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Report No. 49971-JO

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED

RECOVERY UNDER GLOBAL UNCERTAINTY DEVELOPMENT POLICY LOAN

IN THE AMOUNT OF US$300 MILLION

TO THE

HASHEMITE KINGDOM of JORDAN

October 19, 2009

Social and Economic Development (MNSED)
Middle East and North Africa Region

CURRENCY AND EQUIVALENTS
(Exchange Rate as of October 19, 2009)
Currency Unit = Jordanian Dinar (JD)
US$1 = JD 0.708
JD 1 = US$1.414

FISCAL YEAR
January 1 – December 31

ABBREVIATION AND ACRONYMS

CAS	Country Assistance Strategy
CASPR	Country Assistance Strategy Progress Report
CBJ	Central Bank of Jordan
EC	European Commission
ESW	Economic Sector Work
CPI	Consumer Price Index
DB	Doing Business
DPL	Development Policy Loan
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GFMIS	Government Financial Management Information System
GNI	Gross National Income
GoJ	Government of Jordan
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund
MENA	Middle East and North Africa
MNSED	Middle East and North Africa Social and Economic Development
MOU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
METAC	Middle East Technical Assistance Center
NAF	National Aid Fund
PER	Public Expenditure Review
PPP	Public Private Partnerships
QIZ	Qualified Industrial Zones
ROSC	Report on the Observance of Standards and Codes
SPEP	Social Protection Enhancement Project
SSC	Social Security Corporation
USAID	United States Agency for International Development
ZF	Zakat Fund

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HASHEMITE KINGDOM OF JORDAN

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TABLE OF CONTENTS

I. INTRODUCTION **1**
II. COUNTRY BACKGROUND **1**
III. MACROECONOMIC PERFORMANCE AND OUTLOOK **3**
A. Macroeconomic Developments Prior to Global Turmoil 3
B. Macroeconomic Outlook in the Context of the Global Turmoil 5
C. Debt Sustainability 10
IV. THE GOVERNMENT REFORM PROGRAM **11**
A. Long-Term Vision 11
B. National Agenda and Government Policies 11
Fiscal Adjustment and Reforms 12
Financial Sector Reforms 12
Business Environment Reforms 15
Social Insurance and Social Safety Net Reform 17
V. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM **18**
A. Links to the Country Assistance Strategy 18
B. Collaboration with the IMF and Other Donors 19
C. Relationship to Other Bank Operations 19
D. Analytical Underpinnings 20
E. Lessons Learned 22
VI. THE PROPOSED OPERATION **22**
A. Operation Description 22
B. Policy Areas 23
Fiscal Adjustment and Reforms 23
Financial Sector Policies 25
Business Environment Reforms 26
Social Insurance and Social Safety Net Reform 28
VII. OPERATION IMPLEMENTATION **29**
A. Consultations and Distributional Aspects 29
B. Environmental Aspects 32
C. Implementation, Monitoring and Evaluation 33
D. Fiduciary Aspects 33
E. Disbursements 34
F. Risks and Risk Mitigation 35

ANNEXES

ANNEX 1: LETTER OF DEVELOPMENT POLICY
ANNEX 2: POLICY MATRIX
ANNEX 3: COUNTRY AT A GLANCE (INCLUDES COUNTRY MAP)

This DPL was prepared by an IBRD team led by Sebnem Akkaya (MNSED) and included Anton Dobronogov, Chadi Bou Habib, Douglas Pearce, Jean Michel N. Marchat, Wael Mansour (MNSED); Bill Fox (Consultant); Gustavo Demarco, Haneen Ismail Sayed (MNSHE); Laura A. Ard (GCMCG); Robert Bou Jaoude (MNAFM); Sophie W. Warlop (MNCA2); Hyacinth Brown (CTRFC); and Kenneth Mwenda (LEGEM). Farrukh Iqbal (Sector Manager) and Ritva Reinikka (Sector Director) provided internal oversight. Excellent administrative support was provided by Muna Salim. The team is grateful for the close and productive cooperation of the Government of Jordan during loan preparation.

LOAN AND PROGRAM SUMMARY

HASHEMITE KINGDOM OF JORDAN
RECOVERY UNDER GLOBAL UNCERTAINTY DEVELOPMENT POLICY LOAN

Borrower	Hashemite Kingdom of Jordan
Implementing Agency	Ministry of Planning and International Cooperation
Financing Data	IBRD Loan Amount : US$ 300 million Financing Terms: Front End Fee to be capitalized, Loan product is Variable Spread, and Payment Dates are May 15 and November 15, conversion options for Currency, Caps/Collars and interest rate have been selected and will be paid by Borrower.
Operation Type	Single tranche Development Policy Loan to be disbursed upon loan effectiveness.
Main Policy Areas	This Development policy Loan supports the Government's efforts to address economic and social consequences of the current global financial crisis and economic slowdown while improving resilience of the Jordanian economy to adverse shocks. Four complementary policy areas are supported: (i) reducing fiscal vulnerability by broadening the tax base and enhancing effectiveness of government expenditures; (ii) strengthening the financial sector by further enhancing regulation and supervision and improving access to finance; (iii) improving the business climate to encourage more private sector investment; and (iv) facilitating access of vulnerable groups to a more effective and fiscally sustainable social protection system.
Key Outcome Indicators (by November 2010)	1) Reduced fiscal imbalances and enhanced macroeconomic stability • Reduced tax exemptions that distort relative prices and create inequity, and a new framework for scrutinizing introduction of future preferential rates. • Reduced expenditure pressures, improved fiscal sustainability and increased flexibility of the budget by reinstituting fiscal consolidation plan, including completion of subsidy reform. • New budget calendar, facilitating the first Cabinet discussion in the first quarter of 2010 on budget performance, strategies and priorities based on first such study. 2) Strengthened financial sector and broadened access to finance • All banks run first pilot stress test. Stress testing process becomes a part of individual banks' risk management process and Central Bank systemic evaluation; prospective capital needs become more measurable. • Plan for more comprehensive consolidated supervision adopted by Central Bank which will provide a more comprehensive and systemic view of potential threats and risks to the banking sector. • A step towards reducing barriers to SME and individual lending via issuance of a Request for Proposal for a provider to develop a credit bureau. • Risk monitoring enhanced by lowering reporting threshold to the public credit registry thereby increasing borrowers covered by 40,000, representing 14 percent of bank borrowers. 3) Further improvement in business environment

	• The minimum capital requirement for limited liability's companies is down to zero percent of GNI. • Four additional one-stop-shops outside Amman offering a full range of services. • Clear definition of secured creditor priority in bankruptcy case in a unique legal document. • Commercial cases are brought in eight selected courts outside Amman. • Increased use of on-line filing system for tax returns and electronic payment systems which are used by at least 10 percent of corporate tax payers. 4) Workers affiliated with Social Security Corporation (SSC) protected against the risk of becoming unemployed and the effectiveness of the National Aid Fund (NAF) is being increased • All SSC members covered by the new unemployment insurance scheme. • Coverage of target poor population by NAF assistance increase to 40 percent of those under NAF threshold.
Program Development Objective(s) and Contribution to CAS	The overall development objective of the DPL is to support the implementation of the Government's medium-term development program in the context of the current global financial crisis and economic slowdown. More specifically, the program supports following policy areas, aiming at strengthening the resilience of the economy to better position Jordan to resume and sustain high growth while cushioning the impact of the economic slowdown on the poor and vulnerable: • Reducing the fiscal vulnerability by broadening tax base, and enhancing effectiveness of government expenditures; • Increasing resilience of the financial sector by further strengthening regulation and supervision, and improving access to credit; • Improving the business climate to encourage more private sector investment; • Facilitating access of vulnerable groups to a more effective and fiscally sustainable social protection system. The DPL operation is a core element of the Bank's Country Assistance Strategy, CAS, (FY06-10) and the Country Assistance Strategy Progress Report (2009). It constitutes a strong support of the three pillars of the CAS which seek to "(i) strengthen the investment environment and build human resources for a value-added, skill-intensive and knowledge-based economy; (ii) reform social protection and expand inclusion; and (iii) restructure public expenditures and support public sector reform." By consolidating the Bank's long standing technical dialogue and assistance to support the key reforms in these areas, this operation is also expected to inform the preparation of the new CAS (scheduled for FY2011).
Risks and Risk Mitigation	The Program faces two main risks: *Economic risks.* The global crisis continue to unfold, exposing Jordan's economic prospects to risks driving from further weakening of global, and particularly Gulf, economy. At the source of these risks are still high level of public debt, large twin deficits and heavy dependence on remittances and foreign aid. While the risk of external instability arising from the capital account is mitigated by the fact that external debt is owed predominantly to official creditors, and reserves provide comfortable liquidity cover relative to short-term liabilities, heavy reliance on regional liquidity to sustain financing inflows translate into high external vulnerability. Exports,

	including tourism, and remittances could slow more sharply than anticipated as a result of the regional economic slowdown, while tighter liquidity in the Gulf countries may lead to lower capital inflows and grants. Lower economic activity and lower international prices, on the other hand, checks the growth of current account imbalance. If financing further dries, the contraction of real GDP and the increase in unemployment would be more pronounced over the coming year than anticipated. This would strain the banks and the corporate sector and would also create difficulties for the achievement of the fiscal targets. The risk of gradual economic recovery has been incorporated into the macroeconomic projections. The risk of external financing difficulties is mitigated by largely prudent policies supporting a measured external adjustment and adequate liquidity, Jordan's relative attractiveness to Arab investors, and significant donor support, including bilateral support from the US and Gulf states. *Weakening political support.* A prolonged and deeper domestic slowdown could add to social pressures, lead to backsliding on resumption of more disciplined approach to expenditure management policies, and adversely impact the health of the financial sector. In 2008 a resumption of expansionary fiscal policy in response to price shocks has led to adverse public debt dynamics and increased reliance on donor grants. This risk is addressed by the fact that key measures, such as control over excessive tax exemptions and capital spending, and elimination of remaining key subsidies, which will reduce fiscal pressures, are already being implemented as prior actions. Furthermore, the Governments medium-term fiscal framework which establishes the expenditure ceilings for 2010 budget and indicative ceilings for the next two years, constrains the room for excessive spending without matching revenues. The risks in the banking system have been further addressed through an active CBJ approach to identify risks and strengthen the supervisory powers. Similarly, major risks related to the implementation of specific program components are not foreseen because the reforms are mature, supported by technical assistance and widely discussed within the Government and with key stakeholders and donors.
Operation ID	P117023

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I. INTRODUCTION

1. **This document describes a Development Policy Loan for US$300 million to Jordan.** The operation supports the Government's efforts to address economic and social consequences of the current global financial crisis and economic slowdown while improving resilience of the Jordanian economy to adverse shocks. Specifically, it supports policy measures which (i) reduce fiscal vulnerability by broadening the tax base and enhancing effectiveness of government expenditures; (ii) strengthen the financial sector by further enhancing regulation and supervision and improving access to finance; (iii) improve the business climate to encourage more private sector investment; and (iv) facilitate access of vulnerable groups to a more effective and fiscally sustainable social protection system.

2. **Envisaged in the Country Assistance Strategy (CAS) for 2006-10, the preparation of this DPL in FY10 has been triggered by the second order effects of the global economic downturn on Jordan's economy.** The Government has requested the Bank to prepare the DPL as part of its rapid response actions aimed at supporting the real sector of the economy, including by diversifying its financing instruments (which over the recent years relied mostly on domestic market), while consolidating the long standing cooperation with the World Bank in advancing the key structural reforms that has been at the core of implementation of the CAS. The impacts of the unfolding global and regional economic slowdown, the Government response and proposed World Bank support are described in the following sections.

II. COUNTRY BACKGROUND

3. **Jordan is a lower middle income country with a population of 5.9 million and a per-capita GNI of US$3,310 (2008).** Jordan's natural resources are potash and phosphate—agricultural land is limited and water is considerably scarce. 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. Fertility rate (3.6 percent) is higher than Middle East and North Africa (MENA) and lower middle income countries average.[1] Jordan's economy is dominated by services, which account for over 70 percent of GDP and more than 75 percent of jobs. Jordanian policy makers' ambition is using the demographic opportunity of a very young population to move toward a high-wage, knowledge-based economy. This transformation would require policies that encourage business creation and remove the distortions that presently distract entrepreneurs from focusing on Jordan's comparative advantage: its relatively well-educated citizens; it also requires emphasizing the quality of education—areas of priority in Jordan's National Agenda.

4. **Notwithstanding the difficult regional political environment and the lack of resources, Jordan has achieved above-average development outcomes within its income group.** Underpinned by its strong trade links with the region, Jordan's economy has shown strong performance since 2000 with annual real GDP growth averaging 7.5 percent and per capita GDP more than doubling. Growth has been broad based, led by manufacturing, construction, real estate and services sectors. Inflation remained low

[1] World Development Indicators (2008). Fertility rates for MENA and lower middle income countries are 2.85 percent and 2.28 percent in 2007, respectively.

(except for the surge in 2008 driven by international oil and food prices) and although the external deficit widened, sizable FDI inflows enabled a steady and sizable increase in international reserves. This can be credited to sound development policies, recent substantial capital inflows and to one of the world's highest levels of unilateral transfers (workers' remittances and public grants, amounting to about 20-25 percent of GDP). However, Jordan is vulnerable to adverse external events, such as the recent increase in world oil and food prices and the global recession as well as deterioration in external flows.

5. **Over the last decade, Jordan has been very active in reforming its economy.** It has a sound record as one of the lead reformer in MENA, particularly in liberalizing private investment regime, opening the trade regime, establishing modern regulation and institutions for the private sector development and privatization, strengthening public financial management system and building human resources through a comprehensive education sector reform. The process of structural reforms has been accompanied by a painful fiscal consolidation that has steadily reduced government debt from above 200 percent of GDP in the early 1990s, to 62.4 percent by the end of 2008. While the price shocks in 2008 (which coincided with the elimination of oil subsidies) led to divergence from the fiscal consolidation efforts with wide-ranging compensation policy, the Government's continues to emphasize economic reforms and macro-fiscal sustainability. Sustained progress in the implementation of fiscal consolidation program, with increased emphasis on strengthening effectiveness of the expenditure management, and structural reforms are key to maintaining good economic performance and achieving faster decline in poverty in the period ahead.

6. **Achieving sustained growth and reducing unemployment and poverty are the main development challenges in Jordan.** Commensurate with strong growth in investments and GDP, labor force growth in Jordan has been strong.[2] However, unemployment among nationals declined slowly (from 14.5 percent during 2000-05 to 12.7 percent in 2008). Among the key factors explaining the simultaneous existence of high job growth with persistent unemployment among Jordanians are mismatches between the high expectations of the unemployed and the prevailing low wages of available jobs, and between the location of the new jobs created and those of unemployed.[3] While employment among those who actively seek work need to be supported through increased focus on skills, addressing voluntary unemployment requires aligning policies with the Jordan's aspiration for becoming a knowledge economy. Such alignment requires removing legal and regulatory distortions and encouraging creation of new businesses, while increasing incentives to accept existing jobs by ensuring social protection reforms to increase incentives to work and by removing disincentives caused by civil service hiring practices.

