 3: Reforming Social Protection and Expanding Inclusion**

<b>Country Development Goal</b>	<b>Issues and Obstacles</b>	<b>CAS Outcomes</b>	<b>Milestones</b>	<b>Bank Program (and Partners)</b>
<p>Poverty reduction through better targeted and coordinated social services, and income support for the poor and disadvantaged.</p> <p>Reduced poverty rate by 2 percent (from 14 percent in 2003).</p>	<ol style="list-style-type: none"> <li>1. Poorly targeted cash transfer programs.</li> <li>2. Current instruments in public sector too limited to reach all vulnerable groups.</li> <li>3. Institutional fragmentation of social assistance programs.</li> <li>4. Difficulty in universal coverage of quality basic services to improve poor women's and men's access to services in remote areas (health, education, social services).</li> </ol>	<p>Robust and well targeted social protection system in place with following outcomes:</p> <ol style="list-style-type: none"> <li>a. Leakage of NAF reduced from 2/3 to 1/3.</li> <li>b. NAF modernized and its coverage expanded.</li> <li>c. Multiple social programs rationalized and/or brought under one umbrella.</li> <li>d. Multiple indicator targeting utilized.</li> </ol>	<p>National social protection strategy adopted by Higher National Council for Social Development.</p> <p>An income-based targeting mechanism in place (such as proxy-means).</p> <p>Standards and guidelines for NGOs developed in MOSD.</p>	<p><b><i>Lending Proposed</i></b></p> <ul style="list-style-type: none"> <li>- Social Assistance and Social Policy Project.</li> <li>- Possible Lending Supporting Community-Based Service Delivery.</li> </ul> <p><b><i>AAA Ongoing</i></b></p> <ul style="list-style-type: none"> <li>- Programmatic PER.</li> </ul> <p><b><i>AAA Proposed</i></b></p> <ul style="list-style-type: none"> <li>- Social Protection and Safety Net Strategy.</li> <li>- Poverty Profile/Assessment.</li> </ul> <p><b><i>Partners</i></b></p> <ul style="list-style-type: none"> <li>USAID (poverty).</li> <li>UNDP (social).</li> <li>UNICEF (social).</li> </ul>

**Cluster 4: Restructuring Public Expenditures and Supporting Public Sector Reform**

<b>Country Development Goal</b>	<b>Issues and Obstacles</b>	<b>CAS Outcomes</b>	<b>Milestones</b>	<b>Bank Program (and Partners)</b>
<p>An efficient, effective public sector capable of delivering quality goods and services and creating an enabling environment for private sector growth.</p>	<p><b>1. Public Expenditure Management Issues</b></p> <p>a. Budget process not linked to outcomes.</p> <p>b. Medium-term expenditure framework not prioritized.</p> <p>c. Inefficient spending in health, education and infrastructure.</p> <p><b>2. Human Resource Management</b></p> <p>a. Strengthen and professionalize HR management within both the center of government and at the level of line departments.</p>	<p>Transparency in the budget system is improved and clearly describes government priorities and expected outcomes of public spending.</p> <p>Budget outcomes are consistent with government policy and National Agenda. Planning and forecasting capacities are developed and strengthened.</p> <p>Medium-term expenditure framework prioritized.</p> <p>Expenditure efficiency and sustainability of public expenditures is substantially improved.</p> <p>A new civil service bylaw and supporting regulations are put in place enshrining the principles of meritocracy and transparency in recruitment, promotion and professional development.</p>	<p>Development of a program-based budget document which substantiates the objectives and requirements of the National Agenda.</p> <p>Budget classification is improved to ensure results oriented budgeting.</p> <p>Macro economic fiscal forecasting capacity to assist in the establishment of fiscal policy is established in terms of personnel, training, and equipment.</p> <p>Development of a three-year rolling expenditure that includes both current and capital expenditures.</p> <p>Medium-Term Expenditure Framework as outlined in the National Agenda.</p> <p>A new fundamentally revised bylaw is introduced by end-2006 and implementation is effectively monitored and followed up.</p> <p>A detailed manual encapsulating new policies</p>	<p><b>Lending Ongoing</b></p> <ul style="list-style-type: none"> <li>- Public Sector Capacity Building.</li> </ul> <p><b>Lending Proposed</b></p> <ul style="list-style-type: none"> <li>- Deferred Drawback Budget Support Loan.</li> </ul> <p><b>AAA Ongoing</b></p> <ul style="list-style-type: none"> <li>- Programmatic Pension Study.</li> </ul> <p><b>AAA Proposed</b></p> <ul style="list-style-type: none"> <li>- Programmatic PER includ.: Financial Management Capacity Assessment Subsidy Reform Health Insurance Medium-Term Expenditure Framework.</li> <li>- Programmatic Public Sector Reform Study.</li> <li>- Strengthening Country Systems (FM/ Procurement).</li> </ul> <p><b>Partners</b></p> <ul style="list-style-type: none"> <li>- Training of Judges (EU/WBI).</li> <li>- Public Financial Management (USAID).</li> </ul>

	<p>b. Pay and employment arrangements need to be reviewed and overhauled to save resources while ensuring recruitment of necessary talent.</p> <p>c. Institutional framework for management of Human Resources is streamlined and overlaps eliminated.</p> <p><b>3. Service Delivery</b></p> <p>a. Poor service delivery that is not responsive to citizen needs and expectations.</p> <p>b. Monitoring and Evaluation of government services is not adequate and hampers adequate policy implementation.</p> <p>c. Policy coordination function is difficult and cumbersome.</p> <p><b>4. Reforming Machinery of Government</b></p> <p>a. Machinery of government requires rationalization.</p>	<p>Pay and grading study is completed and reforms are introduced in a manner that strengthens incentive for broad based public sector reform.</p> <p>A HR management and institutional framework supporting HR policy development and protecting the civil service from undue political pressures is put in place.</p> <p>Monitorable improvements in key service delivery indicators in selected line ministries over the life of the CAS.</p> <p>Policy coordination mechanisms need to be strengthened and made more transparent.</p> <p>Significant reduction in the number of non-essential items going to Cabinet for decision.</p> <p>Take appropriate action to streamline government organization to ensure reduction of overlap and clear definition of tasks and mandates for all concerned agencies.</p>	<p>and procedures is prepared and rolled out by end 2007. Overlap of functions between HRPD and the Civil Service Board are removed. Functions of each are clarified.</p> <p>Pay and Grading Study is completed by mid-2007.</p> <p>Methodology for introduction of new pay and grading structure is defined and approved by Council of Ministers and introduced by mid-2008.</p> <p>Service Delivery Indicators are developed in all ministries and monitored and followed up, consistent with the National Agenda, in selected services.</p> <p>Policy coordination function is reformed, consistent with the approach advocated in the White Paper.</p> <p>Number of agencies is reduced and streamlined in several areas of importance: public procurement, HR Management, planning functions.</p>	
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## CAS Annex II – Activities of Development Partners

	Poverty Alleviation and Social Development	Water Management	Education, Vocational Education and Training	Health	Small and Medium Enterprises
EU/EIB	Poverty reduction through local development.	Water resources management.	ERIKE. TEMPUS.		EJADA Program.
USAID	Poverty Alleviation Strategy (ending).	Program for institutional capacity building and appropriate monitoring. Project promoting conservation of water on-farm irrigation. Projects and TA to achieve stable water supply and efficient usage of limited water resources.	ERIKE (early childhood education). Support to Jordan Education Initiative.	Health reform. Program for primary health centers and hospitals. Projects and TA to realize stable water supply and efficient usage of limited water resources.	SME supports. BDS Administration.
Japan		Projects and TA to realize stable water supply and efficient water usage. New solid waste disposal project (Maduna-Ghabaweh). Rehabilitation and Expansion of Water Networks in North/Middle Jordan Valley. Improvement of Water System Supply for Zarqa District.	Grant to upgrade vocational training centers. Developing the Capacity of Learning Resources Centers to Support Learning. Development of VTC Training Programs. Equipment for vocational training for people with disabilities.	Health for women in the South Region. Supply of medical equipment for the Ministry of Health.	Funding for the National Fund for Enterprise Support for SME modernization.
GTZ/Kfw		Projects for sustainable utilization of water resources.	Reconstruction of 30-35 primary schools in poor areas. Vocational Training.		SME supports through investment banking.
France / AFD		Irrigation optimization.			
Islamic Development Bank	ESPP Support Loan, Enhance Infrastructure of Poor Land.		ERIKE, Construction of schools, Central Library at the Science and Technology University, Children's Hospital.	Equipment for King Abdullah Hospital, Phase II of the Queen Alia Centre for Heart Surgery.	Partial Support to the ESPP through a grant.
Canada /CIDA	Supports 12-15 projects yearly submitted by local NGOs in Jordan.		ERIKE. Training for women at vocational training centers; human resources development information system "Al-Manar" Project.		
OPEC		Yarmouk River Basin Improvement.		(Pipeline) Children's Hospital.	
IFAD		Yarmouk River Basin Improvement.			
Abu-Dhabi Fund	(Karam Project) Construction of houses for the poor.	Wihda Dam, Yarmouk River Basin Improvement.		Establishment of Children's Hospital.	
Kuwait Fund for Development			Grant to construct King's Academy (with the Royal Court).	Aqaba Hospital Establishment (pipeline).	
World Bank Group	Support review Social Protection Policy and NAF reform. TA and finance for micro-credit (CGAP/IFC).	Water Sector Policy review.	Lead support in ERIKE.	Support to Health Tourism (IFC).	Direct support to private sector.
UN agencies	Program to support integrated social development policies. Assessment of gaps between higher education skills and market needs. MDGs support and gender equality. Implementation of the MDGs in the Aqaba SEZ. TA for integrating population, RH and gender concerns in development (UNFPA).		Assessment of gaps between knowledge/skills acquired through higher education and labor market demands in Jordan and capacity 2015. Youth and Adolescent Protection (UNICEF). Ministry of Education, curriculum development (UNESCO).	Vaccination and Folic Acid Supplement.	
IMF					