7. **While high, the poverty rate has been declining in recent years.** The 2006 Household Income and Expenditure Survey estimated that 13 percent of the Jordanian population is living below the national poverty line.[4] Contrary to public perception, poverty in Jordan dropped between 2002 and 2006,[5] but deep pockets of poverty persist—poverty in Jordan is shallow with large share of the population consuming at levels close to the national poverty line. The decline in poverty is explained by an increase in real expenditure especially among the poorest resulting from a robust GDP growth and increasing remittances since 2000.[6] In contrast, income levels remained stagnant over the same period. The Government has been providing cash transfers and various subsidies as part of its safety net, which

[2]From 2000 to 2005, the Jordanian economy created between 24,000 and 44,000 additional jobs per year which increased to 60,000-70,000 by 2008.

[3] World Bank (2008). Jordan's Labor Market Paradox

[4] The national poverty line is estimated at JD46.3 per person per month.

[5] Keeping the poverty line level of consumption fixed in real terms, adjusting for changes in prices over time and using 2006 as a base year standard of living, poverty declined from 20 percent in 2002 to 13 percent in 2006.

[6] World Bank and Jordan Department of Statistics, Ministry of Planning and International Cooperation (2008). Jordan Poverty Update

reached its peak in 2008 at the time of international price shocks. Focusing on mechanisms that are systematically included in the budget, such as revising the National Aid Fund targeting, is more effective in protecting the poor and vulnerable. Similarly, given that the labor income is the most important source of income for Jordanian households, fostering growth in poor areas and promoting broad-based growth, higher employment and productivity are important in attaining strong poverty reduction.

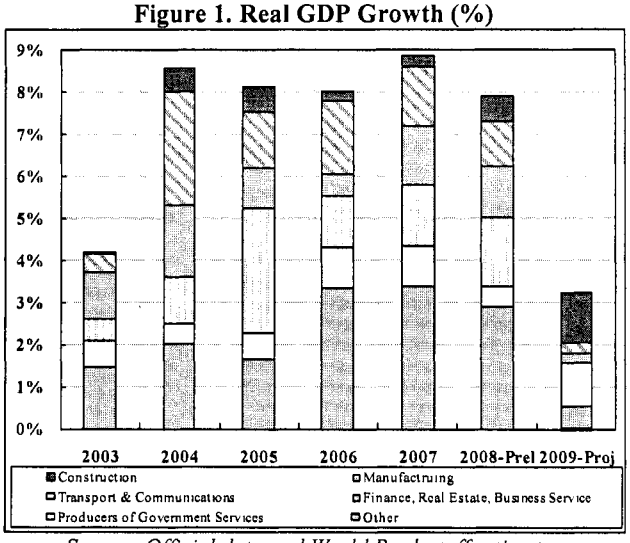
8. **Addressing these development challenges are the key priorities of the Government.** In 2005, a Steering Committee (including representatives from the government, civil society, private sector, Parliament, and media) completed the National Agenda—an ambitious development agenda to transform Jordan into a modern knowledge-based economy with higher value added, increased productivity, employment and welfare through sustained and broadly-shared growth, while achieving fiscal sustainability. Modernization of the country's economic, institutional and political infrastructure, reforming education, improving the business environment, and attacking deep poverty are at the core of this Strategy. The current Government's program presented to Parliament in December 2007 runs along the same lines of the National Agenda.

III. MACROECONOMIC PERFORMANCE AND OUTLOOK

A. Macroeconomic Developments Prior to Global Turmoil

9. **Jordan maintained strong growth performance in 2004-08.** Real GDP growth, after averaging 8.4 percent during 2004–07, stood at 7.9 percent in 2008. The economic performance reflected the increasing strength of sectors that have been benefiting from: i) high regional demand of services; ii) large inflows of capital, income, and transfers from the region; and iii) the consecutive rise in both private and public consumption. Among the leading sectors are services (hotels, transport, storage and communications, finance, insurance, real estate and business services) as well as manufacturing and construction[7](Figure 1). Collectively, these sectoral trends pointed to an increasing strength of non-traded goods and services in the Jordanian economy.

Figure 1. Real GDP Growth (%)



Source: Official data and World Bank staff estimates

10. **Inflation rose in line with world oil and food prices in 2008.** Average increase in the Consumer Price Index (CPI) remained in the range of 3.4–6.2 percent in 2004-07 but shot up to 14.9 percent in 2008 (combination of a 15.4 percent y-o-y increase in the first nine months of the year and of a 13.4 percent y-o-y increase in the last quarter). With imports to GDP ratio averaging to 91 percent during this period, a large portion of inflation was imported. The relative slowdown in the CPI starting in the last

[7] There has, however, been a marked slowdown in the performance of manufacturing in 2008 even before the onset of the global recession. This mainly reflected the decline in the exports of garments from the Qualified Industrial Zones (QIZ) to the USA—main destination for QIZ exports. And it is only partially related to the impact of the global recession on the demand from the US market; even prior to the crisis, QIZs were unable to compete with similar industrial zones that are developing activities particularly in Egypt.

quarter of 2008 reflects the sharp reversal in the trend of international fuel and food prices, which have brought import costs down.

11. **Gradual elimination of the oil subsidy significantly helped Jordan's fiscal position in recent years.** Starting in the early nineties, Government of Jordan fixed the retail price of oil and implemented a (budgetary) subsidy system in an effort to insulate the domestic market from fluctuations in international oil prices. This subsidy scheme increasingly weighted on the government's budget with the disruption of the preferential oil supply arrangement with Iraq (on a partly grant, partly preferential rate basis) in 2003 and the subsequent rapid rise in international oil prices. In response, the Government took a decision to gradually eliminate the subsidy scheme as part of its fiscal consolidation plan under the National Agenda: oil prices increased by almost 270 percent between July 2005 and April 2006 and the oil price subsidy eliminated as of February 2008. However, the associated loss in real income for low and middle income groups particularly in 2008 has largely been compensated by variety of measures, including tax reductions and exemptions, various subsidies/transfers and substantial public sector pay increase.

12. **The improving fiscal position was reversed in 2008.** After falling from 14.0 percent of GDP to 6.6 percent between 2003 and 2006, the budget deficit excluding grants has increased to 9.4 percent in 2008 on the back of higher expenditures (see Table 1.). The major source of the increase was the compensation package that the Government phased in through 2008 in order to mitigate for the sharp increase in domestic prices driven by the world prices. Additional foreign grants (reaching US$1,014 billion compared to US$485 million in 2007), helped to attenuate the strong rise in pre-grant fiscal deficits: foreign grants as a share of GDP increased from 2.8 percent in 2007 to 4.8 percent in 2008, financing just about half of the overall deficit in 2008.

Table 1. Fiscal performance 2003-2008

	2003	2004	2005	2006	2007	2008
Domestic revenues (% GDP)	23.2	26.5	28.6	30.1	30.1	26.7
Grants (% GDP)	13.0	10.0	5.6	2.9	2.8	4.8
Primary expenditures (% GDP)	33.8	35.6	35.9	33.7	34.6	33.6
o/w oil subsidies	1.2	3.2	5.9	2.0	2.5	1.3
o/w food subsidy	0.0	0.0	0.8	0.7	1.7	1.5
o/w social assistance	0.7	0.8	1.5	2.3	1.8	1.4
o/w social safety net	0.0	0.0	0.0	1.1	0.9	0.3
Interest expenditures (% GDP)	3.7	2.8	3.0	3.0	3.0	2.5
Fiscal deficit excl. grants (% GDP)	-14.3	-11.9	-10.2	-6.6	-7.6	-9.4
Primary deficit excl. grants (% GDP)	-10.6	-9.1	-7.3	-3.6	-4.5	-6.9
Public debt - Gross (% GDP)	99.7	91.8	84.0	77.4	74.2	62.4
Public debt - Net (% GDP)	98.2	88.8	83.7	69.9	68.0	56.8

Source : Official data

13. **The public debt declined significantly through 2008.** The mostly concessional nature of foreign lending and the fiscal consolidation efforts helped Jordan remain largely on track to reach the provision of the public debt law which capped the total (net) public debt ratio at 80 percent by 2007 (which was further reduced to 60 percent in 2009). In 2008, Jordan signed a debt buyback operation at an 11.0 percent discount rate with 10 Paris Club member states. The operation covered up to US$2.4 billion of foreign debt and the effective debt buyback after discount amounted to US$2.1 billion. It was financed by privatization proceeds (estimated at US$1.2 billion) and land sale. As a result, public debt declined from 74 percent of GDP in 2007 (below the cap) to 62 percent of GDP in 2008. At the same time, the

share of external debt in total debt declined to 39 percent (59 percent at end-2007), while the share of domestic debt increased to 61 percent (41 percent at end-2007).

14. **External current account deficit deteriorated and became volatile after 2004.** Jordan has maintained current account positions that were broadly balanced from mid-1990s through 2004. The deterioration in 2004-2005 and 2008 reflected an exceptionally rapid increase in imports, as the saving-investment balance shifted.[8] In 2008, the current account deficit was 11.3 percent of GDP, down from a peak of 17.3 percent in 2007. It continued to increase in the first three quarters of 2008, reflecting a significant increase (38.4 percent) in imports of goods and non-financial services, before falling sharply in the last quarter of the year, mainly due to the decline in the commodities prices following the international financial turmoil. The FDI financed about three quarters of the deficit, with remainder mostly coming from errors and omissions, possibly remittances from Iraqi migrants and overseas Jordanians. This allowed for a rise in official reserves which stood at 8.6 billion dollars by end 2008 (up from US$7.5 billion in 2007).

15. **Monetary policy has generally maintained the exchange rate peg.** The Jordanian dinar is pegged to the US dollar. After having depreciated by about 16.5 percent by end-2007 from its peak in 2002, the real effective exchange rate has appreciated by 8.4 percent in 2008. This reflected increase in oil and food prices which pushed up the inflation differential relative to trading partners, as well as strengthening of US dollar against other currencies. Facing inflationary pressures, resulting from rising commodity prices and the excess liquidity in the system (money supply increased by 17.3 percent in 2008), the Central Bank of Jordan (CBJ) increased its interest rates gradually during the first nine months of 2008; there was also an increase in the mandatory reserves requirements from 8 percent to 10 percent of total deposits. During this period, dollarization rate declined steadily to 21.7 percent (27 percent in December 2007).[9] According to the IMF staff assessment, real effective exchange rate is broadly in line with medium-term fundamentals. Over the recent years of a rapid increase in private sector credit growth, the CBJ has also strengthened the Bank regulation and supervision. Banks have been required to strengthen their risk management systems as well, and stricter provisioning rules have been introduced.

B. Macroeconomic Outlook in the Context of the Global Turmoil

16. **The global economic slowdown has created several medium-term challenges for Jordan.** The three most important of these are declining global oil prices (which have a positive impact on trade deficit but a negative impact on transfers and capital account), declining private capital flows to developing countries (which were a major source of growth for Jordan in the recent past), and sharply lower global and regional growth outlook (which affect exports and remittances). Reflecting these effects, domestic economic performance has worsened since September 2008. The collapse in commodity prices favored a reduction in expenditures through a decline in budgetary subsides but also generated a drop in tax revenues because of lower prices and lower economic activity. Also, while improving the current account balance, the decline in international prices and more broadly global turmoil has reduced foreign inflows, and negatively affected growth.

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[8] Jordan faced three major shifts in its external environment: (i) the exceptional provision and subsequent sharp cut- off in grants to the government following the onset of the Iraq war; (ii) a rise in global oil and food prices; and (iii) a surge in foreign investment inflows. The simultaneous impact of these external developments, coupled with strong economic growth, contributed to the large current account deficits in 2005 and 2007.

[9] This decline is mainly explained by the widening of the spread between interest rates on JD denominated deposits and international interest rates. Indeed, with the decline in the Libor, the spread between time deposits in JD and Libor-3 months increased from 58 basis points (bpt) in December 2007 to 240 bpt in September 2008.

17. **Economic activity is expected to slow significantly in 2009.** In the first quarter of 2009 (Q1-09), GDP is reported to have increased by 3.2 percent, well below the trend. According to the Bank's Quick Response Survey (QRS),[10] about two thirds of firms expect the same or a lower level of sales, exports, investment, and employment in 2009 compared to 2008. This situation contrasts with the one observed in the last quarter of 2008 when no firm expected to reduce labor force—a signal of the unfolding impact of the global/regional economic slowdown. As most of the surveyed firms (64 percent of them) export to the MENA region and to a smaller extent to Europe, it is not surprising to see a majority of firms expecting a decline—or at best stabilization—of their activity. According to preliminary figures, foreign direct investment (FDI) to Jordan declined by 80 percent[11] in the first quarter of 2009 (y-o-y)—data available for the past ten years show a strong sensitivity of FDI, exports of goods to the Arab countries, exports of services and remittances to the change in the international oil prices.

18. **Possible repatriation of Jordanian migrant workers may put further upward pressure on the unemployment rate.** Available data so far shows that unemployment rate is on the rise, reaching 13.0 percent in Q2-09 (y-o-y), up from 12.1 percent in Q1-09 and 12.5 percent in Q2-08. With the Gulf remaining the main destination for Jordan's emigrant labor, the economic slowdown there along with domestic economic slowdown could push Jordan's unemployment rate further up in 2009. Decline of remittances has been limited in the first half of 2009 (4.4 percent y-o-y), suggesting that repatriation of emigrant workers has been limited too; however there is a possibility for the repatriation to accelerate in the second half of 2009, putting additional upward pressure on the unemployment rate if realized.

19. **Preliminary data confirm the adverse impact of the economic slowdown on Jordan's fiscal balances.** While income tax revenues increased by 30.0 percent in the first seven months of 2009 (y-o-y), all other revenues are on the decline, with particularly large decline in land registration fees (39.0 percent). The overall increase in domestic revenues during this period is limited to 2.2 percent (down from 14.6 percent for the same period last year) while increase in expenditures is at 14.4 percent, despite some savings from budgetary subsidies due to sharp decline in international commodity prices. This implies significant divergence from the initial 2009 budget law, prepared before the onset of global economic crisis, which projected a 15.3 percent increase in revenues and a 13.3 percent increase in expenditures. The result is higher overall budget deficit, excluding grants, which is expected at 9.3 percent of GDP in 2009. Among the actions the Government is considering to contain the overall budget deficit at this level is reduction in this year's capital expenditures by 1.9 percent of GDP (from 9.1 to 7.2 percent), thus bringing the implementation rate of the capital budget close to the recent years average of about 85 percent, and public consumption by 1.2 percent of GDP (from 18.0 to 16.8 percent).[12]

20. **On the other hand, some macroeconomic variables such as inflation, the current account balance and reserves, are expected to maintain a favorable trend in 2009 relative to 2008.** This is largely because of the effects of much lower oil prices and lower imports (which declined by 23.1

[10] The survey covered 61 private companies in several major sectors of the Jordanian economy: food, chemicals, metal industry, tourism, garments and IT/electronics during April 2009. Total employment was 27,113 workers in this sample. The survey followed up on a similar exercise conducted in November 2008.

[11] This large decline partly reflects the inclusion of a large one-time sale of Aqaba port land in the corresponding FDI figures for the Q1-08. Excluding this transaction, the FDI in the Q1-09 declined by 56 percent (y-o-y).

[12] The Government of Jordan has revised the budget for 2009, taking stock of net effect of the drop in revenues, and subsidies and transfers, and envisaging (i) a less ambitious increase in public investment (to offset potential negative impact of the global economic slowdown on growth); and (ii) containment of public consumption. Domestic revenues in 2009 are declining because of the slowdown in activity; decline in prices of goods (decline in sales tax) and decline in FDI (drop in real estate registration fees).

percent[13] in the first half of 2009 compared to the same period in 2008) partially associated with lower investments. As a result, the trade-in-goods deficit during this period was significantly lower at US$3.4 billion compared to US$5.0 billion in the same period last year. Foreign exchange reserves of the CBJ increased to US$10.3 billion in July 2009 (equivalent to about 10.9 months of imports), from US$8.6 billion in December 2008, partly reflecting the continuation of the conversion from foreign currency denominated deposits to Jordanian Dinar (JD) denominated deposits.

21. **Jordanian banks' financial indicators were not immediately affected by the first round impact of the global financial turmoil but may begin to reflect the impact of the economic downturn.** Limited integration with global financial markets buffered Jordan from the recent turmoil preventing immediate and direct losses among banks. The aggregate nonperforming loan (NPL) ratio increased only slightly (from 4.1 percent in 2007 to 4.2 percent at year end 2008). However, the second round effects of the financial turmoil have the potential to develop into more discernable trends. Banks' credit portfolios are characterized as being relatively highly concentrated and the real estate, construction, and foreign trade sectors are vulnerable to weaker market activity. Banks with substantial exposures to these sectors as well as to markets abroad through their foreign operations are likely to be more adversely affected by the slowdown. Some deterioration in loan quality is expected by both the authorities and the banks as economic activity slows, the long period of high credit growth reverses, and property prices soften. Currently, banks are monitoring exposures closely and re-pricing credits and/or cutting credit lines to customers facing increased risks, especially in the real estate and foreign trade sectors. Notwithstanding a moderate decline in the banking system's capital adequacy ratio in 2008 due to implementation of Basle II standards, the aggregate ratio remains well above the 12 percent requirement. Although current indicators are stable, additional measures being taken by the CBJ are needed to identify, anticipate and manage risks.

22. **The Central Bank of Jordan has taken pre-emptive steps to maintain confidence and support the domestic money market.**[14] These measures include a full guarantee of all bank deposits by the Government until end-2009, scaling back operations to soak up liquidity, reducing policy interest rate (so far by 150 bps) and reducing the reserve requirements (from 10 percent in October, 2008 to 7 percent of total deposits). Currently, liquidity position of the banking system remains comfortable after bank deposits edged down slightly in October 2008.[15] The share of dinar deposits has continued to increase since then, reflecting the interest rate differential between dinar and dollar denominated deposits. At the same time, loan to deposit ratios have fallen from 72 percent in 2008 to 69 percent in the first seven months of 2009. Growth in credit to the private sector has slowed sharply, falling by 1.2 percent between August 2008 and July 2009 reversing the annual growth of 14 – 28 percent in each of the last four years. Bank lending to industry has been particularly affected (down by 7.5 percent in July 2009). While large well-known enterprises report renewed access to bank credit, banks are still very cautious about lending to small and medium enterprises given the lack of information and limited options for collateral.[16]

23. **The ongoing global economic turmoil and uncertain outlook pose exceptional challenges to Jordan's short- to medium-term economic prospects.** Jordan's strong regional ties provided a cushion

[13] The decline in the imports of goods is the combination of a 16.4 percent decline in prices and of an 8 percent decrease in volumes.

[14] CBJ followed a relatively tight monetary policy in the previous period in an attempt to dampen inflationary pressures.

[15] While demand for interbank loans diminished as excess liquidity in the banking system surged, some reluctance by banks to lend to one another may also be playing a role.

[16] Microenterprises though seem to be able to access increasing donor and government funds through non-bank microcredit institutions. The largest micro-lender, the Government-supported Development and Employment Fund, recorded a yearly increase of 28 percent in lending volume up to the first quarter of 2009.

in its exposure to global economic slowdown—given the relatively limited impact of the financial turmoil in MENA. Still the economic outlook is characterized by a high level of uncertainty, related to the evolution of world commodity prices, the level of foreign current and capital inflows as well as the regional security situation. Jordan has, however, demonstrated strong resilience to dramatic external economic and political shocks since 2003, maintaining focus on comprehensive development strategy. The Government's increasing emphasis on cushioning the population from the impact of the price shocks and economic downturn since 2008 led to a divergence from the fiscal consolidation program and erosion of fiscal gains achieved over the previous years. Looking forward, however, the ongoing efforts to re-institute the fiscal discipline and address the economic slowdown by accelerating the key structural reforms which have been under preparation over the last several years combined with selected short-term policy actions aimed at addressing immediate adverse impact of the crisis, augur well for a continuation of the more cautious economic policies of the recent years.

24. **Bank staff projections on the medium-term (2010-2012) take into account the importance of external economic environment for Jordan's economic prospects.** The base-case scenario takes account of: (i) the projected evolution of oil prices (and hence regional oil wealth) and their impact on foreign inflows and growth; (ii) the projected growth worldwide and its impact on Jordan's exports; the emerging favorable development of export activities to Iraq; and the slowdown in garments exports to the USA; (iii) the Government's 2010 fiscal policy mix which envisages adoption of new sales and income tax legislation, rationalization of tax exemptions, the containment of public consumption, including through liberalization of prices for barley and cooking gas oil, and rationalization of budgetary social safety net spending (mostly compensation spending).[17] Also, the projections take into account the feedback from the Bank's QRS on the expectation of the real sector representatives for sales, investments and exports over the near term.

25. **The above assumptions project a gradual economic recovery over the medium-term.** Following an estimated decline in real GDP growth to 3.2 percent in 2009, the growth is projected to recover gradually in 2010 (at about 4 percent), reaching to 5.0 percent in 2012, at par with the long term growth potential of Jordan's economy[18] but remaining well below the pre-shock average growth performance (see Table 2). Among the drivers of this gradual recovery are the expected (i) gradual recovery in regional oil wealth,[19] with the projected gradual increase in oil prices positively affecting Jordan's economy through exports, income transfers, remittances, FDIs, and portfolio investments; this positive impact will largely compensate for the negative impact of the rise in oil prices on Jordan's external balance; and (ii) positive response of domestic private investment to relatively relaxed monetary policy (given higher reserves and lower inflation), and ongoing improvements in the business environment.

26. **The twin-deficits are expected to improve during the projection period.** The current account deficit is expected to reach a low 9.7 percent of GDP in 2010, before settling at around 11.0 percent of GDP through 2012 with the gradual increase in imports. Reflecting the Government plan of containing key expenditures pressures and increasing the emphasis on effectiveness of expenditure management, fiscal balance gradually improves over the projection period. Accordingly, primary deficit after grants is projected to decline from 4.0 percent of GDP in 2009 to 2.6 percent of GDP in 2012, which help stabilize the debt to GDP ratio in 2010-2011 and put it in a downward path thereafter.

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[17] For the years 2010-2012, income tax revenues will most probably decline due to the cut in tax rates projected in the new tax law currently debated in the Parliament.

[18] The long term growth for Jordan over the period 1992-2008 has been 4.8 percent on average per year.

[19] Reflecting projected gradual increase in oil prices from average of US$60 per barrel in 2009 to US$80 per barrel in 2012.

27. **The base case described above is subject to risks emanating from the uncertain global environment.** If oil prices remain at around US$50 per barrel range, then lower regional demand of goods, services and labor, and lower regional transfers and capital inflows will have a modest contribution to economic growth.[20] A lower demand from Iraq for Jordan's exports and a lower worldwide growth will have similar effects as lower oil price. Under these circumstances, Jordan will benefit from the positive effect of lower oil prices on inflation and on current account deficit. However,

Table 2. Jord: 's Medium-Term Macro Outlook

	2007	2008	2009	2009	2010	2011	2012
	Actual	Preliminary	Original Prg.	Estimated	Projected		
National Accounts							
Real GDP Growth (%)	8.9	7.9	5.5	3.2	3.9	4.5	5.0
Real Gross Domestic Investment Growth (%)	4.0	10.5	9.4	-24.8	5.1	11.2	11.2
Nominal GDP (US$ million)	17,024	21,261	23,864	22,845	24,778	27,033	29,869
Prices							
GDP Deflator (change in %)	5.3	15.7	6.4	4.1	4.4	4.4	5.2
Consumer Price Index (change in %)	5.4	14.9	6.0	1.6	4.9	5.1	5.1
Imports Price Index (change in %)	13.6	20.5	1.5	-6.7	2.3	2.9	1.5
Money & Banking							
Growth of Money Supply (%)	10.6	17.3	14.4	9.5	11.3	12.2	12.4
Total Deposits-Resident (% of GDP)	111.4	103.9	105.6	107.1	109.9	113.0	115.0
Lending to the Public Sector to Total Banks Assets (%)	13.3	20.1	19.5	21.3	22.0	22.3	22.6
External Accounts							
Balance of Trade in Goods & Services (% of GDP)	-38.3	-32.4	-38.0	-21.7	-21.4	-22.5	-22.2
Current account balance (% of GDP)	-17.3	-11.3	-18.5	-10.1	-9.7	-10.8	-11.3
Foreign Direct Investments (% of GDP)	16.1	11.8	12.2	4.2	4.6	5.6	5.8
Remittances (US$ million)	2,997	3,166	4,077	2,607	2,693	2,854	2,930
International Reserves (US$ million)	7,548	8,568	7,485	8,450	8,567	8,552	8,540
Fiscal Accounts (% of GDP)							
Total revenues	**32.9**	**31.5**	**32.3**	**28.7**	**28.7**	**28.6**	**28.4**
Domestic revenues	30.1	26.7	28.3	26.0	26.3	26.4	26.4
Grants	2.8	4.8	4.0	2.7	2.5	2.2	2.0
Total expenditures	**37.7**	**36.1**	**36.4**	**35.2**	**34.4**	**34.1**	**33.8**
Primary current expenditures	28.0	27.3	25.8	25.4	24.2	23.8	23.4
o/w wages and salaries	4.7	4.8	4.5	4.7	4.7	4.6	4.6
o/w oil & food subsidies	4.2	2.8	1.7	0.8	0.6	0.6	0.5
Total interest expenditures	**2.7**	**2.5**	**2.6**	**2.6**	**2.7**	**2.7**	**2.8**
'Interest expenditures on domestic debt	1.4	1.7	2.0	1.9	2.0	2.0	2.1
'Interest expenditures on foreign debt	1.3	0.9	0.6	0.7	0.7	0.7	0.6
Capital expenditures	**7.0**	**6.3**	**8.1**	**7.2**	**7.5**	**7.7**	**7.7**
Fiscal balance excluding grants	-7.6	-9.4	-8.1	-9.3	-8.1	-7.7	-7.4
Fiscal balance including all grants	-4.7	-4.6	-4.1	-6.6	-5.6	-5.4	-5.4
Primary balance excluding grants	-4.9	-6.9	-5.5	-6.7	-5.4	-5.0	-4.7
Primary balance including all grants	-2.1	-2.1	-1.5	-4.0	-3.0	-2.8	-2.6
Gross Public Debt over GDP	74.2	62.4	59.7	64.6	65.2	65.2	64.4
Memo items							
Average International Oil Prices (US$ per barrel)	72.5	96.8	94.5	60.0	65.0	75.0	80.0
Net Public Debt over GDP (%)	68.0	56.8	52.8	57.5	..	..	..

Source: Official data and World Bank staff projections

[20] Data from the recent past show that a one percent change in oil prices could generate as high as a 2.0 percent change in FDI, a 0.4 percent change in remittances, a 0.88 percent change in exports to Arab Countries and a 0.7 percent change in the exports of services. For example an oil price of US$50/barrel in 2010-11 could lead to inflation lower by 0.5 percent and to a 2-3 percentage point improvement in the current account deficit. However, growth could decline by 0.5 percentage points and primary deficit rise by 0.7 percentage points.

policy-makers may be tempted to rely more on fiscal policies and on debt financing of public deficits in order to promote growth. On the contrary, if oil prices rapidly increase, and if Iraqi and international demand for Jordan's goods and services remain strong, then the role of exogenous factors in growth dynamic will prevail as well experienced in 2008. Fiscal and monetary policy will then have to focus on containing inflationary pressures, growing current account deficit, and pressures for faster improvement in living standards (commensurate with overall economic performance) through higher public spending.

28. **On the financing side, Jordan has recently shifted towards lesser reliance on domestic borrowing.** The context of global financial crisis and the significant increase in the financing requirement[21] has recently led the Government to revise its sources of fiscal deficit financing particularly for 2009. Given the comfortable liquidity in the market in recent years of high external inflows, the Government opted for increasing net financing from domestic sources, which led to a major shift in the composition of the public debt even before the external debt buyback operation in 2008 (see para.13). However, in a context where liquidity in the market might be less abundant than in the past few years, and where public financing requirements are higher, that financing option may significantly suck up liquidity otherwise available for the private sector and other economic agents. That in turn could adversely affect private investment and undermine growth and job creation. While the Government is seeking to finance a portion of its now higher financing requirements from external borrowing (including through the proposed DPL) or higher access to foreign grants, it remains cautious about resorting to a sovereign exposure to the international market.

C. Debt Sustainability

29. **Jordan's public debt can be kept on a sustainable trajectory provided fiscal adjustment continues.** Public debt has been significantly reduced in 2008 with debt to GDP ratio dropping by over 10 percentage points to 62.4 percent, thanks to the Paris Club debt buyback as well as rapid nominal GDP growth. The IMF staff assessment based on the original 2009 budget[22] suggested that in the absence of fiscal consolidation measures, the ratio is likely to increase by about one percentage point per year over the medium term (through 2014). Since then the Government took actions to contain expenditures in 2009 especially in the face of much weaker-than-envisaged revenue performance in the original 2009 budget. The Government's Medium-Term Fiscal Framework[23]for 2010-2012 envisages further significant reduction in public expenditures in terms of GDP at 1.4 percentage points compared to 2009 (see Table 2.). A stronger discipline in fiscal policy—keeping debt increases below the rate of growth of the economy—will, in turn, put the debt ratio on a downward path by 2012. Overall, the Jordanian policy makers' successful policies in improving fiscal and debt sustainability over the past decade makes the achievement of their envisaged fiscal adjustment over the medium term plausible: for instance, the debt to GDP ratio was successfully brought down by about 40 percent between 1999 and 2008, as the primary deficit (including grants) was, on average, in balance during this period. While Jordan's debt outlook remains vulnerable to adverse shocks, they are unlikely to put the debt on unsustainable trajectory unless their magnitude is unusually large. In this regard, the Bank and Fund analyses implies that if fiscal adjustment is implemented, such events as a one-half standard deviation shock to real growth, interest rates, and the primary balance, or a combined one-fourth standard deviation shock, or a 30 percent real exchange rate depreciation, are unlikely to bring the debt to GDP ratio above its 2007 level (74.2 percent)

[21] The financing requirement after grants is estimated to reach 6.6 percent of GDP in 2009 (or US$1.5 billion), significantly up from 2005-07 levels of around 3.7-4.7 percent of GDP (or US$550-800 million) and 2008 level of 4.6 percent of GDP (or US$979 million).