	Capacity Building	Environment	Agriculture	Public Expenditure and Financial Management	Infrastructure	Local Development	Tourism
EU/EIB	Support for the Association Agreement Program (SAAP).				Amman Ring Road. Support for regulatory reforms and privatization program.	Local development project supporting poverty alleviation and monitoring and evaluation.	Promotion and protection of cultural heritage in Jordan
USAID	Distributed among sectors.			Support to Ministry of Health on expenditure rationalization and control. Support to financial management.		Technical Assistance.	
Japan	Training in the field of tourism- management of museums. Rehabilitation of NEPCO Training Center. Improvement of Ability for the Management of the Quality of Products. Information Technology Application for the Development of Instructional System. Tourism Promotion through Museum Activities.	Support to the Ministry of Environment's capacity. Water pollution monitoring system.				Solid Waste Management Improvement Project in Greater Amman area.	Tourism sector development project. Supply of analytic equipment for cultural heritages to Queen Rania Institute for tourism and cultural heritage at the Hashemite University.
GTZ/Kfw	Capacity Building for Ministry of Water and Irrigation Staff.			Financial management support program.		Watershed Management Project. Poverty alleviation through Municipal Development.	
France / AFD				TA to the Budget Department.		Feasibility Study for the Municipalities Development Project.	
Islamic Development Bank			Integrated Development of the Southern Ghor Land.		Enhance Infrastructure of Poor Land.		
Canada /CIDA							
OPEC			Management of Agricultural Resources in Karak and Tafela.			Yarmouk River Basin Improvement, Management of Agricultural Resources in Karak and Tafela.	
IFAD			Development and Rehabilitation of Land, Management of Agricultural Resources in Karak and Tafela.				
Abu-Dhabi Fund			Integrated Development of the Ghor Land.				
Kuwait Fund for Development					Samra Electricity Generation.		Tourism Development Project/Cultural Heritage and Tourism and Urban Development.
World Bank Group	Public Sector Reform Capacity Building Loan.		Horticulture Development Project.	Public expenditure review. Support to development of medium-term expenditure framework.		Local government development project. Tourism development project for mid-size cities.	
UN agencies	Public Sector Directorate and Political Development and Lower House of Parliament and Ministry of Environment and Youth and Sports Fund and Higher Council of Youth. Support to MOPIC, MOSD (UNFPA).	Biogas Russeifeh Landfill and Ministry of Environment Advancement (UNFPA).		E-accounting and E-Procurement. Grant to the Property Tax Department, Customs Department.		Local governance initiative. Local community empowerment (UNICEF). Local government through tourism development (UNESCO).	

## CAS Annex III – CAS Consultations

In agreement with the Government and to collect substantive information on various visions of Jordan's development priorities, the preparation of the CAS included discussions with civil society organizations and the private sector. The following solely expresses the participants' opinions.

### A. Civil Society Consultations

In September 2005, the CAS team contracted the Jordanian Hashemite Fund for Human Development (JOHUD) to facilitate a consultation process with Civil Society Organizations (CSOs). The consultations aimed to get solid practical input from the CSOs to integrate within the CAS. JOHUD, Nour El Hussein Foundation (NHF) and Jordan River Foundation (JRF) held nine sub-consultations with grassroots and Community-Based Organizations (CBOs) supported throughout Jordan, before the main October workshop, which was attended by 54 participants, representing 30 organizations and representatives from the World Bank Group.

Location	Date	Organization conducting the consultations	No. of participants
Tayba/Ma'an	Sept 2005	JOHUD	19
Madaba	Sept 2005	JOHUD	32
Irbid	Sept 2005	NHF	23
Ajloun	Sept 2005	JRF	35
Zarqa	Sept 2005	NHF	24
Wadi Araba	Sept 2005	JRF	23
Northern Badia	Sept 2005	JRF	47
Swieleh	Oct. 2005	JOHUD	17
Youth/Zenid	Oct. 2005	JOHUD	14

The discussions revolved around the main four thematic areas of the CAS. Reports on each sub-consultation were provided as well as a consolidated report and a report for the main workshop. This final report involves the outcomes and points of discussion for each theme.

#### Cluster 1: Strengthening the Investment Environment for a Skill-Intensive and Knowledge Based Economy

Participants in the consultations expressed their concerns about the constraints negatively affecting the investment environment in Jordan. They called for better incentives, including lowering the taxes and setting up a high salary rate for Jordanian laborers. They stressed the need to:

- provide the supporting environment that enhances the investment initiatives;
  - focus on creating an environment attractive to investment at the governorate level;
  - link education to the needs of the local market, and enhance capacities accordingly;
  - establish industrial cities and touristic sites that provide opportunities for local labor;
  - expand the agricultural land through distribution of lands to farmers and ensure the access of small farmers to water resources and support them with grants (not loans); and
  - ensure the use of knowledge and science, experience gain, activate the role of training and link it to employment and commit investors to employ the local people.
- **Education:** The consultations revealed young people's concerns about education as a whole. They recognize that the old system was no longer suitable but they have concerns about the reform. They feel that: (i) it has been introduced without proper planning; (ii) People concerned were not involved and the reform does not meet their needs; (iii) the teachers were not properly trained; and (iv) it has led to less time for questions and answers.

The participants also mentioned the need to:

- focus on the quality of education;
- build transferable skills, personal development and citizen skills, as well as sector knowledge;

- promote local decisions and make sure that education was designed to meet local needs;
- allocate resources to primary and secondary education;
- ensure that young people have a voice in the system; and
- ensure that students also learn about broader issues, such as entrepreneurialism, productivity, respect, rights and responsibility.

Participants also felt that information and communications technologies (ICT) in teaching were essential, but neither students, nor teachers, nor classrooms are ready.

- **Microfinance:** Although the government promotes micro-enterprise as a major strategy to combat poverty and enhance self-reliance, interventions should be closely monitored to ensure that they contribute to the positive sustainable livelihood outcomes for the poor. Participants feel that poor people do not necessarily see this as the solution to their problems, because of (i) the high cost of loans; (ii) poor people would prefer grants or reduced interest rate loans targeting the poor; (iii) the poor could not meet the terms and conditions imposed, and (iv) many participants suggested the need for big government or NGO projects where the poor could get employment with regular wages.

The team held consultations with **small producers** who have set up micro-enterprise. They commented that:

- The local skill and resource base is not sufficient to produce viable businesses (poor products, bad packaging, and weak marketing).
- Local CBOs which implement such projects have little business experience.
- The markets are already saturated with not enough ideas and not enough customers and markets.
- Lack of information in terms of producers "production capacity and locations".
- Inadequate marketing outlets and geographical limitations.
- There was a sense of frustration because of the failure of previous interventions to deliver the needed support. The support in some cases, when provided, did not deliver the expected outcomes and impacts.
- Availability of cheaper alternative in the market - imported goods "cheaper, better, quality".
- In spite of the fact that the support to this sector targets women, the gender obstacles remained.

The main issues/questions raised by the participants were:

- Do micro-enterprise projects really empower people socially or economically?
- In-depth holistic studies of the sector and the long term impact of the MFI on sustainable livelihoods are needed.
- Consider the real situation of the clients, need to financial resources, knowledge base and skills to manage projects, supporting environment, procedures, collaterals.
- Increase access to the appropriate forms of credit for the poor in an environment which supports the poor in establishing and expanding their enterprises.
- What is the impact of the vulnerability context on the microfinance?
- A broader package of support is needed including business training, capacity building and general empowerment.
- Poor people prefer stable income, health and pension rights. They are not ready to take the risks of the microfinance, but at the same time they are not responding to opportunities like QIZs.