[22] Jordan: 2009 Article IV Consultation – Staff Report (May 2009)

[23] The Medium Term Fiscal Framework provides the basis (including aggregate expenditure ceilings and deficit targets) for roll-out of the Medium Term Expenditure Framework, which collectively feed into Jordan's Budget Law that is being prepared on a three-year basis since 2008.

in the medium term. Jordan's external debt is relatively low: its ratio to GDP declined sharply to 25 percent after the buyback in 2008.

IV. THE GOVERNMENT REFORM PROGRAM

A. Long-Term Vision

30. **Becoming a modern knowledge-based economy with higher value added, increased productivity and employment is at the core of Jordan'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. The Government acknowledges that this requires a modern and efficient administration, and a more open and participatory policy.

B. National Agenda and Government Policies

31. **Jordan's National Agenda was prepared in 2005 by a Steering Committee including representatives from the government, civil society, private sector, Parliament, and media.** The National Agenda is an ambitious 10-year development agenda to transform Jordan from a lower-middle income country into a modern knowledge-based economy with higher value added, increased productivity and employment, and improved quality of life for Jordanians. The National Agenda distinguished three consecutive phases: the first phase (2007-2012) is focusing primarily on improving the business environment, creating employment opportunities, and building the skills needed for the knowledge economy. The second phase (2013-2017) focuses on strengthening the industrial base, and preparing the ground for the development of high value-added sectors in the knowledge economy. The final phase (2018-onward) would complete Jordan's transformation to a world class competitor in the global knowledge economy.

32. **The first phase of the National Agenda includes multi-ranging development areas.** Among these areas are political development and inclusion, justice and legislation, investment development, financial services and fiscal reform, employment support and vocational training, social welfare, education, scientific research and innovation, and infrastructure upgrade. The Government programs approved since then, including the *executive program for Kuluna al urdun* (2007-2009)—"We are all Jordan" initiative—have been consistent with the goals of the National Agenda, and further defined and complemented its socio-economic objectives by setting up short- to medium-term initiatives aiming also to increase participation and inclusiveness.

33. **The National Agenda includes a number of key performance indicators to measure its implementation.** The Agenda was complemented by broad strategies, policies and quantifiable objectives in an integrated way, providing general guideline actions for the policy makers. The Government has made progress on the macro-economic and social quantitative indicators included in the Agenda, particularly in the areas of growth, budgetary subsidy polices and public debt, poverty, and education. To address the impact of the recent exogenous shocks, the GoJ has taken a set of actions that had not been envisaged during the preparation of the Agenda. While the ongoing global economic crisis may render some of the targets difficult to reach by their due dates, the Government remains firmly committed to reaching the National Agenda's development objectives and the strategies envisaged are being implemented.

Fiscal Adjustment and Reforms

34. **The National Agenda calls for radical fiscal reforms to improve budget performance and increase Government efficiency.** The Agenda puts its emphasis on addressing expenditure pressures in order to control the budget deficit especially to address vulnerabilities due to the expected decline in foreign grants and increase in international oil prices over time. Among the key reforms to improve the budget performance are (i) phasing out oils subsidies by 2007 along with eliminating other subsidies; (ii) pension reform; (iii) reform of civil service pay and grading system to improve productivity; (iv) accelerating privatization and channeling the proceeds to facilitate the fiscal reforms; (v) tax reform to simplify the procedures, ensure fairness, broaden the tax base and improve collection performance; and (vi) modernization of customs administration. As discussed throughout this document, the Government has made a considerable progress in implementing and or initiating most of these critical reforms, which will strengthen fiscal management. Areas where the progress has been limited are reforms in pay and grading system and overall human resources management to streamline government. Yet progress has been registered within several ministries/public institutions using different tools such as the King Abdullah II Center for Excellence, which plays an innovative role in promoting excellence in service delivery by public sector institutions.

35. **The National Agenda focuses on a comprehensive public sector reform program and e-government program for improving Government efficiency.** An area with steady implementation progress is the public financial management reform. A number of PFM reforms are currently underway, following the introduction of a three-year medium term expenditure framework (MTEF) with the 2008 budget, a new Chart of Accounts, revision to the budget planning timetable to allow for the Budget to be promulgated prior to the start of new fiscal year and revision of Jordan's Organic Budget Law. These reforms include installation of a Government Financial Management Information System, GFMIS (expected to be piloted in six ministries by January 1, 2010), completion of a Treasury Single Account (MoF is in the process of finalizing the bidding process with the banking sector), further development of the MTEF, and implementation of steps towards the introduction of some results-orientation in the budget process. When it becomes operational, the GFMIS will significantly improve data reliability and will enable more timely and accurate centralized accounts reconciliation.

36. **A recent review of progress with public expenditure management and the MTEF reforms that were initiated in 2007 noted that despite significant progress in a short time, Jordan is still at an early stage of these reforms.** While MTEF roll out had been constrained by the wider demands of a comprehensive PFM reform agenda, the macroeconomic and fiscal analysis underlying the Budget had been significantly enhanced, the budget planning horizon had been extended to three years, improved procedures for setting ministry resource ceilings had been adopted, performance indicators have been introduced into the budget documentation, and new policy-led budgeting procedures were being piloted in some ministries such as Health Care and Education. However, the experience under the MTEF has shown that linkages between planning and budgeting needs to be further strengthened. Capacity limitations both in central and line ministries have also been highlighted. Implementation of the expenditure planning reforms has also been overly focused on project spending with limited attention given to improving the effectiveness and efficiency of recurrent spending. In order to handle these challenges, the Government plans to put a stronger focus on the efficiency and impact of public spending in budget analysis and preparation, including through strengthening the strategic phase of the MTEF/budget preparation.

Financial Sector Reforms

37. **The National Agenda puts its emphasis on strengthening governance and structure of financial services, facilitating funding to start-ups and SMEs, and developing the insurance sector.**

Through these reform, policy-makers aim at consolidating the substantial progress that the banking and insurance sectors made in updating the organizational frameworks and control procedures governing company operations as well as in introducing new financial instruments, and increasing competition and focus on retail banking.

38. **The CBJ has continued to carry forward the strengthening agenda through further development of bank supervision and ongoing updating and issuance of a number of regulations.** The updating and refining of bank regulations over the last few years has brought Jordan more closely in line with international standards. Some of the areas addressed through this effort include, *inter alia*: prompt corrective action, licensing, asset and liability management of foreign currency, business continuity, asset classification, corporate governance, internal control, and liquidity requirements for Islamic banks.

39. **The CBJ has required banks to comply with the Basel II Capital Accord, effective 2008.** CBJ continues to require much more focus by banks on risk identification, anticipation, and management processes. Preparation of an annual Financial Stability Report has begun, increasing the transparency of banking sector condition as well as policy making.

40. **The CBJ has also taken a number of measures to promote financial sector stability in the wake of the global financial and economic crisis.** Banks are being encouraged to build capital buffers, both through increased profit retention and through capital injections by shareholders, and the CBJ continues its efforts to oversee the implementation of the Basel II capital accord. The staffing of the supervisory function has recently expanded with the employment of fifteen new staff and a new on-site supervisory manual is in the final stages of preparation. Global consolidated supervision is being pursued. The CBJ recently conducted examinations of selected bank operations of Jordanian banks abroad and intends to continue this program of supervisory visits in the coming year. In this context, it has increased contacts with foreign supervisory agencies and has established memorandums of understanding (MOU) with thirteen foreign financial sector regulators and two domestic regulators. Furthermore, plans for a formal consolidated supervisory approach are being prepared which will include, inter alia, continuation of supervisory reviews of Jordanian banking operations abroad, periodic supervisory monitoring of consolidated banking entities, and further interaction with other supervisors.[24] A review of the existing legal framework to determine if it provides adequate scope to execute comprehensive consolidated supervision will also be conducted.

41. **Currently, the CBJ is in the process of enhancing the implementation of stress testing of banks and indentifying follow up actions.** Going forward, the exercise will be conducted annually and will be used to assist in identifying and analyzing various forms of banking risk, to contribute to the analysis of capital adequacy under different scenarios, and when necessary, to identify the possible need to require remedial actions from banks. Likewise, it will provide banks' and the CBJ an additional tool with which to identify developing systemic trends. In the future, banks will be responsible for conducting their own "bottom up" stress tests on a semi-annual basis using CBJ provided parameters as well as their

[24] The supervisors aim at continuing to evaluate the relevant consolidated entities, ensuring ongoing documentation and updating of the full range of relationships banks have with not only downstream subsidiaries and affiliates, but with other entities which form economic relationships with the bank or are otherwise in a position to impact the risk profile and capital of the bank. The supervision effort would include both evaluation of relevant group-wide business strategies and their impact on the banking entity; group-wide risk management and financial control processes; effectiveness of capital (on a solo and consolidated basis); and establishment of regulatory reporting (solo and consolidated) for the bank group as a whole and its relevant relationships to enumerate more formalized supervisory strategies for each group based on the above evaluations.

own developed assumptions. The CBJ will review the banks' established assumptions and will expect banks to address any issues or trends that are highlighted from the exercises.

42. **The CBJ and banking sector are also in the process of undergoing a complete revamp of their statistical and regulatory reporting.** This is intended to achieve several goals: (i) upgrade and automate regulatory reporting so that it feeds into the Early Warning System (EWS); (ii) provide additional granularity needed to accumulate data series to measure compliance with Basel II; (iii) meet the (standardized) statistical data reporting configurations prescribed by IMF which will allow more concise reporting of positions; and (iv) present the monetary and banking statistics on the website (and elsewhere) with more depth and accuracy (e.g., additional detail will be provided on (aggregate) loan portfolio breakdown (housing, SME, corporate and the like), capital position, off balance sheet info, etc.). The project is currently in process with threshold dates set for various achievements during the upcoming months. The first run pilot test for system-wide reporting is currently scheduled for the end of 2009.

43. **The GoJ signaled its commitment to improving access to financial services when it adopted the National Microfinance Strategy in 2005.** This set out a market-oriented vision for microfinance, with the public sector providing an enabling policy and legal framework, and not directly providing financial services. The National Agenda emphasizes the importance of access to financial services for socio-economic development, in particular for SME development and for the poor and marginalized. Jordan has one of the highest rates of market coverage (46 percent) for microcredit in the region. Microfinance institutions lend to low income borrowers (average loan balance is less than one-third of GDP per capita) and to women, who make up 84 percent of microfinance institution clients. Microfinance institutions are not allowed to also directly offer savings and payment services, so broader microfinance access is much more restricted. The GoJ retains an indirect involvement in the sector as the principal source of funding for the largest micro-lender, the Development and Employment Fund, which accounts for 22 percent of the total $29 million microcredit portfolio in Jordan. The GoJ also provides guarantees to promote SME finance by commercial banks, through the Jordan Loan Guarantee Corporation.

44. **More recently the GoJ has initiated wide ranging legal and financial infrastructure reforms to broaden access to financial services.** The CBJ has embarked on lowering the threshold on credit reporting by banks and thereby so far doubled the number of borrowers included in the public credit registry, while improving the timeliness and quality of the reported data. The Ministry of Industry and Trade has led the preparation of a draft law to allow the creation of a private credit bureau, which would further reduce credit risk by including information on all borrowers, by including non-bank lenders such as financial and leasing companies, and by enabling banks to expand SME and consumer lending safely using credit rating and scoring techniques. The draft law is consistent with data privacy and consumer protection aspects, with written consent by borrowers envisaged for information disclosure. Collateral constraints to increased access to finance have also been eased alongside credit information deficiencies, through the 2008 Financial Leasing Law. Further progress would be achieved through a Secured Transactions Law that would allow the use of movable assets as collateral and out-of-court collateral enforcement. This is consistent with the National Agenda commitment of "modernizing the law on mortgaging of immovable properties."

45. **Telecoms and payments innovations show promise for improving access to finance in Jordan.** The national e-commerce strategy formulated by the Telecommunication Regulatory Commission identified mobile phones as a promising channel for e-commerce. Jordan has one of the highest levels of mobile phone use in MENA outside of the GCC, with penetration rates estimated at up to 80 percent, and high levels of remittance transfers linked to the large share of foreign nationals living in Jordan. There is interest by leading mobile network companies in Jordan to roll out e-payment and transfer products, given a clearer legal and regulatory environment for this activity.

Business Environment Reforms

46. **A key element of the National Agenda is to make Jordan an attractive location for knowledge-based private investment in order to support further job creation.** This rests on the fact that the earlier waves of reform initiated in the mid 1990s did not trigger a sufficiently strong private sector response.[25]

47. **Past structural reforms liberalized the private investment regime, opened the trade regime and overhauled customs administration, and established more modern regulation and institutions for private sector development and privatization.** To complement structural reforms, Jordan broadened its free trade agreements (in the region, with EU and the USA) and engaged in an extensive privatization program.[26] By 2006, 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.[27]

48. **Despite these significant structural reforms and open access to markets, the private sector response has not been strong enough to make a stronger impact on unemployment.** Among the key factors behind this outcome is the persistence of cumbersome bureaucratic procedures, red tape, and poor public service delivery, which increase transaction costs for the private sector. The indicators of Doing Business from 2004 to 2008 show that Jordan, while performing close to regional averages, 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.

49. **In 2008 the GoJ launched a Public Private Partnership program while broadening and deepening its investment climate reform process.** The GoJ has adopted a more strategic approach to capital formation, combining efforts to improve the investment climate and attract/encourage private business investment, which involves promoting Public Private Partnerships (PPPs) for selected infrastructure investments, and reserving the GoJ-only investment for general public goods.

50. **In parallel, GoJ's efforts to improve business environment gained depth and pace.** In 2008, the GoJ put together a Committee to coordinate and facilitate faster improvement in the business environment headed by the Ministry of Planning and International Cooperation. The Committee, which includes representatives of ministries and agencies concerned, devised a strategy to improve the business environment in Jordan on the basis of the framework provided by the Doing Business (DB) report, and key areas of concern underlined by the 2007 Investment Climate Survey. Key areas in the GoJ's plan include:

- *Improving entry and exit regulations to foster competition.* In mid-2008, the GoJ reduced the minimum required capital to establish an LLC (from 795 percent of GDP per capita in 2007 to 24 percent in 2008) to encourage businesses to enter the formal sector. This effort is now being furthered within the upcoming new Companies Law, to abolish both the minimum capital requirements for LLC and the requirement for depositing 50 percent of the capital of LLCs in commercial banks. Other measures in preparation include expanding facilities for e-payment of registrations fees and taxes,

[25] World Bank (2002). *Jordan Development Policy Review: A Reforming State in a Volatile Region*, Washington DC. and World Bank (2006). *Country Assistance Strategy for the Hashemite Kingdom of Jordan: 2006-2010*, Washington DC.