## **Cluster 2: Supporting Local Development through Increased Access to Services and Economic Opportunities**

Participants expressed the desire to be more actively involved in issues relating to their lives and conveyed the need to focus on local level strategies which have more immediacy than national strategies. They believe CSOs' role in ensuring that the process is effective is important. They also stated that the

Government should take the necessary steps to ensure that the appropriate policies and institutions are in place to support the local economy and allocate the needed resources and ensure the translation of policies into action.

Participants feel the need for “opportunities for all” and called for “better” access to resources and distribution of benefits. Local communities tended to note that local plans were more effective at stimulating the local economy, using local resources and adapting to local limitations and constraints. They urged that such investment be planned at the local level, with the participation of local people. There were concerns that the current processes are not transparent and that decision-makers are not accountable to local people.

Participants also expressed the need to:

- **Enhance Decentralization:** Participants reported being unaware of the Government’s decentralization process. In addition, the fact that, in the past, other committees/plans/campaigns (i.e., Economic Consultative Council, Jordan First) were not implemented, undermined people’s confidence that the new ones would be. Participants would like an explicit and comprehensive strategy that clearly defines the goals of the country’s decentralization policies. They called for a program of enhancing the local development processes in terms of the following: (i) involvement and participation of the different segments of population (in particular women and youth); (ii) formal inclusion of the CSOs representatives to local level decision-making processes; (iii) more autonomy to plan, budget and execute projects at the local level; and (iv) allocation of budget to local level coupled with a greater degree of autonomy to make decisions concerning resource allocations.
- **Strengthening Municipalities:** In the consultations, most participants expressed a view that the services they currently get at the local level do not meet their needs. Their reactions and responses differed: some expressed a high degree of fatalism believing that little could be done. Others believed that nepotism and wasta plays negatively against the progress and the development at the regional level in Jordan.

**Women from JOHUD’s Makana programme** (a programme to empower locals) who took part in the consultations confirmed the need to, at the local level, gain the necessary knowledge, skills, attitudes and systems to engage civil society in the planning process. The Makana women indicated that, since they have been able to gain such skills, they can, and actually do, engage with local decision-makers at municipal level. They spoke of their role in ensuring that local service providers deliver better quality services and how their actions had raised the profile of women in the community.

The participants further expressed the need to:

- raise awareness of local-level planning and decision-making processes and their importance for effective development with a wide range of stakeholders;
- create a network of civil society representatives to participate in local-level decision-making and advocate for the poor and marginalized groups;
- enhance the capacity of decision-makers to carry out effective consultation processes to ensure that the needs of poor and marginalized people are considered in the planning process; and
- enhance the quality of local-level information and data collection and analysis so that decision-makers are better informed about local level realities and so that local people can monitor change.

### Cluster 3: Reforming Social Protection and Expanding Inclusion

In spite of the findings of the Poverty Assessment, perception locally among the poor is that poverty is still increasing and the situation has been exacerbated by the recent increase in fuel prices (by up to 60%). In past consultations, community members expressed concerns that eligibility criteria used by NAF failed to identify the poorest of the poor. There were also concerns raised that *wasta* played a considerable role in people accessing assistance. The consultations revealed that poor people want this safety net to be better managed. This includes:

- establishing an **independent higher agency** to manage all the funds providing support and welfare, ensuring coordination between all aid and assistance bodies;
- establish a **database** that identifies the poorest of the poor and target groups according to the identified **criteria**, and thus **prevent the duplication** in getting the assistance;
- provide the supporting environment to ensure effective **targeting** (including using the local community and local community-based organizations (CBOs) to enhance the targeting process);
- focus on the people with **special needs**;
- link NAF and the other cash assistance to training and work;
- avoid the sudden stop of the cash assistance without ensuring that the beneficiaries are able to **sustain themselves**;
- establish specific **counseling and legal services** for women;
- ensure the **access** of the poor people to **health insurance**;
- **revise** the social insurance and pension **laws** and provide security for the unemployed;
- train employees to manage the NAF system in a **fair and equitable manner**; and
- adapt the NAF and the cash assistance to the **economic situation** in Jordan in order to respond to people's needs.

### Cluster 4: Restructuring Public Expenditure and Supporting Public Sector Reform

Participants' main concerns were:

- How to ensure that decision-makers and service providers are sensitized to issues related to equity (gender mainstreaming, gender budgeting).
- Reform process should be accompanied by mechanisms to ensure the provision of opportunities for people who would be affected by it.
- Identify criteria for employability in the government service based on efficiency and equal opportunities.
- The reform process should be conducted in phases where the impact of each phase can be evaluated especially on the poor and vulnerable.
- Reform process should not impact on the quality of services (education and health).
- Develop the concept of privatization for example privatize the management not necessarily the assets; and ensure effective use of privatization resources.

#### B. Private Sector Consultations

The Private Sector consultations in Jordan were divided into two sessions: one focusing on the financial sector and the other addressing the private sector concerns. The financial sector session took place on September 11<sup>th</sup>, 2005, and was hosted by the Euro-Jordanian Action for the Development of Enterprise (EJADA), a European funded initiative that aims to build the capacity of SME and investment environment in Jordan. Through EJADA's network, the participants were mainly bankers, financial and microfinance specialists.

The private sector session (September 2005) was hosted by Jordan Vision 2020 which is a spearheaded initiative by the Young Entrepreneurs Association in Jordan. It represents an economic blueprint for youth in Jordan and reflects a collective effort by private sector organizations to bring reform, modernization and development. The participants were active businessmen, young entrepreneurs and representatives of some investment businesses in Jordan.

The following points were discussed during the two sessions.

### **Enhancing the Investment Environment**

Participants considered that Jordan needs funding to market itself as an investment destination. Most countries do not know that Jordan is part of the Jordan-US Free Trade Agreement and the Jordan-EU association agreement. Concerns were expressed by participants about the economy's poor performance which was partially due to failings of the private sector which included:

- Lack of innovation;
- Lack of research and development;
- Poor business processes in the private sector; and
- Poor strategy in the private sector.

Participants expressed the need to create special tax-free funds which would attract capital from local banks and companies directed towards venture capital and seed financing. The fiscal condition in Jordan is not conducive, some argued. They also expressed the need to create investment tax credits through which banks and companies could substitute a small portion of their individual annual tax liabilities by investing in government certified seed capital and venture capital funds to assist in creating new companies, jobs. Possible guarantee schemes for venture capital investments could be an option to support investment.

### **Improving the Banking Sector**

Participants called for:

- The creation of a credit bureau to be shared between banks and companies.
- The development of specialized courts with trained judges who are familiar with banking issues so that quick, effective, and binding judicial decisions can be made.
- The possibility of the World Bank helping local banks to raise long-term funds for industry, similar to the "ECHO" program which was developed with the World Bank in the 1990s.
- The development of a securitization law for banks through which banks could securitize part of their loan portfolio to create an asset backed financial instrument, and sell the instrument to retail investors. Currently no such law exists in Jordan.
- The creation of a leasing law to facilitate leasing of mobile assets. Currently no such law exists (or is not implemented). Banks are not giving leasing loans: IFC is currently supporting this.
- The existing Islamic banks shy away from implementing mudaraba (competition) and musharaka (partnership) preferring to implement murabaha (profit). There is a need to develop Islamic banks systems to facilitate offering more entrepreneur-friendly financing such as mudaraba and musharaka.

Participants talked about gaps that are impeding the development of the Banking system:

- Need for a database on clients, credit bureau, and securitization.
- The client lacks knowledge in filling financial statements, in the mechanism of cash flow, in costing, in drafting feasibility studies.

- The credit officers in turn are not well trained to orient the client with possible entries and potential funding.
- A body that has technical capacity to allocate budgets to municipalities is needed with expertise in lending and following up on projects. This should also involve a team that can teach people how to approach banks and to conduct feasibility studies (e.g. ERADA, EJADA).
- A credit bureau is needed to provide historical data on client ( based on compiled data from taxation department, social security, etc).

### **Consolidation of Small and Medium Enterprises (SMEs)**

While recognizing the slow momentum of the small enterprises to take off and to play a role in the economy, participants called for funding microfinance and SMEs through (a) IFC direct funding to microfinance institutions; (b) IFC providing facilities to commercial banks for microfinance institutions; and (c) World Bank providing guarantees to local banks such that they could be more active in the microfinance market directly or working through existing institutions as well as making finance available through matching grant/ fund programs.