[26] Recent significant achievements include a major privatization deal in the energy sector obtained in October 2007 by selling 51 percent of the Central Electricity Generating Company to the newly formed Enara Company and an initial public offering by the national carrier Royal Jordanian's in December 2007 making 74 percent of the shares available for sale (with the government keeping 26 percent).

[27] World Bank (2006).

expanding the one-stop-shop with specialized offices (municipality office, public notary, chamber of commerce, chamber of industry, Income and Sales tax office) for company registration and improving the bankruptcy and insolvency procedures;

- *Improving the tax administration process.* All tax forms has been simplified by the GoJ since late 2008 and an investor's guide to all taxes in Jordan has recently been prepared (April 2009). In early 2009, an online filing system for Income Tax has become operational and, following a 2008 amendment of the relevant legislation,[28] limited electronic payment facilities have been made available through the proprietary IT system of the Income and Sales Tax Department. While this is a major improvement, the system is still in its infancy.[29] Its slow start is largely due to technical limitations, a relative lack of confidence by corporate tax payers in the security of the system and a preference for paper receipts. In the coming months, the GoJ plans to significantly improve and expand the system.
- *Improving further the working of customs in order to facilitate trade.* The introduction of the ASYCUDA World System[30] and its integration with the Single Window system[31] currently operational in Aqaba, the Comprehensive Integrated Tariff System (CITS),[32] and many other Customs systems since April 2009 will increase the efficiency of the Customs clearance process and therefore greatly facilitate trade.
- *Improving contract enforcement procedures.* Since early 2009, specialized sections (Maritime Law, Companies and Commercial Agencies, Intellectual Property, Liquidation and Bankruptcy, Documentary Credit and Letter of Guarantee) have been created in the first court of Amman which handles roughly 80-85 percent of the civil cases (incl. business disputes) in the country. In addition, a computerization of case management and an electronic filing system are now being implemented in all courts. In the upcoming year, the GoJ expects to create similar specialized sections in the remaining 16 first instance courts of the country outside Amman. This new system should better facilitate the resolution of business disputes once it is fully operational.

51. **There has also been renewed emphasis on strengthening the framework for investment development and growth across regions.** A new Economic Zones Law has been prepared for discussion in the upcoming session of the parliament. In order to rationalize the management of the zones and the incentives which are provided for investors, this law proposes the establishment of a single authority that will merge the tasks of overseeing the activities of three existing categories of zones (development, free and industrial zones). This new authority will be autonomous, and will have the ability to conduct management of the zones and establish other contracts (including contracts related to selling and renting land). In addition, a new Investment Promotion Law is being drafted for discussion in the upcoming session of the Parliament. If approved, it would transform Jordan Investment Board into a pure investment promotion agency without any kind of registration activities.

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[28] The Ministry of Information and Communications Technology, in cooperation with the Ministry of Finance, amended the Legislation Number 40, in a manner that allows for e-payment transactions to take place. This was published in the official gazette on March 27, 2008.

[29] In effect, as of July 2009, out of the 700 large corporate tax payers registered for online filling of their income tax return (i.e. which received a username/password combination to access the system), only 10 effectively used the system to fill their returns.

[30] The ASYCUDA world system allows Customs Administrations and traders to handle most of their transactions—from Customs Declarations to Cargo Manifests and Transit documents—via the Internet.

[31] A single window system enables international (cross-border) traders to submit regulatory documents at a single location and/or single entity. The Single Window is intended to reduce the number of transactions to a minimum, reduce error rate, speed up clearance time, and drastically reduce the face-to-face contact between traders and government agents so as to enhance transparency.

[32] CITS is a "middleware" application that provides all necessary information to importers and exporters on the internet, without exposing the sensitive and classified information records available in the clearance software databases of ASYCUDA.

Social Insurance and Social Safety Net Reform

52. **Among the key themes of the National Agenda is social welfare which consists of three priority areas: (i) public health care, (ii) social security and (iii) poverty alleviation.** In public health care, the main challenges being addressed are developing a cost effective medical insurance system to cover all Jordanians, reforming health sector policies and improving the institutional framework, and enhancing the operational efficiency of the public health care system. In social security, the GoJ embarked on a reform plan to expand coverage, revise benefits and eligibility criteria, and ensure financial sustainability of the Social Security Corporation (SSC). In the poverty alleviation area, the priorities have been to reduce poverty rates via a series of strategic and institutional reforms, including renewal of the National Aid Fund, providing assistance to the unemployed poor to integrate in the workforce, increasing penetration of microfinance services in poor communities, among others.

53. **The social security system of Jordan provides old age, disability and survivors' pensions but is not financially sustainable as currently structured.** It covers 36 percent of the labor force at a cost of 5.7 percent of GDP—among the highest in the region. According to World Bank projections, the pension system administered by the SSC will face a financial deficit by 2012 and depletion of reserves by 2027. The conclusions of different analysis jointly conducted by the World Bank and SSC reaffirmed the urgent need to introduce reforms to make the system sustainable in the long term. In addition to this, the SSC needs to substantially increase the scope of the social security programs in areas such as maternity benefits, unemployment and health insurance.

54. **The SSC has prepared an ambitious reform proposal addressing the most critical issues.** It includes the following: (i) adjusting pension benefit formulas and eligibility conditions to ensure financial sustainability and equity; (ii) expanding coverage by extending the mandate to contribute to firms of less than five employees; (iii) introducing savings mechanisms to protect workers against the risk of income loss due to unemployment; (iv) introducing maternity benefits to finance maternity leave currently paid by employers to eliminate a significant disincentive to hire women; and (v) introducing social health insurance mechanisms.

55. **A major achievement to date in the social insurance reform process is the approval in June 2009 by the Cabinet of the new draft Social Security law submitted by the SSC.** The law will serve as basis of a comprehensive social insurance reform and is currently being considered by the extraordinary session of the parliament. As part of the reform process, the SSC also developed a comprehensive program to build institutional capacity with the support of the World Bank and other partners, including participation of staff in technical workshops, specialized training courses in different areas of social security, local and international conferences, international fora, etc.

56. **The reform of the social safety net and the renewal of the National Aid Fund is a key priority for Government.** The objective of the safety net reform is to improve the operations and management, coverage of the targeted poor population, and targeting efficiency and effectiveness of the cash assistance extended to the population through the National Aid Fund (NAF).

57. **Overall, Jordan has most of the programs commonly found in a relatively well developed and diversified social safety net system.** Classified into three general categories, these are: (i) income support to poor and vulnerable families, implemented by two key institutions, the NAF and the Zakat Fund (ZF); (ii) social care services to vulnerable groups such as people with disabilities, children, families and women in distress, and others; and (iii) economic empowerment through skills and asset development. Total public spending on safety nets is estimated at more than 1.0 percent of GDP, with

two-thirds (0.6 percent) spent through the NAF. The total number of beneficiaries is estimated at about 8-10 percent of the population, with NAF reaching 4.0 percent of the population.

58. **Several issues concerning the performance of the safety net programs have emerged, in particular the NAF.** The main issue is that the poverty impact of the cash transfers has been found to be modest: a major segment of the poor is not reached (low coverage) and the leakage of resources to the non-poor is substantial. In 2006, only some 20 percent of people under the threshold for the NAF assistance received NAF benefits, comprising 14 percent of the total number of recipients; and only some 20 percent of recipients rose above the poverty line as a result of receiving NAF benefits.[33] It is important to note, however, that NAF is most likely reaching a larger number of its target population (such as certain categories of the population) within the targeting criteria that it currently applies.

59. **Recently completed studies, including background documents prepared for the National Agenda, point to several factors behind the relative inefficiency and ineffectiveness of the NAF.** These include (i) weaknesses in targeting method: NAF uses a combination of categorical and income based targeting which are not most suitable for Jordan's economic structure (high level of informality and seasonality); (ii) an incomplete policy and institutional framework; (iii) overlapping institutional mandates as well as fragmentation and duplication of programs; and (iv) weak monitoring mechanisms and modest use of Management Information System in managing programs. The GoJ is in the process of initiating a NAF renewal process which aims at addressing these issues.

V. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

A. Links to the Country Assistance Strategy

60. **The Bank Group assistance program supports the Government's overarching objectives of poverty reduction and productive jobs creation.** The program is set out in the Country Assistance Strategy (2006-10) that was presented to the Board of Executive Directors in May 2006. The structure of the CAS is based on four clusters: (i) strengthening the investment environment and building human resources for a value-added, skill-intensive and knowledge-based economy; (ii) supporting local development through increased access to services and economic opportunities; (iii) reforming social protection and expanding inclusion; and (iv) restructuring public expenditures and supporting public sector reform.

61. **The CAS Progress Report was completed in March, 2009 and has concluded that the four clusters remain consistent with the governmental priorities and are relevant in guiding the Bank's future program choices.** The CAS envelope included US$540 million in IBRD lending (base case), of which $240 million investments, US$100 million in partial risk guarantees, and US$200 million in development policy loans. As of now, all the investment operations envisaged in the CAS have been approved for a total commitment amount of US$230 million, and US$95 million in guarantee, leaving the development policy loans with an allocated envelope of US$200 million available in the final year of the CAS implementation. The context of the global financial crisis led the Government to be prudent about its financing needs in 2009 and to request a larger loan amount of US$300 million. Indeed the Government is keen to avoid crowding out the private sector in the domestic market for finances by diversifying its financing instruments, which over the recent years relied mostly on domestic market.

62. **The CAS PR envisages that two criteria will guide the Bank's engagement in Jordan over the last year of the CAS implementation with a view to being able to quickly respond to requests**

[33] This analysis, utilizing the 2006 Jordan HIES, is based on the households' per capita annual consumption of JD396. A similar analysis was carried out using a special survey in 2007 from which similar results emerged.

from the GoJ. These are: (i) focus on select sectors with the highest contribution to the GoJ's strategic objectives and in which the Bank can serve as a catalyst for reform; and (ii) focus on addressing emergency issues, particularly the impact of the global economic and financial downturn on Jordan's economy. The proposed DPL is consistent with this engagement strategy and consolidates the Bank's long standing technical dialogue and assistance to support the key reforms in growth, macro-fiscal stability, and social protection policy reforms. The new Country Assistance Strategy (scheduled for FY2011) is envisaged to continue Bank support in these key areas of reform in Jordan as the country moves to the implementation of the next stage of its National Agenda.

B. Collaboration with the IMF and Other Donors

63. **The Bank and the Fund teams maintain close collaboration.** The World Bank-IMF Financial Sector Assessment Program for Jordan (finalized in March 2009) informed the financial sector component of this loan. The other areas of joint work cover ongoing technical assistance to Ministry of Finance in developing medium-term debt management strategy, and assessment of progress and way forward with public financial management reforms. Cooperation also includes the review of macroeconomic developments. The Bank has discussed with the IMF about the content of the DPL program and will continue to do so in the near future. The Fund will provide the Bank with an Assessment Letter of the Government's reforms. Jordan has no formal program with the Fund, though relations are close. The Fund undertakes two Article IV missions a year and has provided technical assistance to the CBJ, including through its Middle East Technical Assistance Center (METAC). This has covered the budgeting and costing framework, external sector statistics (foreign direct investment survey, balance of payments and international investment information, collection and compilation of remittances data) and monetary and banking statistics. METAC has also been providing technical assistance to the Ministry of Finance in cash management and treasury single account.

64. **The Bank has good collaboration with USAID and European Commission (EC), both of which have a strong local presence in Jordan.** USAID-funded technical assistance for the Government in reforming the business environment has covered: property registration, a bankruptcy and insolvency law, the private credit bureau law, and an expansion of the e-filing regime for tax payments; and in reforming the fiscal management has covered: comprehensive tax reform, introduction of result orientation to the budget, improvement of budget classification and financial management system. USAID has been coordinating technical assistance support in these areas both with the IFC and the IBRD. The proposed DPL program is consistent with the key findings and recommendations under these technical assistance programs. The Bank has also been collaborating closely with the EC in the implementation of technical assistance for the introduction of the Medium Term Expenditure Framework process, whereby the EC assistance focuses on sector level budget preparation, particularly on the education sector. Finally, social insurance is an area where the International Labor Organization and the Bank has been providing complementary technical assistance.

C. Relationship to Other Bank Operations

65. **The proposed DPL complements the Bank's other activities in Jordan which encompass investment lending, AAA, and technical assistance.** Among the investment operations, the proposed DPL has strong links with the Social Protection Enhancement Project, SPEP, (US$4 million, FY08), which is designed to support the implementation of the NAF renewal plan by improving the management and operations of the cash social assistance programs and the access to and quality of social care services. In addition, IFC is extensively involved in the financial sector, focusing on promoting access to finance by: promoting leasing by strengthening the legislative regime and clarifying the tax treatment of leasing; supporting the preparation of the corporate governance code for banks in Jordan; supporting the

microfinance sector; stimulating the housing finance market through an investment in a new mortgage finance company and advisory services to support new legislation for the sector; and assisting the GoJ in drafting the new legislation that will regulate the sharing of credit information. Through its Global Trade Finance Program, IFC also supported the capacity of three commercial banks to deliver trade financing through partial or full guarantees covering payment risks on banks in the emerging markets for trade related transactions. In addition, a US$50 million IFC equity investment (IFC's largest equity investment in the banking sector in Jordan) in Capital Bank supports the bank in its small and medium enterprise and housing finance strategy, promoting better corporate governance standards, and helps with future regional expansion.

D. Analytical Underpinnings

66. **The proposed DPL is underpinned by a series of recently completed and ongoing analytical and advisory tasks, programmatic technical assistance, and projects.** The proposed policy actions and outcomes are founded on a continuous engagement of the Bank in the four areas covered under the proposed DPL: fiscal adjustment, financial sector, business environment, and social insurance and safety nets, with a comprehensive list of the analytical and advisory activities presented in Table 3.

67. **The ongoing programmatic assistance in public financial management initiated in 2006 underpinned the need for further fiscal consolidation and more efficient public spending in Jordan.** The joint Bank-GoJ Public Expenditure Review highlighted the importance of rationalizing levels of public expenditure and prioritizing sector resource allocations in order to reflect better the government's policy priorities. Follow-up policy notes/dialogue on the budget reform process and macro/fiscal-sustainability set the stage for moving from a retrospective analysis of spending trends to a forward looking analysis for implementing budget reform with the aim of integrating planning and budgeting processes. Since 2007 the Bank has assisted the GoJ with the introduction and implementation of the Medium Term Expenditure Framework (MTEF) with emphasis on strengthening the policy orientation of the budget planning reforms. The assessment of the global financial crisis impact, which examined mechanisms of transmission of the financial crisis to the Jordanian private sector and real economy, and the ongoing study on price shocks and subsidy reforms identified areas of fiscal vulnerability and selectively quantified the gains/losses of compensation policies, confirming the need for fiscal consolidation to reduce fiscal imbalances and strengthen the effectiveness and efficiency of public spending.

68. **The investment climate survey, the business environment seminar/dialogue, and IFC's study on doing business better in Jordan, and technical assistance on licensing and inspection reform** identified and sought to address (in a consultative way) constraints to doing business in Jordan. The key recommendations included: streamlining regulatory framework (including obtaining licenses and permits, contract enforcements and the justice system), reforming taxation and tax administration, providing demand-driven skills training for workers, providing greater opportunities for private employment agencies to operate in Jordan's labor market, and developing the capacity of insolvency administrators. The GoJ has accelerated its efforts to address these issues since last year, which informed the key DPL measures in streamlining regulatory framework and improving tax administration.

69. **The financial sector assessment program update (FSAP) and the Insolvency and Creditor Rights Report on Observance of Standards and Codes (ROSC)** completed in 2009 identified measures needed to improve the transparency of the banking sector through re-examining regulatory reporting, dissemination of information and enhanced analytical capacities. The FSAP observed the need to continue focusing on risk assessment and risk management systems in the Jordanian banking sector and recommended the adoption of an enhanced stress testing exercises as part and parcel to the banking sector

oversight process. It further encouraged a move to more formalized consolidated supervision. The FSAP and ROSC also outlined legal and institutional reform actions that have informed the proposed policy matrix actions for access to finance. Improved sharing of credit information was highlighted in both, as well as by the 2003 Financial System Stability Assessment, and the Doing Business analysis. The agreed policy actions would improve the quality of credit information and reporting, and provide the legal basis for a credit bureau to share borrower information.

70. **The ongoing programmatic assistance on social insurance identified key areas of reforms and provided the continued assistance to the GoJ**. This assistance channeled to: (i) adjust the pension benefit formulas and eligibility conditions to ensure financial sustainability and equity; (ii) improve the administrative capacity of SSC to perform its tasks and invest its reserves efficiently; (iii) review the mandate of the SSC and achieve a more balanced mix between public and private sources of savings for retirement; (iv) develop an integrated regulatory framework for voluntary private pensions; (v) identify appropriate mechanisms of coverage expansion through contributory and non-contributory schemes to cover the long-term poor; (vi) introduce savings mechanisms to protect workers against the risk of income loss due to unemployment; and (vii) improve social health insurance mechanisms in order to increase the overall efficiency, reduce high costs and better allocate resources of the health system.

Table 3: Analytical and Advisory Activities Underpinning the Operation

Policy Area	AAA, TA and Project Activities	Type	Status
Fiscal Adjustment	Public Expenditure Review 2006-07	ESW	Completed
	Programmatic TA on Public Expenditure Management 2007-09	PSEW	Ongoing
	Price Shocks and Subsidy Reform: Fiscal and Poverty Impact Std. 2008	ESW	Ongoing
	Impact on the Real Economy and Private Sector Assessment	ESW	Periodic
Financial Sector	Financial Sector Assessment Program Update 2008-09	Advisory	Completed
	Report on the Observance of Standards and Codes 2008-09	Advisory	Completed
	Jordan Leasing Project (IFC) 2006	Advisory	Completed
	Microfinance Project (IFC) 2007	Invest./Advisory	Completed
Business Environment	Investment Climate Survey 2007	ESW	Completed
	Investment Climate Seminar 2008	Advisory	Completed
	Doing Business Better in Jordan (IFC) 2009	Advisory	Completed
	Licensing and Inspection Reform Program (IFC) 2007	TA	Ongoing
Social Insurance and Safety Net	Poverty Update 2008	ESW	Completed
	Poverty Institutional Framework 2007-08	TA	Completed
	Wage and Earnings Statistics 2008	TA	Completed
	Programmatic TA on Social Insurance 2006-09	PSEW	Ongoing
	Strategy for Modernization of Social Safety Nets 2007-08	ESW	Completed
	Investment and Labor Market 2007	ESW	Completed
	Institutional Financial Management Capacity Asses.-Social Sector 2007	ESW	Completed
	Social Protection Enhancement Project 2008	Lending	Ongoing

71. **The modernization of social safety net report and the follow-on social protection enhancement investment project identified the need to modernize and scale up the National Aid Fund.** The reforms identified include: (i) shifting from the current targeting mechanism (category-based) to a proxy-means tested (PMT) targeting mechanism; (ii) developing monitoring and impact evaluation mechanisms of services; and (iii) coordinating with other social assistance institutions (i.e. Zakat) to better target resources towards at-risk groups, particularly children, youth and the disabled. In addition, Institutional Financial Management Capacity Assessment report for social sectors pointed to the need for further enhancement of the financial management and reporting systems of the NAF, which is being addressed through the NAF renewal and modernization process.

E. Lessons Learned

72. **Lessons learned from implementing policy reform based operations in Jordan and elsewhere highlight that country ownership of the proposed policies and a clear strategy to move forward is key for success.** Country ownership is also emphasized in both the CAS and CAS PR as being critical for the success of the Bank's program. As a consequence, the DPL and, more broadly, the overall dialogue and program of the Bank in Jordan are well aligned with Government's reform strategy in the National Agenda and complementary programs.

73. **Strong analytical underpinnings and links to the Bank operations and technical assistance programs provide foundations for a well-designed and cohesive policy reform based operation.** The key pieces of analytical and advisory activities shown in Table 3 above contributed not only to the design of the proposed DPL, but also helped inform and facilitate the reform efforts of the Government and supported a fruitful policy dialogue.

74. **Realistic policy reform agenda in terms of content and risks has also been important factors that need to be weighed carefully in the preparation of the operation.** Drawing from this, the proposed DPL focuses on reforms implementation of which consolidates key set of reforms under the first phase of the National Agenda, paving the way for broadening and deepening the reforms under the Government's comprehensive development strategy. Ensuring the understanding of and the appropriate support for reforms through well implemented communication strategy of the government should be part of its overall efforts to maintain the implementation momentum.

VI. THE PROPOSED OPERATION

A. Operation Description

75. **The proposed operation is designed to support the implementation of the Government's medium-term development program.** The overall development objective of the DPL is to support the implementation of the Government's medium-term development program[34] in the context of the current global financial crisis and economic slowdown. More specifically, the program supports following policy areas, aiming at strengthening the resilience of the economy to better position Jordan to resume and sustain high growth while cushioning the impact of the economic slowdown on the poor and vulnerable (the next section and Annex II show the main policy actions supported by the proposed operation):

[34] This is broadly described by the National Agenda as "stimulate economic development and improve social welfare and security through reforms revolving around creating a favorable investment environment, fiscal discipline, justice, accountability, transparency, employment support, economic competitiveness, supporting small and medium enterprises..." National Agenda, Government of Jordan, (2006-2015), page 4.

- Reducing the fiscal vulnerability by broadening tax base, and enhancing effectiveness of government expenditures;
- Increasing resilience of the financial sector by further strengthening regulation and supervision, and improving access to credit;
- Improving the business climate to encourage more private sector investment;
- Facilitating access of vulnerable groups to a more effective and fiscally sustainable social protection system.

76. **The Bank has maintained a continuous dialogue in the above policy domains and hence has a high degree of confidence regarding their strategic importance.** Reforms in these integrated policy areas will not only support macroeconomic stability, at present perceived as the most important business-enabling issue, and growth, but will also pave the way for advancing Jordan's structural reform agenda which envisages progressively promoting higher value-added sources of growth and job creation in transitioning economic sectors to the knowledge economy. This single tranche DPL operation consolidates the Bank's long standing technical dialogue and assistance to support the key reforms in these areas. Further implementation progress of specific program components over the period ahead are expected to continue because the reforms are mature, supported by technical assistance and widely discussed within the Government and with key stakeholders and donors. This operation will inform the preparation of the new CAS which will facilitate continuity in the reform dialogue.

B. Policy Areas

Fiscal Adjustment and Reforms

77. **The main objective of prior actions in this policy area is to support Government's efforts to reinstitute the fiscal consolidation plan so as to reduce large fiscal imbalances and to maintain macroeconomic stability.** In pursuit of this objective, prior actions have focused on broadening the tax base, and improving efficiency and effectiveness of the public expenditure policies, including through enhanced processes for formulation and evaluation of fiscal policies.

Prior Action 1: *The Cabinet has issued a decision that (i) eliminated tax exemptions without specific duration or amount and issued under the Cabinet's authority; (ii) made Cabinet consideration of any new exemption conditional on an explicit framework that identifies the rationale, costs in foregone revenues, and establishes a specified duration; and (iii) clarified that no tax exemptions will be proposed through non-tax legislation.*

In Jordan the extent of tax preferences granted by the Cabinet through differential rates and project specific exemptions has increased significantly over the past few years and is currently excessive—the total forgone revenues have reached over US$1.2 billion in 2008 (or approximately one-third of tax revenues), nearly three times as high as their 2005 level. The exemptions are generally granted for individual projects and for specific commodities. The greatest revenue loss has been in sales and customs taxes. For instance, the existing sales tax legislation contains 240 preferred items, of which 128 items were articulated last year by the Cabinet in response to sharp price increases.[35] The Government's proposed new draft Sales Tax Law carries forward these preferential rates while eliminating the continued occurrence of this practice for commodities by allowing the Cabinet to reduce (but not increase) the extent of such preferences without going back to Parliament.[36] In

[35] A wide set of transactions are taxed below the standard rate (16 percent) by the use of four preferential sales tax rates (exemption, 0, 4, and 8 percent).

[36] Some of these exemptions such as for food stuffs, were intended to lower the cost of consumer goods at a time when prices were rising rapidly. Others were expected to help industries, such as construction and tourism that

addition, emphasizing that the preferential tax policies distort relative prices, harm equity and reduce revenues, the Government is in the process of reviewing all exemptions previously provided by the Cabinet that have no limit on their duration or amount, and rationalizing the granting of project specific exemptions through much tighter scrutiny of when they should be provided.

Prior Action 2: *The Prime Minister has issued 2010 Budget Circular including (i) the medium-term fiscal parameters for 2010-12 with a revised budget for the fiscal year 2009 as a baseline in which 2009 public expenditures, other than subsidies, were reduced by at least 4.0 percentage points of GDP compared to original 2009 budget law; and (ii) a comprehensive policy framework—including stable wage and salary expenditures in terms of GDP compared to the fiscal years 2008-09 and termination of remaining subsidies for oil derivatives and barley—and resulting expenditure ceiling, which translates into a lower budget deficit before grants by at least 1.0 percentage point of GDP in 2010 over 2009.*

Excessive public expenditures and resulting high budget deficits reduce Jordan's fiscal space and increase the country's vulnerability to the risks created by the external shocks as well demonstrated since 2008. Some of the expenditures, such as commodity subsidies, were reduced automatically as the global economic slowdown put a downward pressure on the global commodity prices in 2009. However, these reductions were insufficient to ensure that public finances are on a sustainable trajectory. Originally in its 2009 budget law, the government planned to sharply increase capital expenditures in order to provide a stimulus to the domestic economy. However, once negative implications of the global downturn for the budget revenues were realized and it became clear that the balance of risks was shifting toward putting fiscal deficit in an unsustainable trajectory, the government took a bold step of reducing this year's capital expenditures (to levels more at par with those in recent high growth years), thus demonstrating its commitment to continued enhancement of fiscal sustainability.

While first steps toward resuming fiscal consolidation have been taken in 2009, more needs to be done to ensure that Jordan's fiscal position becomes robust in the face of large external uncertainties the economy will face in 2010. As capital expenditures are essential for ensuring the longer-term economic growth, optimization of current expenditures also needs to be considered to make sure that they neither crowd out capital spending, nor increase the risk of macroeconomic instability. In 2008, the GoJ compensated the loss in real income associated with the doubling of the world price of oil and food (hitting Jordan particularly heavily through high import costs) by a fiscal stimulus from a variety of mitigation measures in which largest single components were the wheat and fodder subsidy and the increase in government wages. Based on expected high inflation, 2009 budget also provided a significant compensation vis-à-vis inflation for government wages which exceeded the intended compensation by the government in the face of a sharp reversal in inflation.[37] In line with its planned more cautious fiscal policy approach over the medium-term, the government will put the emphasis on protecting the share of wages and salaries in GDP. In addition, as part of its overall subsidy reform program that has been initiated in 2006, the government has eliminated remaining barley subsidies which will help in putting Jordan's current expenditures into a more stable path.

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were affected by the global crisis. The exemptions that are intended to enhance specific industries are particularly unlikely to have productive outcomes (the primary beneficiary will be the service providers themselves thereby distorting relative investment alternatives in Jordan) since they reduce revenues, distort relative prices, and harm equity with little probability that they stimulate economic activity.

[37] According to the Government projections, the CPI inflation in 2009 is expected to remain low at around 1.6 percent, much lower than 6.0 percent projected under the 2009 budget program, when the 2009 wage and salary compensation scheme was introduced. The result is significant excessive spending of 0.8 percent of GDP in 2009. Based on experience in countries applied it in the past, forward looking compensation system (i.e. based on expected inflation), carries a high risk of creating a wage-price spiral. In addition, it leads to an excessive spending when the inflation projections are subject to high margin of error.

Prior Action 3: *The Ministry of Finance has adopted an enhanced budget calendar to strengthen the initial strategic phase of budget preparation, during which budget performance, strategies and priorities are reviewed and medium-term spending requirements evaluated. The calendar includes Cabinet level consultations in the first quarter of each fiscal year on the key parameters and issues underlying the development of the MTEF based on a Budget Policies and Priorities Paper.*

The current downturn in the economy highlights the importance of stronger focus on identification of budget policy and priorities and on the efficiency and impact of public spending—with a more balanced approach to improve effectiveness and efficiency of both capital and recurrent spending. Adoption of a revised budget calendar allowing for establishment of a practice of cabinet level consultations in the first quarter of each year on the budget policy and priorities—setting out the key issues and parameters against which the Budget is to be prepared—will greatly enhance institutional framework in fiscal-policy making. The Ministry of Finance has set up this process this year, in order to guide the development of the future MTEFs based on a Budget Policy and Priorities Paper for Cabinet discussion annually over the coming period. This is being complemented by establishment of a new policy analysis unit in the General Budget Department for in-depth budget analysis.

Financial Sector Policies

A. Strengthening of the Regulatory and Supervisory Framework

78. **The main objective of this component is to support the CBJ in its continuing effort to promote financial sector stability and bank soundness.** Prior action focus on the CBJ's efforts to identify and to respond to existing, perhaps previously unidentified risk through actions to apply more rigorous risk management, and improve capital adequacy and address systemic trends.

Prior Action 4: *The Central Bank of Jordan has completed a first run of stress testing on the aggregate banking sector balance sheet and has issued guidelines on stress testing to individual banks; first run stress testing by each individual bank has been completed.*

The recent financial market turbulence and the subsequent global economic slowdown have reinforced the need for financial institutions and supervisors alike to possess the necessary tools with which to identify and anticipate existing and developing risks and to be able to quantify and react to those risks. The CBJ is in the process of introducing tools with which to expand analysis of banking sector risks through stress testing selected bank and market variables. This will help banks and the CBJ to anticipate the impact of adverse market movements, identify risks that may not be immediately evident, and flag the possible need for corrective actions by banks. Not only will this facilitate bank and supervisory response to potential risk, but the process will feed into the requirements of the second pillar of the Basel II Capital Accord for adequate supervisory review processes. The CBJ has completed a first run stress test analysis and has issued guidelines to banks that provide directions and parameters for their own stress testing, analysis and risk projections. In response to the stress testing, the CBJ has also undertaken supervisory follow up to initiate preventative and corrective actions as necessary.