Participants were concerned that:

- SMEs were unable to utilize the substantial liquidity in Jordanian banks because of the collateral requirements of the banks.
- Clarity in the regulations and rules to better the relationship between banks and SMEs. Discussions also touched on how existing bank liquidity could be liberated for corporate, SME and microfinance uses.
- Need to offer training programs to raise the level of competence among SME managers/owners when approaching banks to include such items as cash flow projections.
- Banks risk giving money to SMEs: there should be a plan to permit new entrances to SMEs- aiming to support the poor. Several issues must be considered:
  - people with little collaterals;
  - Banking sectors/ branches are highly centralized;
  - Risk avert;
  - Lend collaterals;
  - Repayment not linked to cash flow;
  - Exit policy;
  - Ethical grounds to transactions; and
  - Little transparencies.
- To support SMEs , some issues must be considered:
  - Guarantees to banks supporting SMEs and microfinance projects are needed.
  - Need capacity building of employees at the banks business edge.
  - Finance: a risk-sharing facility on SMEs is needed.
  - Microfinance: need for a mechanism of safe funding - a guarantee fund to secure the microfinancing in Jordan in order to help small businesses.

### **Entrepreneurial Skills**

It was clearly recognized that there is a need to change the Jordanian mindset to become more entrepreneurial. It is, therefore, necessary to make a role for the private sector in supporting vocational training and in absorbing its trainees. Concerns were expressed about its weakness and the unsuccessful experience.



## **Industrial Sector**

There is a need to fund waste water treatment particularly industrial waste water which could be treated for agriculture. The Industrial Development Bank needs to have a long term guarantee scheme to guarantee partnerships. Egypt, for example, has established a successful scheme that expanded into supporting entrepreneurs and microfinance.

## **Trade**

Trade finance facilities such as export guarantees with the government and local banking sector should be developed to help facilitate increased exports in order to achieve sustainable economic and financial development. Export guarantees are also needed.

## **Regional Development and Empowerment of Municipalities**

Participants believed that economic development must be addressed at the grassroots level to help create opportunities in less fortunate areas. Discussions focused on the efforts of microfinance lending and the good job many of the institutions had achieved.

Some concerns were raised about increased corruption in the system. When decentralization was tried in the 1970s at the government level, it was quickly re-centralized due to large corruption at the municipal level.

Participants believed that Municipal Funds should be introduced at the regional level: municipalities must be empowered to extend commercial grants.

Several participants expressed concern about the Jordanian *culture of shame* in what may concern work opportunities for unskilled workers. They called for incentives for Jordanian laborer to accept work and raise wages.

## CAS Annex IV- IFC Programs and Activities

1. IFC has historically experienced solid demand for financing from successful private sector companies in Jordan. In recent years, however, there has been a decline in the portfolio due to competition (cheaper alternative financing) and excess liquidity in the market—which has resulted in prepayments and cancellations. In 2005, IFC established a new field office in Amman to accelerate its investments and technical assistance business development activities, enhance the relationship with the private sector and the government, and improve coordination and collaboration with IBRD and the donor community.

2. IFC's strategy in Jordan places a high priority on seeking new investment opportunities in the following areas: (i) promoting export-oriented and foreign exchange generating investments, particularly in manufacturing and services; (ii) encouraging private participation in infrastructure; (iii) attracting foreign private investment, particularly to the Aqaba Special Economic Zone (ASEZA); (iv) developing the financial sector through promoting housing finance, microfinance, and trade finance; and (v) contributing to improving the private provision of health and education, and support for the tourism and ICT sectors. In addition, as a result of the establishment of IFC's regional Technical Assistance (TA) facility—the Private Enterprise Partnership (PEP-MENA)—TA activities in Jordan have significantly increased covering a wide range of areas that contribute to private sector development. These activities are being strategically selected and positioned to fill gaps, complement what other organizations and donors are doing, respond to client demands, and ensure effective implementation. With this wider range of products that IFC can offer, a coherent country strategy has been formulated to utilize new opportunities.

3. The following sections highlight the various areas of IFC's current and future activities in Jordan.

### **I. PRIVATIZATION AND ENCOURAGING PRIVATE PARTICIPATION IN INFRASTRUCTURE**

4. At the request of the Government of Jordan (GoJ), IFC has assumed the role of the lead advisor to the GoJ on the Rehabilitation and Expansion of the Queen Alia International Airport Project (QAIA). The GoJ is seeking private participation in the project through international tendering. IFC is leading two teams of legal and technical consultants to appraise the Project, prepare the Strategic Options Report to the GoJ, market the Project to prospective investors, and implement the Tender, leading to the GoJ's selection of the winning bidder. IFC's value-added role in this Project brings to bear its global experience in similar transactions, ensures transparency and best practices, and helps with adequately marketing the Project.

5. **In response to GoJ's request**, IFC conducted a study to assess the feasibility of privatizing Royal Jordanian Airlines. The recommendations of the study confirmed that it is timely to move forward with the privatization. IFC is expected to take a lead advisory role.

6. In the power sector, IFC has expressed, in principle, its intent to finance the winning bidder of the first Independent Power Plant (IPP) project in East Amman. The short listing and prequalification process is underway.

### **II. FINANCIAL SECTOR DEVELOPMENT**

7. The involvement of IFC in developing the financial sector in Jordan will cover the following areas:

(a) *Leasing*: This TA project includes reviewing the legal and regulatory framework for leasing in Jordan, providing capacity building and training to existing and new leasing institutions, raising public

awareness on leasing and its importance to SMEs' access to finance, and promoting investments in this sector. IFC's own future investment in leasing will also be considered.

(b) *Corporate Governance for Banks*: In partnership with the Association of Banks in Jordan, this project will involve working with TA commercial banks to survey their corporate governance practices and come up with a voluntary corporate governance code. This project complements IBRD's effort to assist the Central Bank of Jordan to enhance its supervision of commercial banks and ensuring proper governance and compliance.

(c) *Microfinance*: The involvement of IFC will include (i) a possible investment with one of the existing MFIs to help with its expansion and the development of new lending products including micro-leasing; (b) the funding of a study to determine the feasibility of establishing a new for-profit MFI in Jordan, and (c) working with CGAP and other donors to assist GoJ in improving the legal and regulatory framework for Microfinance and to improve the implementation of the National Microfinance Strategy. IFC's role in this sector will encourage competition, expand MFIs' client reach and products, and help in the establishment of a conducive legal and regulatory framework.

(d) *Housing Finance*: Aiming to stimulate the Housing Finance market in Jordan, IFC is exploring the opportunity to invest in this sector with the objective of expanding the provision of housing finance. IFC will also work with the relevant stakeholders, including regional and international banks to establish institutions that can provide securitization and mortgage insurance which are expected to play a significant role in developing the housing finance market.

(e) IFC will also provide support to assist the establishment of a *Credit Bureau* in Jordan as well as provide *Trade Financing* to Jordanian banks from its Global Trade Finance Program (GTFP).

### **III. SUPPORTING PRIVATE SECTOR DEVELOPMENT THROUGH PRIORITIZED INVESTMENTS**

8. In addition to the above-mentioned investments in the financial sector, IFC stepped up its business development efforts to explore new investment opportunities with new local private sponsors. During FY02-05, IFC committed US\$60 million in four investments. New investments in FY06-10 will focus on the shipping and logistics, health, manufacturing, ICT, financial, and tourism sectors. IFC's approach to these investments will seek to diversify the exposure, provide long-term debt financing, and take selective equity stakes.

9. Furthermore, IFC will closely work with the Aqaba Special Economic Zone (ASEZA) and Aqaba Development Corporation (ADC) to facilitate new foreign investments to Aqaba and explore potential IFC financing of some of these investments.

### **IV. SUPPORTING THE SME SECTOR AND IMPROVING THE BUSINESS ENABLING ENVIRONMENT**

10. SME development is a priority for the GoJ and IFC. In this regard, IFC has partnered with three private training providers to promote and use IFC's SME management training product "Business Edge". This Training of Trainers Program entails certifying local trainers and providing them with 36 working books covering a wide range of managerial, operational, financial, strategic, and marketing topics to use in their various training programs targeting the owners of SMEs. One focus of this program is to target women owners of SMEs.

11. To enhance the environment for doing business in Jordan, IFC, in collaboration with the Ministry of Trade and Industry, is embarking on a TA project that aims to improve the procedures and systems for inspections in the country. In addition, based on the 2006 Doing Business Report findings, IFC is working

with Jordan's Investment Board (JIB) to review the Doing Business Indicators for Jordan to verify the findings and better reflect the situation on the ground in preparation for the 2007 Doing Business Report.

## **V. PORTFOLIO PERFORMANCE**

12. IFC's total committed portfolio in Jordan stands at US\$59 million in 11 companies (see Annex B8). In FY05, IFC committed US\$25 million, and in FY06, the expected commitment is US\$18 million. Portfolio performance has been generally good. Extensive efforts have been devoted, however, to improve the status of three projects in the manufacturing and agribusiness sectors. Recovery and restructuring options are being considered.