79. **In parallel, the CBJ is pursuing consolidated supervisison.** One of the issues brought to light by the recent global market turmoil was the nature and the extent of risk taken by expansive and sometimes remote operations of financial institutions, some of which had not received adequate supervisory attention and scrutiny. To avoid similar risks from accumulating and becoming a threat to systemic soundness, the CBJ has also initiated a plan for consolidated supervision of the relevant banks in the sector and recently undertook onsite inspections of the foreign operations of selected domestic

institutions. It has also prepared concrete plans for additional onsite reviews of selected foreign Jordanian bank operations in 2010 and has entered into a total of fifteen MOUs with domestic and foreign regulatory bodies. Dialog with foreign supervisors continues in an effort to receive and process various sources of technical and market information through which to oversee the relevant banking groups. The near-term steps envisaged include establishment of an adequate legal scope to effectively conduct comprehensive consolidated supervision and expansion of supervisory strategies for the relevant institutions to ensure review of the entire consolidated group in which a bank resides, governance structures, group risk profiles, and central control functions.

B. Access to Finance

80. **This component supports the Government's objective of increasing employment and reducing poverty through improved access to finance.** Improved access to finance for SMEs will contribute to achieving the National Agenda target of raising SME's contribution to employment in Jordan to 45 percent in 2017. Bank lending as a transmission mechanism for the economic slowdown is amplifying the impact on SMEs and risks constraining private sector employment and holding back the ability of the SME sector to play its part in economic recovery. The prior action for access to finance build on the Government's program to improve the legal and policy infrastructure for restoring and expanding access to finance, while strengthening management of credit risk.

Prior Action 5: *Cabinet has approved a draft Credit Bureau Law that makes full borrower credit information and history available, for both bank and non-bank borrowers, and that gives borrowers the right to verify their data.*

This draft law addresses the lack of information on potential borrowers that constrains SME and individual lending in Jordan. Banks and non-banks will be able to expand lending using credit bureau information, with better management and pricing of credit risk based on a more accurate assessment of the likelihood of borrower default.

81. **In addition, the CBJ has reduced the reporting threshold to the public credit registry from JD30,000 to JD20,000, thereby doubling the number of bank borrowers covered.** This increases the CBJ's ability to effectively monitor risk in bank lending, by doubling the borrower coverage to 80,000, or 14 percent of total bank borrowers. This action also provides aggregate portfolio information for banks to enhance their credit scoring models, and thereby to potentially reduce lending costs and risk. The central bank's program to continue to lower credit reporting threshold down to JD5,000 for the public credit registry and to automate bank reporting will amplify these benefits and cover a much greater percentage of total bank borrowers.

Business Environment Reforms

82. **The objective of this component is to further improve the business environment in Jordan through reducing firms' operating costs.** Recent analytical work[38] underlines the persistence of serious regulatory bottlenecks, with regulations continued to be perceived as complicated and costly by firm's managers. Similarly, tax administration processes remain at the forefront of firm's concerns in Jordan with an unclear system and the wide discretion given to officials creating a large burden for enterprises to comply with the tax regime.[39] Prior actions under the proposed operation focuses on reducing firm's entry

[38] Investment Climate Analysis (World Bank 2007); Doing Business (World Bank, various years); Quick Response Survey (World Bank, November 2008 and April 2009).

[39] According to the 2007 ICA, the percentage of firms having been inspected in Jordan the year before the survey is among the highest in the region.

costs and improving the exit process; and improving the resolution of business disputes at the level of the judiciary in order to reduce firm's operating costs, allowing more firms to be created with positive impact on job creation and employment. These actions are fully in line with the National Agenda objectives and will help increase the real sector's resilience to the adverse shocks to the economy.

Prior Action 6: *The Cabinet has approved a draft Company Law thereby (i) abolishing the minimum capital requirements for limited liability's companies and (ii) eliminating the requirement for depositing 50 percent of the capital of limited liability's companies in commercial banks.*

The cost of creating a company remains high in Jordan (in spite of an improvement in 2008). Currently, the cost of creating an LLC amounts to 60.4 percent of GNI per capita and the required minimum capital amounts to 24.2 percent of GNI per capita. Although much lower than the regional average, these costs are substantial compared to advanced economies were they respectively stand at 4.9 and 19.7 percent of GNI per capita. Eliminating these costs will foster firm's entry and therefore job creation.

Prior Action 7. *The Cabinet has approved a draft Bankruptcy and Insolvency Law thereby defining the priority order of secured creditors in bankruptcy cases.*

The framework for bankruptcy and insolvency in Jordan is severely limited by both legislative and institutional constraints. Legislatively, the provisions that affect insolvency are scattered across numerous acts, without clear coordination. This has resulted in confusion amongst stakeholders on a number of issues, including such essential issues as secured creditor priority in bankruptcy. Moreover, there is no clear legislative set of tools for restructuring distressed companies in order to sell them as a going concern or to preserve enterprise value. Institutionally, there is a distinct concern amongst market participants regarding the lack of quality of insolvency administration.[40] This negatively impacts the conduct of existing and future bankruptcies/liquidations. The clarification of the priority order of secured creditors through the Bankruptcy and Insolvency Law will provide clarity for stakeholders and greatly improve the bankruptcy and insolvency regime in Jordan, hence, allowing for easier market exit. Combined with improved entry conditions, this will foster greater competition on the market and help remove one of the major impediments to private sector development in the country.

Prior Action 8: *The Ministry of Justice has instituted fully operational specialized commercial sections at eight courts outside Greater Amman to improve the resolution of business disputes.*

Contract enforcement and the resolution of business disputes is a key concern for firms in Jordan. Business disputes were mostly being resolved by the First Instance Court of Amman which handled about 80 percent of the cases. This implied delays and difficulties in enforcing judgments which were detrimental to a proper working of the system as there was no specialization. As a consequence, it costed almost a third of the value of a claim and almost 2 years to enforce a contract in Jordan according to DB 2009. Under the GoJ plan for enhancing the business environment, specialized sections (Maritime Law, Companies and Commercial Agencies, Intellectual Property, Liquidation and Bankruptcy, Documentary Credit and Letter of Guarantee) have been created in the first court of Amman since January 2009. However, similar specialized sections were missing in the remaining sixteen first instance courts of the country outside Amman. Having such sections at eight of the remaining courts through a decision of the Judicial Council will facilitate the resolution of business disputes and contribute to reduce the operating cost of firms.

[40] Doing Business (2009). *Jordan: January 2009 Reform Memorandum*, Washington DC.

83. **In parallel, the Companies Control Directorate of the Ministry of Industry and Trade has expanded the one-stop-shop setting**. Currently, the Companies Control Directorate of the Ministry of Industry and Trade has in place a unified form for company registration and also allows for on-line-registration of companies, although e-payment of fees and taxes is not yet operational. Furthermore, at the one-stop-shop in its Amman location and four other locations in the country, it provides for services (municipality, public notary, Chamber of Commerce, Industry Chamber, Income and Sales Tax Department) through specific offices in the same building. With this setting, all the documentation required or missing at the time a company is to be registered can be obtained on the spot and this does not slow down the entire process. This system of representative offices was needed in the four other locations where a one-stop-shop exists in Jordan (Karak, Madaba, Mafraq and Zahar) but where these supporting services were not available. Having in place representative offices for municipalities and the Income and Sales Tax Department will considerably help the process of registration in the other locations, thereby fostering firm's entry and job creation.

84. **Moreover, the Ministry of Finance has initiated the implementation of an online filing system for general sales tax return and an electronic payment system for corporate income tax and general sales tax**. Since early 2009, an online filing system for Income Tax is operational and, following a 2008 amendment of the relevant legislation, limited electronic payment facilities have been made available. However, the system is still in its infancy. Initiating the development of an additional on-line filing system for General Sales Tax returns (with completion by mid-2010) and connecting the payment system to the e-government gateway from the Ministry of Telecommunications will greatly improve tax administration for the benefit of Jordanian firms by contributing to reduction in their operating costs.

Social Insurance and Social Safety Net Reform

A. Social Insurance Reform

85. **This component supports the Government's objective of improving the long term sustainability of the social insurance system while expanding the scope of the benefits to include unemployment insurance.** To this effect, the regulatory framework of the SSC will be reformed in the following areas: (i) old age, disability and survivorship pensions; (ii) work injuries and professional diseases; (iii) unemployment insurance; (iv) maternity benefits; and (v) health insurance.

Prior Action 9: *The Cabinet has approved a draft Unemployment Insurance Program, as part of the draft Social Security Law, to provide unemployment insurance benefits to the members of Social Security Corporation which consists of the following: (i) a flexible mechanism of unemployment insurance savings accounts (UISA) financed by contributions of employers and employees; (ii) provisions allowing to use the balances of savings accounts or borrow from accumulated pension rights with limits to be determined by regulations; (iii) coverage for all Social Security Corporation members after a minimum vesting period to be defined by regulations*

The unemployment insurance scheme is a new program that is being created under the Social Insurance Law, which will provide mechanisms to respond to adverse labor market consequences of shocks to the economy, enhancing the structural long term impacts of the Law. The scheme allows workers to insure against unemployment by being able, upon losing a job, to draw on savings generated while working (both workers and their employers contribute to workers' individual unemployment insurance savings accounts). The scheme thus provides income protection to job losers without worsening employment incentives. A simple and low cost mechanism will be set in place to finance unemployment benefits through individual accounts, UISA, and the accumulated rights in the current pension scheme. The design of the UISA mechanism allows it to be introduced in a relatively

short period of time, making it possible to serve as a response tool to the consequences of the present economic downturn.

B. Social Safety Net Reform

86. **The main objective of this component is to increase the efficiency and poverty impact of Jordan's social safety nets through acceleration of the NAF Renewal Plan.** Accelerating the NAF's renewal plan has become urgent as fiscal constraints and poverty concerns—especially given high exposure to external shocks—require that the poverty impact, and effectiveness and efficiency of the social assistance be maximized. The renewal plan, which has recently started being implemented, consists of: (i) implementation of a Management Information System to establish a Database on Poor and Vulnerable Population; (ii) strengthening NAF technical, administrative and benefit delivery capacity; and (iii) improving the targeting mechanism by adoption of the proxy-means testing (PMT) targeting method. The prior action for this component is as follows:

Prior Action 10: *The National Aid Fund has initiated testing of new targeting mechanism that is envisaged under the NAF Renewal Action Plan, including: (i) improved questionnaire finalized; (ii) database software developed; and (iii) data from at least 2,000 households out of planned total 6,000 collected.*

As part of adoption of the PMT method, the NAF will test the new method on a nationwide sample of 6,000 households, utilizing an improved questionnaire that incorporates adjustments to the targeting formula. Once the test has been completed, which includes the development of the database and its population with the data on the households as well as the necessary training and administrative capacity building, the NAF would be in position to expand the new targeting mechanism nationally. If successfully implemented, the NAF Renewal Plan is expected to increase NAF coverage of the target poor population (from the current 20 percent to closer to 70 percent in five years after adoption). It will also reduce the error of inclusion from (80 percent to closer to 30 percent).

VII. OPERATION IMPLEMENTATION

A. Consultations and Distributional Aspects

87. **The DPL supports the Government's development program, which has been consulted with a broad range of stakeholders.** One of the key objectives of the National Agenda is enhancing public participation in the decision making process and strengthening the role of the civil society institutions. In addition to the consultative preparation of the National Agenda, the GoJ has made use of various consultation fora to develop reform and reach agreement since the adoption of the Agenda, which increases the prospects of successful reform. For instance, all draft laws in Jordan—including the recent ones related to the business environment, access to finance, tax regime, SSC law and the like—are being developed through consultative approach and put on an official government website to receive comments from the citizens.[41] This systematic approach to a public information and consultation strategy, in turn allows the GoJ to take into account all points of views. The recent examples of other GoJ consultation efforts are as follows:

[41] The Government has launched in 2007 an interactive website (www.lob.jo). All draft laws and regulations are posted on this website for public comments prior to discussing them at the Legislative and Opinion Bureau and forwarding them to Parliament. In addition, the Legislative and Opinion Bureau, while reviewing the draft laws and regulations, invite government and non-government stakeholders to discuss them and reach consensus on their content and objectives.

- Consultations in the business environment area have been on-going and extensive over the last two years. In February 2008, the GoJ organized a two-day conference to develop consensus-driven responses to findings from the Bank's June 2007 investment climate report. The conference was attended by more than 100 policy makers and private sector representatives. Breakout group discussions focused on key issues highlighted in the ICA survey: business start-up, contract enforcement and tax administration issues. Detailed feedback on implementing such reforms was delivered by the participants and provided the backbone of the GoJ's current strategy. Since then, each agency participating in the Inter-Ministerial Committee in charge of developing the strategy for enhancing the business environment has been receiving feedback from the private sector in its own area.
- The CBJ consults with banks regarding proposed measures to improve reporting standards and managing risk. For example the draft 'stress testing' guidelines were sent to banks for feedback through the Association of Banks, before they were finalized and issued. The draft private credit bureau law includes good practice consumer protection measures, to ensure that individuals benefit from increased access to lower cost credit, while at the same time being protected from inaccurate data on their records. The Legislative Bureau met with chambers of commerce and private sector committees to consult on the draft credit bureau law.
- In the case of the social insurance reform, the SSC proposals have been developed through continuous and regular consultations with a wide range of stakeholders and widely disseminated since their inception. This included consultations with union representatives, employer groups, and others. The reform program received inputs and approval from the Board of Directors of the SSC in 2008, which is a tripartite entity with representation of workers, employers and the government. The SSC also regularly publishes on its website information on the reform program including the actuarial assessments.
- During the preparation of the World Bank supported Social Protection Enhancement Project (SPEP), a wealth of information was gathered through consultations conducted with various NGOs, community representatives, NAF beneficiaries, and others. The consultations revealed that citizens expected the safety net programs to perform better by *inter alia*: (i) better specified criteria; (ii) providing NAF assistance in a fair and equitable manner; and (iii) linking NAF and the other cash assistance to training and work. The NAF renewal program also developed options for transitional arrangements for current beneficiaries who might not be eligible for assistance under the new targeting criteria. It is expected that after the completion of the nation-wide testing of the new targeting mechanism, additional consultations with stakeholders will be carried out.

88. **The measures contemplated under the proposed DPL are expected to ensure stability, support growth, and provide employment opportunities and better protection for the poor and vulnerable.** To the extent that the measures allow economic recovery as the global economic distress turns around and increase growth in the medium term, employment opportunities should increase and the poor should benefit. While the DPL includes fiscal adjustment measures, these do not impact the basic social services at the lower income segments which are protected.