## **VI. COLLABORATION WITH IBRD**

13. The collaboration with IBRD has been significantly increased. It has involved working closely on areas such as privatization, Public-Private partnerships, and enhancing the enabling environment for the private sector. Going forward, the collaboration will include (i) participation in the design of IBRD's PSD and financial sector diagnostic assessments leading to the identification and implementation of IFC's TA activities, (ii) joint identification of Private Participation in Infrastructure opportunities, (iii) and exploration of the possibility for providing sub-national financing through the Municipal Fund. The IFC new field presence has facilitated better coordination with IBRD on a systematic and continuous basis. The PSD consultations for this CAS were jointly prepared and led by the two institutions.

## CAS Annex A2 - Jordan at a Glance

POVERTY and SOCIAL	Jordan	M. East & North Africa	Lower-middle-income	
<b>2005</b>				
Population, mid-year (millions)	5.7	294	2,430	
GNI per capita (Atlas method, US\$)	2,290	2,000	1,580	
GNI (Atlas method, US\$ billions)	13.1	589	3,847	
<b>Average annual growth, 1999-05</b>				
Population (%)	2.6	1.8	1.0	
Labor force (%)	3.7	-1.3	0.7	
<b>Most recent estimate (latest year available, 1999-05)</b>				
Poverty (% of population below national poverty line)	..	..	..	
Urban population (% of total population)	79	56	49	
Life expectancy at birth (years)	72	68	70	
Infant mortality (per 1,000 live births)	27	45	33	
Child malnutrition (% of children under 5)	..	..	11	
Access to an improved water source (% of population)	96	88	81	
Literacy (% of population age 15+)	..	69	90	
Gross primary enrollment (% of school-age population)	99	100	114	
Male	98	104	115	
Female	99	94	113	
<b>KEY ECONOMIC RATIOS and LONG-TERM TRENDS</b>				
	<b>1985</b>	<b>1995</b>	<b>2004</b>	<b>2005</b>
GDP (US\$ billions)	5.1	6.7	11.5	12.9
Gross capital formation/GDP	19.0	29.6	23.9	23.4
Exports of goods and services/GDP	37.9	51.7	52.0	51.1
Gross domestic savings/GDP	-14.6	8.4	-5.8	-17.5
Gross national savings/GDP	14.4	25.8	23.8	5.6
Current account balance/GDP	-4.9	-3.8	-0.2	-17.8
Interest payments/GDP	4.8	3.9	1.4	2.1
Total debt/GDP	76.7	113.9	72.2	63.3
Total debt service/exports	16.7	12.4	7.9	16.5
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
	<b>1985-95</b>	<b>1995-05</b>	<b>2004</b>	<b>2005</b>
(average annual growth)				
GDP	2.2	4.5	7.7	7.2
GDP per capita	-2.7	1.3	5.1	4.8
Exports of goods and services	5.5	4.4	17.9	5.3

**Development diamond\***

Indicators: Life expectancy, Gross primary enrollment, Access to improved water source, GNI per capita.

Legend: Jordan (green), Lower-middle-income group (red).

**Economic ratios\***

Indicators: Trade, Capital formation, Indebtedness, Domestic savings.

Legend: Jordan (green), Lower-middle-income group (red).

STRUCTURE of the ECONOMY	1985	1995	2004	2005
<i>(% of GDP)</i>				
Agriculture	5.5	4.3	2.8	2.8
Industry	25.8	28.9	28.9	29.9
Manufacturing	11.5	15.1	18.8	19.8
Services	68.7	66.8	68.4	67.4
Household final consumption expenditure	88.4	74.4	89.8	102.4
General gov't final consumption expenditure	26.2	17.1	16.0	15.1
Imports of goods and services	71.5	72.9	81.8	92.0
<i>(average annual growth)</i>				
Agriculture	7.0	1.8	2.2	5.5
Industry	3.3	6.5	13.3	9.4
Manufacturing	4.9	9.0	16.4	11.3
Services	0.7	4.3	6.1	6.2
Household final consumption expenditure	0.7	6.9	16.2	22.3
General gov't final consumption expenditure	-4.2	3.5	-0.5	0.9
Gross capital formation	6.2	1.7	25.3	4.8
Imports of goods and services	2.0	5.9	28.3	20.6

**Growth of capital and GDP (%)**

Legend: GCF (green), GDP (red).

**Growth of exports and imports (%)**

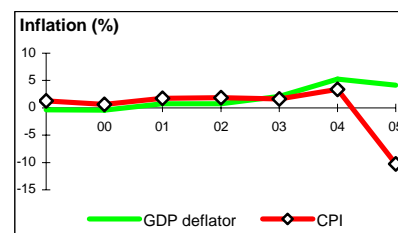
Legend: Exports (green), Imports (red).

Note: 2005 data are preliminary estimates.

\* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

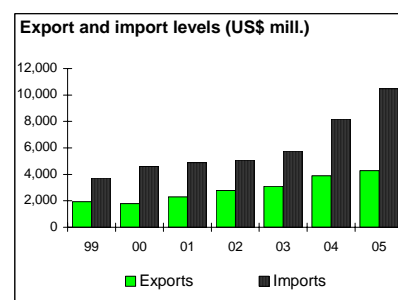
## PRICES and GOVERNMENT FINANCE

	1985	1995	2004	2005
<b>Domestic prices</b>				
<i>(% change)</i>				
Consumer prices	2.9	2.3	3.4	-10.3
Implicit GDP deflator	-1.0	1.9	5.3	4.2
<b>Government finance</b>				
<i>(% of GDP, includes current grants)</i>				
Current revenue	40.2	36.3	35.5	33.1
Current budget balance	13.5	8.5	7.2	1.9
Overall surplus/deficit	2.8	1.3	-1.9	-4.6



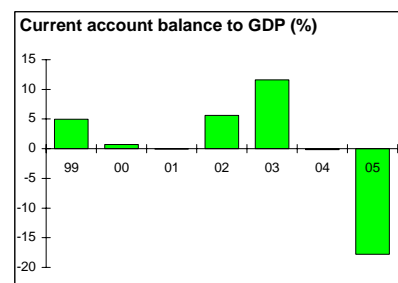
## TRADE

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total exports (fob)	788	1,783	3,887	4,289
Food	110	142	443	490
Phosphates	167	151	166	168
Manufactures	282	704	1,416	1,627
Total imports (cif)	2,723	3,695	8,189	10,466
Food	445	598	1,270	1,288
Fuel and energy	491	480	1,507	2,328
Capital goods	510	906	1,578	2,192
Export price index (2000=100)	85	110	114	131
Import price index (2000=100)	98	95	134	156
Terms of trade (2000=100)	87	116	85	84



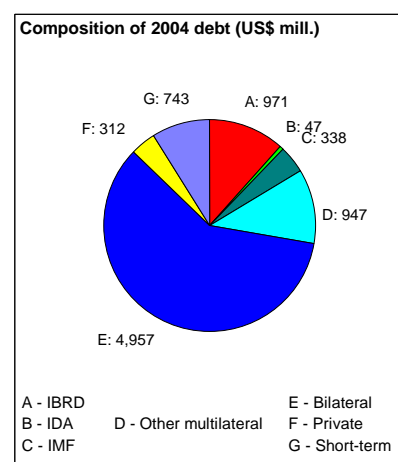
## BALANCE of PAYMENTS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Exports of goods and services	1,974	3,481	5,990	6,572
Imports of goods and services	3,723	4,904	9,417	11,829
Resource balance	-1,748	-1,423	-3,428	-5,257
Net income	-89	-279	190	376
Net current transfers	1,584	1,445	3,220	2,591
Current account balance	-253	-257	-18	-2,290
Financing items (net)	179	534	301	2,450
Changes in net reserves	75	-278	-283	-160
<b>Memo:</b>				
Reserves including gold (US\$ millions)	613	2,169	5,450	5,468
Conversion rate (DEC, local/US\$)	0.4	0.7	0.7	0.7



## EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	3,944	7,661	8,315	8,145
IBRD	168	736	971	914
IDA	82	69	47	45
Total debt service	516	600	676	1,573
IBRD	21	125	111	126
IDA	2	3	3	3
Composition of net resource flows				
Official grants	453	219	1,336	753
Official creditors	220	481	-193	-250
Private creditors	..	..	-16	-39
Foreign direct investment (net inflows)	25	13	652	1,534
Portfolio equity (net inflows)	0	0	-337	132
World Bank program				
Commitments	97	140	43	46
Disbursements	64	158	29	33
Principal repayments	10	79	88	93
Net flows	54	79	-59	-60
Interest payments	12	49	26	36
Net transfers	42	31	-85	-96



Source: Development Economics, March 31, 2006.

**CAS Annex B2 - Selected Indicators\* of Bank Portfolio Performance and Management**  
(as of March 31, 2006)

<b>Indicator</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	8	9	8	8
Average Implementation Period (years) <sup>b</sup>	3.9	3.8	3.6	4.4
Percent of Problem Projects by Number <sup>a, c</sup>	12.5	0	0	0
Percent of Problem Projects by Amount <sup>a, c</sup>	11.1	0	0	0
Percent of Projects at Risk by Number <sup>a, d</sup>	12.5	0	0	0
Percent of Projects at Risk by Amount <sup>a, d</sup>	11.1	0	0	0
Disbursement Ratio (%) <sup>e</sup>	34.1	14	23	11
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	No	No	No	No
Supervision Resources (total US\$'000)	545	545	685	690
Average Supervision (US\$'000/project)	68	68	95	85

<b>Memorandum Item</b>	<b>Since FY 80</b>	<b>Last Five FYs</b>
Project Evaluation by OED by Number	58	9
Project Evaluation by OED by Amount (US\$ millions)	1948.2	336.6
% of OED Projects Rated U or HU by Number	14	11.1
% of OED Projects Rated U or HU by Amount	10	5.5

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
  - b. Average age of projects in the Bank's country portfolio.
  - c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
  - d. As defined under the Portfolio Improvement Program.
  - e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year.
- \* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

**CAS Annex B3 - Bank Group Program Summary (IBRD)**  
(As of March 30, 2006)

**Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>**

<i>Fiscal Year</i>	<i>Project ID</i>	<i>US\$(M)</i>	<i>Strategic Reward <sup>b</sup></i>	<i>Implementation <sup>b</sup> Risks (H/M/L)</i>
2006	Cultural Heritage, Tourism, and Urban Development	35.0	H	L
2007	Regional and Municipal Development	20.0	M	M
	Social Assistance and Social Policy Project	10.0	H	L
	Development Policy Loan	150.0	H	M
2008	Employer-Driven Skills Development Project	10.0	H	L
	Higher Education Development Project II	25.0	H	L
	Guarantee(s)	100.0	H	M
2009-2010	Education Reform for Knowledge Economy II	60.0	H	L
	Other Investments	80.0	M	L
	Development Policy Loan	50.0		
<b>Total (including Guarantees)</b>		<b>540.0</b>		

a. This table presents the proposed program for the next three fiscal years.

b. For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).



## CAS Annex B3 - Bank Group Program Summary (IFC, MIGA)

(FY 2003-2006)

	2003	2004	2005	2006
IFC Approvals (US\$m)	\$35.0	\$0.0	\$25.0	\$0.0
<b>Sector (%)</b>				
Financial Services				
Chemicals	\$43.0	\$0.0	\$0.0	\$0.0
Construction & Real Estates	\$0.0	\$0.0	\$0.0	\$0.0
Industrial and Consum.	\$54.0	\$0.0	\$0.0	\$0.0
Information	\$3.0	\$0.0	\$0.0	\$0.0
Oil, Gas and Mining	\$0.0	\$0.0	\$0.0	\$0.0
Pulp & Paper	\$0.0	\$0.0	\$100.0	\$0.0
Textiles	\$0.0	\$0.0	\$0.0	\$0.0
<b>Total</b>	<b>\$100.0</b>	<b>\$0.0</b>	<b>\$100.0</b>	<b>\$0.0</b>
<b>Investment instrument (%)</b>				
Loans	97%	0%	100%	0%
Equity	3%	0%	0%	0%
Quasi-Equity				
Other	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	<b>0%</b>	<b>100%</b>	<b>0%</b>

## CAS Annex B4 - Summary of Non-Lending Services

(As of March 22, 2006)

<b>Product</b>	<b>Completion FY</b>	<b>Cost (US\$000)</b>	<b>Audience<sup>a</sup></b>	<b>Objective<sup>b</sup></b>
<b>Recent Completions</b>				
Development Policy Review	FY03	98.9	Government	Knowledge Generation
Vision for Education Forum	FY03	54	Bank/Government	Knowledge Generation
Country Assistance Strategy	FY03	181	Bank/Government	Knowledge Generation
Early Childhood TA	FY03	93	Government	Knowledge Generation
Cost Efficiency of Education	FY03	121	Government	Knowledge Generation
Privatization TA (including USAID TF)	FY00-03	804	Government	Problem Solving
Integrated SEA into Water Quality Mgt (GPG)	FY03	57	Government	Problem Solving
Urban Management Strategy	FY03	86	Government	Knowledge Generation
City Development TA	FY04	15	Government	Problem Solving
Natural Resource Management	FY03-05	138	Government	Knowledge Generation
ROSC Accounting and Auditing	FY04	32	Bank/Government	Problem Solving/Knowledge Generation
Pension Policy Dialogue	FY04-05	75	Government	Knowledge Generation
Education Sector	FY04	50	Government	Knowledge Generation
Public Expenditure Review	FY04-05	364	Government	Knowledge Generation
Trade Logistics	FY04-06	33	Government	Knowledge Generation
Gender Assessment	FY05	180	Government	Knowledge Generation
Poverty Assessment	FY05	361	Bank/Government	Problem Solving/Knowledge Generation
Energy Strategy	FY05	209	Bank/Government	Problem Solving/Knowledge Generation
<b>Underway</b>				
Privatization (USAID)	Ongoing	30 (yearly)	Government	Problem Solving
Quick-Response on Policy Advice	Yearly	85	Bank/Government	Problem Solving/Knowledge Generation
Macroeconomic Monitoring	Yearly	150 (yearly)	Bank/Government	Problem Solving
Country Assistance Strategy	FY06	150	Bank/Government	Knowledge Generation
<b>Planned</b>				
Programmatic Pension Reform Study	FY06-10	85 (yearly)	Bank/Government	Knowledge Generation
Water Sector Review	FY07-10	75 (yearly)	Government	Knowledge Generation
Investment and Labor Market	FY06	200	Bank/Government	Knowledge Generation
Skills and Vocational Education	FY07	150	Bank/Government	Problem Solving/Knowledge Generation
Public Expenditure Review PESW	FY06-10	100 (yearly)	Government	Knowledge Generation
PPI Study	FY07	20	Government	Knowledge Generation
PSD Diagnostic Report	FY07	100	Government	Knowledge Generation
Investment and Labor Market	FY07	200	Government	Knowledge Generation
Poverty Assessment	FY09	250	Government	Knowledge Generation
Poverty Profile	FY07	160	Government	Knowledge Generation
Country Economic Memorandum	FY08	200	Government	Knowledge Generation
Country Environment Analysis	FY07	60	Government	Knowledge Generation
Strengthening of Country Systems (FM and Procurement)	FY06-07	100	Bank/Government	Problem Solving/ Knowledge Generation

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

## CAS Annex B5 - Social Indicators

	Latest Single Year			Same Region/Income Group	
	1975-80	1985-90	1998-2004	M. East and North Africa	Lower- Middle- Income
<b>POPULATION</b>					
Total population, mid-year (millions)	2.2	3.2	5.4	294.0	2,430.3
Growth rate (% annual average for period)	3.7	3.6	2.8	1.8	1.0
Urban population (% of population)	60.2	72.2	79.2	55.9	48.6
Total fertility rate (births per woman)	7.2	5.4	3.5	3.0	2.1
<b>POVERTY</b>					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
<b>INCOME</b>					
GNI per capita (US\$)	2,000	1,390	2,140	2,000	1,580
Consumer price index (1995=100)	40	81	125	..	..
Food price index (1995=100)	43	79	120	..	..
<b>INCOME/CONSUMPTION DISTRIBUTION</b>					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
<b>SOCIAL INDICATORS</b>					
<b>Public expenditure</b>					
Health (% of GDP)	..	..	4.3	2.5	2.5
Education (% of GDP)	..	8.1	5.0	4.9	3.5
<b>Net primary school enrollment rate</b>					
<i>(% of age group)</i>					
Total	..	94	92	89	..
Male	..	94	91	91	..
Female	..	94	93	86	..
<b>Access to an improved water source</b>					
<i>(% of population)</i>					
Total	..	98	91	88	81
Urban	..	100	91	95	93
Rural	..	91	91	78	70
<b>Immunization rate</b>					
<i>(% of children ages 12-23 months)</i>					
Measles	29	87	96	91	86
DPT	30	92	97	91	88
Child malnutrition (% under 5 years)	17	6	4	..	11
<b>Life expectancy at birth</b>					
<i>(years)</i>					
Total	..	68	72	68	70
Male	..	67	71	67	68
Female	..	70	74	70	72
<b>Mortality</b>					
Infant (per 1,000 live births)	52	33	23	45	33
Under 5 (per 1,000 live births)	65	40	28	56	42
Adult (15-59)					
Male (per 1,000 population)	..	205	199	194	192
Female (per 1,000 population)	..	152	144	145	123
Maternal (modeled, per 100,000 live births)	..	..	41	199	111
Births attended by skilled health staff (%)	..	87	100	80	86

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age.

Source: World Development Indicators Database, World Bank, August 29, 2005.

## CAS Annex B6 - Key Economic Indicators

Indicator	Estimated					Projected				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>National accounts (as % of GDP)</b>										
Gross domestic product <sup>a</sup>	100	100	100	100	100	100	100	100	100	100
Agriculture	2	3	3	3	3	3	3	2	2	2
Industry	26	27	27	29	30	29	28	27	26	26
Services	72	70	70	68	67	68	69	70	71	72
Total Consumption	106	100	101	106	117	113	110	106	104	101
Gross domestic fixed investment	19	19	21	24	23	23	23	24	25	25
Government investment	8	8	9	11	6	7	7	8	8	8
Private investment	11	11	11	13	17	16	16	16	17	17
Exports (GNFS) <sup>b</sup>	42	48	48	52	51	50	49	49	49	50
Imports (GNFS)	67	67	69	82	92	86	83	79	77	76
Gross domestic savings	-6	0	-1	-6	-17	-13	-10	-6	-4	-1
Gross national savings <sup>c</sup>	19	25	32	24	6	7	10	14	17	19
<i>Memorandum items</i>										
Gross domestic product (US\$ million at current prices)	8975	9560	10160	11515	12860	14246	15706	17151	18819	20449
GNI per capita (US\$, Atlas method)	1750	1790	1880	2050	2250	2390	2570	2770	2970	3180
Real annual growth rates (% , calculated from 1994 prices)										
Gross domestic product at market prices	5.3	5.7	4.1	7.7	7.2	5.0	5.0	5.0	5.5	5.5
Gross Domestic Income	5.6	5.4	1.4	9.1	11.6	26.9	4.6	5.2	6.0	5.1
Real annual per capita growth rates (% , calculated from 1994 prices)										
Gross domestic product at market prices	2.4	2.8	1.2	5.1	4.8	2.6	2.6	2.6	3.1	3.1
Total consumption	2.4	-2.5	1.5	10.6	16.4	-0.1	0.3	0.0	0.5	0.5
Private consumption	2.8	-3.1	0.4	13.4	19.5	-0.3	0.6	0.6	0.4	0.3
<b>Balance of Payments (US\$ millions)</b>										
Exports (GNFS) <sup>b</sup>	3781	4550	4827	5990	6572	7112	7699	8399	9220	10132
Merchandise FOB	2297	2773	3085	3887	4289	4600	4914	5255	5639	6053
Imports (GNFS) <sup>b</sup>	6034	6391	6975	9417	11829	12292	12970	13606	14511	15442
Merchandise FOB	4306	4506	5083	7269	9289	9682	10254	10786	11554	12342
Resource balance	-2253	-1841	-2148	-3428	-5257	-5180	-5271	-5207	-5291	-5309
Net current transfers	2061	2267	3209	3220	2591	2674	2868	3142	3553	3764
Current account balance	-4	538	1180	-18	-2290	-2249	-2137	-1790	-1454	-1248
Net private foreign direct investment	132	75	437	652	1534	1303	1002	853	802	800
Long-term loans (net)	-33	47	-577	-488	-239	260	175	2	-42	-248
Official	334	64	-226	-193	-250	-269	-350	-372	-439	-479
Private	-367	-16	-351	-295	11	529	525	374	397	231
Other capital (net, incl. errors & omissions)	-336	-339	-114	137	1156	949	1341	1274	1117	1112
Change in reserves <sup>d</sup>	242	-321	-925	-283	-160	-263	-381	-339	-424	-415
<i>Memorandum items</i>										
Resource balance (% of GDP)	-25.1	-19.3	-21.1	-29.8	-40.9	-36.4	-33.6	-30.4	-28.1	-26.0
Real annual growth rates ( YR94 prices)										
Merchandise exports (FOB)	26.5	20.3	11.1	12.9	-4.5	7.7	6.3	6.1	6.5	6.5
Primary	0.1	14.1	-5.4	26.8	-3.9	10.0	3.9	4.4	4.6	4.6
Manufactures	11.3	-7.8	12.6	24.1	-8.8	3.8	7.9	5.6	5.6	5.5
Merchandise imports (CIF)	3.6	2.3	2.3	22.7	9.3	4.2	5.1	5.3	6.0	6.2

a. GDP at factor cost.

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

**CAS Annex B6 - Key Economic Indicators  
(Continued)**

Indicator	Estimated					Projected				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Public finance (as % of GDP at market prices)<sup>e</sup></b>										
Current revenues	31.6	30.4	35.7	35.5	33.1	29.3	28.1	27.8	27.3	27.1
Current expenditures	29.0	26.9	28.7	28.3	31.2	26.6	24.2	22.4	21.7	21.1
Current account surplus (+) or deficit (-)	2.6	3.5	7.0	7.2	1.9	2.7	3.9	5.4	5.5	6.0
Capital expenditure	6.3	7.3	9.0	9.8	6.9	7.0	7.4	8.0	8.1	8.1
Foreign financing	74.1	6.1	1.1	0.4	-4.7	-1.5	-0.7	-1.3	-1.5	-1.4
<b>Monetary indicators</b>										
M2/GDP	123.6	124.2	129.7	129.5	135.6	133.7	132.1	131.8	131.2	131.9
Growth of M2 (%)	5.8	7.0	11.0	13.1	17.0	9.2	8.9	8.9	9.3	9.2
Private sector credit growth / total credit growth (%)	74.4	67.4	135.1	79.6	77.3	80.5	80.5	83.9	84.4	85.9
<b>Price indices( YR94 =100)</b>										
Merchandise export price index	107.2	107.6	107.8	120.3	139.0	138.4	139.2	140.2	141.3	142.4
Merchandise import price index	122.5	124.8	138.0	160.1	187.1	187.1	188.5	188.3	190.3	191.3
Merchandise terms of trade index	87.6	86.2	78.1	75.2	74.3	74.0	73.8	74.4	74.3	74.4
Real exchange rate (US\$/LCU) <sup>f</sup>	129.6	120.9	113.0	108.7	116.0	121.1	126.2	127.3	127.6	127.0
Real interest rates (private lending)	9.6	9.0	6.7	2.2	2.5	3.8	3.8	3.8	3.8	3.8
Consumer price index (% change)	1.8	1.8	1.6	3.4	3.5	4.6	4.4	3.0	3.9	2.8
GDP deflator (% change)	0.8	0.8	2.1	5.3	4.2	5.5	5.0	4.0	4.0	3.0

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

## CAS Annex B7 - Key Exposure Indicators

Indicator	Estimated					Projected				
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total debt outstanding and disbursed (TDO) (US\$m) <sup>a</sup>	7534	8108	8337	8315	8145	7671	7367	6917	6334	5830
Net disbursements (US\$m) <sup>a</sup>	396	182	-785	-285	-983	-394	-469	-450	-483	-504
Total debt service (TDS) (US\$m) <sup>a</sup>	483	414	1137	653	1573	943	915	810	779	753
Debt and debt service indicators (%)										
TDO/XGS <sup>b</sup>	120.7	116.5	114.2	97.1	85.6	73.6	64.9	56.1	47.1	39.7
TDO/GDP	83.9	84.8	82.1	72.2	63.3	53.8	46.9	40.3	33.7	28.5
TDS/XGS	7.7	6.0	15.6	7.6	16.5	9.0	8.1	6.6	5.8	5.1
Concessional/TDO	50.5	50.2	49.5	47.6	50.3	52.5	52.8	53.9	55.5	56.3
IBRD exposure indicators (%)										
IBRD DS/public DS	16.5	16.3	8.4	16.4	13.2	13.4	13.0	14.9	15.8	16.2
Preferred creditor DS/public DS (%) <sup>c</sup>	47.4	56.1	31.1	57.4	40.1	39.7	39.0	41.0	38.2	35.6
IBRD DS/XGS	1.7	1.4	1.3	1.3	1.3	1.2	1.0	1.0	0.9	0.8
IBRD TDO (US\$m) <sup>d</sup>	886	1020	1017	971	914	852	794	728	653	571
Of which present value of guarantees (US\$m)										
Share of IBRD portfolio (%)	0.7%	0.8%	0.8%	0.8%	0.7%	0.6%	0.5%	0.5%	0.4%	0.3%
IDA TDO (US\$m) <sup>d</sup>	55	52	50	47	45	42	40	37	35	32
IFC (US\$m)										
Loans										
Equity and quasi-equity /c										
MIGA										
MIGA guarantees (US\$m)										

a. Debt denominated in foreign currency, includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

## CAS Annex B8 - Operations Portfolio (IBRD and Grants)

(As of March 31, 2006)

**Closed Projects**                      **67**

<b>IBRD/IDA *</b>	
Total Disbursed (Active)	117.00
of which has been repaid	12.26
Total Disbursed (Closed)	1,957.57
of which has been repaid	1,205.46
Total Disbursed (Active + Closed)	2,074.57
of which has been repaid	1,217.72
Total Undisbursed (Active)	150.69
Total Undisbursed (Closed)	-
Total Undisbursed (Active + Closed)	150.69

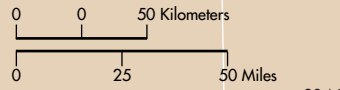
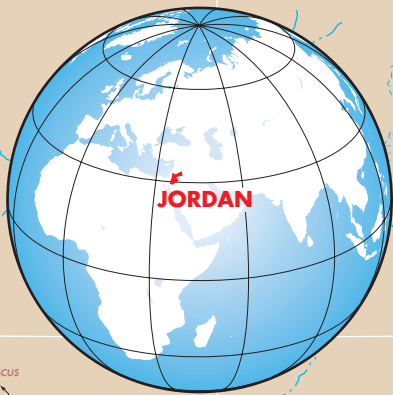
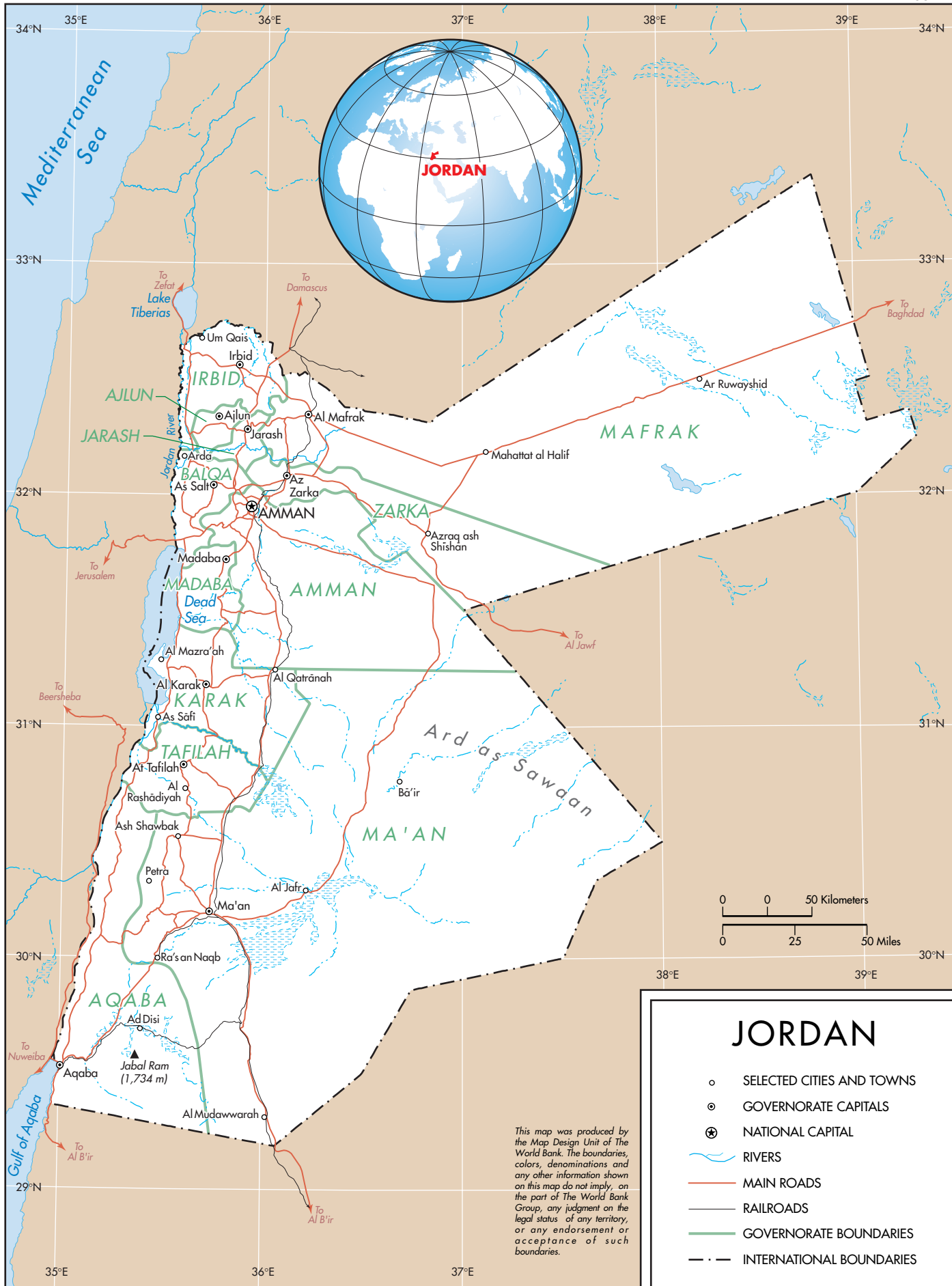
Project ID	Project Name	Last PSR			Amount in US\$ Millions			Difference Between Expected and Actual Disbursements	
		DO	IP	Fiscal Year	IBRD	GRANT	Undisb.	Orig.	Frm Rev'd
P049706	ODS Phaseout II	S	S	1997		5.0	0.9	0.4	0.1
P048521	Amman Water and Sanitation	S	S	1999	55.0		2.2	2.2	1.4
P069326	Higher Education Development	S	MS	2000	34.7		11.7	11.7	3.0
P076961	Horticultural Exports Promotion	MS	S	2002	5.0		3.0	3.0	0.0
P075829	Education Reform for Knowledge Economy	S	S	2003	120.0		83.5	31.4	0.0
P069847	Conservation of Medicinal Plants	S	S	2003		5.0	3.9	1.8	
P081505	Amman Development Corridor	S	S	2004	38.0		35.9	14.8	0.0
P091787	Public Sector Reform Capacity Building	MS	MS	2005	15.0		14.4	5.2	
<b>Total</b>					<b>267.7</b>	<b>10.0</b>	<b>155.5</b>	<b>70.4</b>	<b>4.6</b>

### CAS Annex B8 - Statement of IFC's Committed and Outstanding Portfolio

(Amounts in US Dollar Millions)  
(as of February 28, 2006)

Approval Fiscal Year	Institution Short Name	LN	ET	QL+QE	GT	RM	All	LN	ET	QL+QE	GT	RM	All
		Cmtd-IFC	Cmtd-IFC	Cmtd-IFC	Cmtd-IFC	Cmtd-IFC	Cmtd-Part	Bal-IFC	Out-IFC	Out-IFC	Out-IFC	Out-IFC	Out-Part
1987/ 1990/ 1993/ 1995/ 2003 1997	Al-Hikma	11.21	0.00	0.00	0.00	0.00	0.00	11.21	0.00	0.00	0.00	0.00	0.00
	BTC	1.56	0.00	0.00	0.00	0.00	0.00	1.56	0.00	0.00	0.00	0.00	0.00
2001	Boscan Jordan	7.20	0.00	0.00	0.00	0.00	0.00	7.20	0.00	0.00	0.00	0.00	0.00
1997	El-Zay	0.36	0.00	0.00	0.00	0.00	0.00	0.36	0.00	0.00	0.00	0.00	0.00
2006	Hikma UK	0.00	0.85	0.00	0.00	0.00	0.00	0.00	0.85	0.00	0.00	0.00	0.00
2001	Jordan Gateway	2.81	0.00	0.00	0.00	0.00	0.00	2.81	0.00	0.00	0.00	0.00	0.00
1999	MAICO	0.00	0.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2002	MEREN	4.40	0.60	0.00	0.00	0.00	0.00	4.40	0.60	0.00	0.00	0.00	0.00
2005	Nuqul	25.00	0.00	0.00	0.00	0.00	0.00	25.00	0.00	0.00	0.00	0.00	0.00
2000	SGBJ	0.00	2.09	0.00	0.00	0.00	0.00	0.00	1.06	0.00	0.00	0.00	0.00
1996	Zara	0.00	2.97	0.00	0.00	0.00	0.00	0.00	2.97	0.00	0.00	0.00	0.00
<b>Total Portfolio:</b>		<b>52.53</b>	<b>6.75</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>52.53</b>	<b>5.47</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>





## JORDAN

- SELECTED CITIES AND TOWNS
- ⊙ GOVERNORATE CAPITALS
- ⊛ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- GOVERNORATE BOUNDARIES
- INTERNATIONAL BOUNDARIES

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