89. **The overall fiscal adjustment measures aim at increasing confidence and investment funding to the economy while having positive social impact over the medium term.** The fiscal policy dimensions of the proposed operation are expected to have a positive medium-term social and poverty impact in a number of ways. Firstly, rationalization of inefficient preferential tax rates, which have created sectoral distortions by altering relative prices and harmed equity while having no tangible impact on prices or demand will contribute to putting Jordan's fiscal deficits on a downward-sloping path. This will also help maintain macroeconomic stability which, in turn, has been an essential ingredient of any poverty reduction strategy. Secondly, these measures increase the government's fiscal space which is

crucial for ensuring delivery of pro-poor social services. Thirdly, they remove price distortions and the resulting deadweight losses in economic activity, thereby promoting economic growth which has been the key factor in Jordan's poverty reduction over the recent years. Fourthly, rationalization of tax preferences will improve investment decisions in Jordan by equalizing both before and after tax rates of returns on investments in different industries, which will enhance economic growth as investment is better directed to industries and geographic areas yielding higher rates of return. On the expenditure side, the GoJ puts its emphasis on eliminating low-efficiency and wasteful spending without impacting basic social services. Any remaining adverse effects on the poor are expected to be addressed by strengthening of the country's social safety nets which is another component of this operation.

90. **The measures to enhance financial sector prudential supervision and regulation and increase access to finance are expected to have an indirect positive impact on poverty reduction.** By reducing the exposure to potential vulnerabilities in the financial sector, the DPL measures help ensure that growth and the government's program on poverty reduction are sustainable. An expanded credit registry and credit bureau would open up access to loans for enterprises and people that banks would not otherwise have considered (including women and lower income borrowers), or who would have had to pay a higher interest rate. Restarting bank lending for SMEs through improving credit information and allowing the use of movable assets, would remove constraints to incomes and employment. SMEs are a principal source of private sector employment in Jordan. E-payment mechanisms also hold significant potential to improve access to finance, at a lower cost, for rural and lower income populations.

91. **The measures to strengthen the business environment will support growth and employment creation, key objectives of the Government.** The measures aimed at reducing firm's entry costs, easing registration procedures (by improving the operation of existing one-stop-shops outside Amman) and rationalizing exit regulations will promote competition and favor a better use of resources on an economy wide basis. Firm's operating costs should be reduced by improvements in i) contract enforcement processes (operationalization of specialized commercial sections by nominating specialized judges in courts outside Amman); and ii) in tax administration procedures (online filing system for tax returns and electronic payment system) which will help existing firms to remain profitable. Overall, the combination of measures aimed at improving markets contestability and reducing firm's operating costs should lead to improved profitability, higher firm entry and new employment opportunities, fostering output growth in the medium term which should benefit the poor.

92. **While improving the long term sustainability and extending the coverage and scope of social security benefits, the social insurance reform attempts to correct some of the main sources of inequality in the current system.** Some specific mechanisms that will add progressivity to the social insurance scheme include: (i) change in the pension formula defining the pensionable salary as an average of a period of 3 years prior to retirement, instead of the current rule of 2 years;[42] (ii) introduction of income-related accrual rates; (iii) extension of social security benefits to workers in firms with less than 5 employees;[43] (iv) partial elimination of some regressive benefits such as early retirement and subsidized

[42] The use of last salaries to calculate pensions is an important source of regressiveness. While the new Social Insurance law will not adopt the recommended lifetime income to calculate pensions, the extension of the reference period will certainly have an impact. In fact, this measure benefits workers with lower wage growth, often those with lower level of education and qualification. For this group of workers, average of lifetime career is not different from the average of the last two years of salaries, so long as adequate wage valorization is set in place. Hence, the extension of the base period to calculate average pensionable wage is expected to have a progressive redistributive impact.

[43] The extension of social insurance benefits to firms with less than five employees is expected to have a positive redistributive impact. While the size of the firm does not necessarily show positive correlation with the average income of the employees, many small firms of the quasi formal sector with lower productivity and average

purchase of years of service;[44] (v) social insurance for the unemployed; (vi) maternity benefits financed through contributions on all employers. Although unemployment insurance is defined in the new draft Social Security law as a system of individual accounts, the provision of resources partially financed through employers' contributions will increase the protection of workers who become exposed to the risk of losing their jobs. In the current system incentives to hiring women are low, since women employees or their employers have to bear the costs associated with maternity leave. This also increases the wage differential between men and women. The introduction of maternity benefits in the new draft Social Secuity law will tend to correct this undesirable redistributive impact by imposing the burden of financing to all employers based on a payroll contribution on salaries of men and women.

93. **Concerning the distributional impact of the NAF renewal, simulations have shown that the new PMT-based targeting formula performs much better in terms of reaching the population below a certain threshold than the current targeting mechanism.** While the current system covers 20 percent of the households with per capita annual consumption expenditures below JD396, the new targeting mechanism could reach 81 percent of such households. Raising the poverty line to JD504 increases the number of households below it and understandably worsens the targeting outcomes of both systems. However, even in the case of the higher poverty line, the new targeting methodology was shown to be able to reache four times more of these households than the current mechanism (62 percent vs. 15 percent), potentially significantly improving poverty outcomes. In terms of cost efficiency, the simulations indicate that the new targeting methodology will be much more cost-efficient in comparison to the current system. Currently, for each JD that is transferred to those with per capita consumption below JD 396 per year (the target group), the NAF spends about JD 10, because of the high error of inclusion. The proxy-means formula improves this ratio to 1:2.5 due to 80 percent coverage and a significantly reduced error of inclusion. The NAF renewal plan also provides an opportunity to strengthen management and monitoring of programs by NAF through much greater reliance on ICT for evidence-based administration of the programs. The forthcoming implementation of the new system on a nationwide sample of 6,000-10,000 households, which the DPL focuses on, will provide further valuable feedback on the distributional impact of the new targeting mechanism and guide necessary improvements prior to its nation-wide implementation.

B. Environmental Aspects

94. **This operation is a development policy loan in support of a program of reforms for which the environmental requirements of OP/BP8.60 apply.** Overall, policies supported by the proposed loan are not likely to have any significant direct effects[45] on the environment and natural resources and safeguard policies (such as OP 4.01 Environmental Impact Assessment) do not apply to this operation.

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salaries will become contributors, therefore extending the benefits of SSC membership to their workers.

[44] Early retirement benefits and purchasing years of service also have a negative distributional impact. Because the penalties and costs are not actuarially fair at present, these mechanisms allow to substantially increase the implicit rate of return to higher income workers who can benefit from them. The new law will change the rules to discourage and increase penalties to workers who opt for these extraordinary mechanisms to become eligible for pensions.

[45] Business environment reforms under this operation focuses on improvement of the operation of existing facilities (one-stop-shops, courts) and/or in firm's operating costs and should not create risks for proper environmental due diligence within Jordan's legal framework. Similarly, changes in expenditure policies are intended for wasteful and/or low efficiency spending and do not target environmental budget or regulatory functions.

C. Implementation, Monitoring and Evaluation

95. **The responsibility for implementing the program in Government rests with the Ministry of Planning and International Cooperation (MoPIC).** The MoPIC is responsible for the implementation of the DPL operation as well as for coordinating the actions among the concerned institutions (such as Ministry of Finance, Central Bank, Ministry of Industry and Trade, Ministry of Justice, Ministry of Social Development and Social Security Corporation). Together with MoPIC, these institutions collect the necessary data for the identified monitoring indicators. The MoPIC and the Bank have agreed to monitor the progress in the program supported by the DPL and its evaluation will serve to inform preparation of a new Country Assistance Strategy (scheduled for FY2011).

D. Fiduciary Aspects

96. **The overall fiduciary risk rated as "Moderate" based on the Country Financial Accountability review conducted during the preparation of the proposed DPL.**[46] This rating reflects existing sound legislative framework in the Public Financial Management (PFM) area, the Government's implementation track record with the PFM reforms so far and its strong commitment to complete the implementation of ongoing major PFM reforms. Among the key reforms with importance in the fiduciary context, notable progress has been achieved in particular: towards increased coverage of the treasury single account (TSA); transfer of donor-financed projects to the respective budgets of implementing ministries/agencies; towards integrated computerization of the accounting and reporting system; the enhancement of debt management; and, the introduction of the GFMIS, which paves the way for modernization of the internal control framework.

97. **Looking forward, the Government aims at sustaining implementation progress in the PFM reforms agenda.** In areas with importance in the fiduciary context, the Government has time-bound action plans and aims to advance key reforms as follows:

- *Treasury Single Account (TSA)*: At present, the TSA covers 80 percent of Central Government (CG) expenditure and 60 percent of the larger General Government. To increase coverage, the Treasury is currently finalizing the bidding process with the banking sector in order to transfer the remaining CG deposits from commercial banks to the TSA. The selected candidate bank will be able to act in regions where the Central Bank has no offices thus allowing the implementation of zero balance accounts for ministries and agencies located in these regions. The treasury objective is to include in the future also the deposits of all independent agencies once the necessary legislative framework to this end is in place. Three regions have been selected to be pilots for the daily fund transfers before the zero balance accounts are applied on a country-wide basis. The pilot phase is expected to last six-months, with full TSA implementation is expected by mid-2010.

- *The Government Financial Management Information System (GFMIS):* The establishment of the GFMIS—which will automate 30 ministries and 15 fund centers when completed—is on track with minor delays vis-a-vis the original plan. The software has been developed and the final testing before going live in selected locations is currently being performed. After testing the six pilot locations, the system will be rolled out to all users. Based on the existing implementation

[46] Among the background documents reviewed were all the relevant assessments by the World Bank (Including an Institutional Financial Management Capacity Assessment (IFMCA) for the Education, and Social sectors with an update of the Government-wide PFM system), IMF, and other donors (including the 2007 PEFA); the field work validated the progress made under the treasury single account (TSA) and on the GFMIS implementation.

plan, the pilot locations are expected to be operational by November 2009 and the final rollout of the system to all locations will take place during May 2010-June 2011.

- *External Audit:* To enhance its independence, the Audit Bureau phased out pre-audit activities in 2007, to the benefit of ex-post controls and audit. Also, it entered into agreement through twining arrangements with the UK National Audit Office and the German SAI to enhance its capacity through support and transfer of knowledge from the two institutions. In parallel, an amendment to the audit law is currently being examined by the Cabinet. The amendment will provide the Audit Bureau with greater financial autonomy, thus increasing independence.

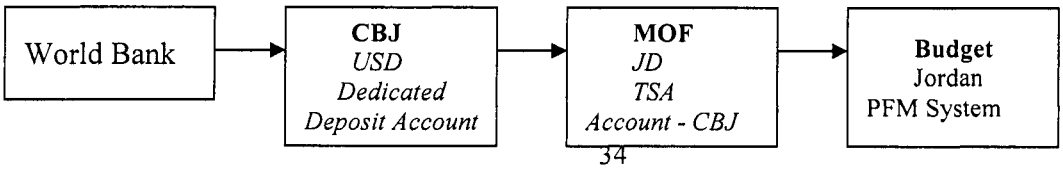
98. **Continued progress with implementation of key PFM reforms will help contain fiduciary risk over the coming period.** This particularly concerns the following areas: (i) a more comprehensive accounting and reporting system to cover extra-budgetary funds, quasi-fiscal activities, arrears and contingent liabilities and align with acceptable public sector accounting standards; (ii) greater coverage and improved GFMIS specifications to include the extension of GMFIS to the whole of the budget and central government accounts domain, and improved features for commitment control; (iii) enhanced cash management through full implementation of the Treasury Single Account; (iv) the establishment and implementation of a system of modern internal audit; (v) enhancement of the quality of the external audit function by the Government Audit Bureau including compliance with the standards of the International Organization of Supreme Auditing Institutions (INTOSAI) for the conduct of audits - to support an opinion on the fairness of the presentation of the government's financial statements.

99. **The MoF is monitoring progress with PFN reports through steering committees created to manage the reforms.** Each department has an action plan in place with target dates and these are monitored through periodical meetings and updates to the minister and director general. Going forward, the attention should move gradually to enhancing the internal controls in line with the new control environment and modernization of the internal audit function. Material progress in these areas would lead to a reduced fiduciary risk to "low-moderate" level in the horizon of 2010-2011.

E. Disbursements

100. **The proposed loan will follow the Bank's disbursement procedures for development policy support.** Once the loan is approved by the World Bank's board and becomes effective, the proceeds of the loan will be disbursed in compliance with the stipulated release conditions as defined in the Development Policy Loan Agreement and in a single tranche.

101. **Flow of funds (including foreign currency exchange) is subject to standard public financial management processes.** As the loan proceeds will be deposited into the government treasury deposit account in local currency (hereafter referred to as the TSA), it will be not possible to track the ultimate use of the foreign exchange provided by the DPL proceeds. However, the proceeds of the loan will flow into a dedicated foreign currency deposit account to be set up at the CBJ and from it to Government of Jordan's budget account being the TSA opened at the CBJ. The loan proceeds, being deposited in the TSA, will be subject, when disbursed by the government, to standard public financial management processes and CBJ procedures. By way of a letter, the Government will confirm to the Bank once the loan amount has been credited to the TSA which is being used to finance budgeted expenditures. The diagram below depicts the envisaged flow of funds arrangements:



102. **The CBJ will conduct a special transaction audit of the dedicated account established in the CBJ to deposit the loan amount.** The audit will cover the accuracy of the transactions of the dedicated account, including accuracy of exchange rate conversions; that the dedicated account was used only for the purposes of the operation where no other amounts have been deposited into the account. Also the auditor will have to obtain confirmation from corresponding bank(s) involved in the funds flow regarding the transaction. The audit should be conducted three months after all funds are transferred to the dedicated account and then transferred out of the dedicated account into the Government budget account (TSA). The time period for submission of the audit report to the Bank is 6 months after the date of the Bank's request.

F. Risks and Risk Mitigation

103. **Economic risks.** The global crisis continue to unfold, exposing Jordan's economic prospects to risks driving from further weakening of global, and particularly Gulf, economy. At the source of these risks are still high level of public debt, large twin deficits and heavy dependence on remittances and foreign aid. While the risk of external instability arising from the capital account is mitigated by the fact that external debt is owed predominantly to official creditors, and reserves provide comfortable liquidity cover relative to short-term liabilities, heavy reliance on regional liquidity to sustain financing inflows translate into high external vulnerability. Exports, including tourism, and remittances could slow more sharply than anticipated as a result of the regional economic slowdown, while tighter liquidity in the Gulf countries may lead to lower capital inflows and grants. Lower economic activity and lower international prices, on the other hand, checks the growth of current account imbalance. If financing further dries, the contraction of real GDP and the increase in unemployment would be more pronounced over the coming year than anticipated. This would strain the banks and the corporate sector and would also create difficulties for the achievement of the fiscal targets. The risk of gradual economic recovery has been incorporated into the macroeconomic projections. The risk of external financing difficulties is mitigated by largely prudent policies supporting a measured external adjustment and adequate liquidity, Jordan's relative attractiveness to Arab investors, and significant donor support, including bilateral support from the US and Gulf states.

104. **Weakening political support.** A prolonged and deeper domestic slowdown could add to social pressures, lead to backsliding on resumption of more disciplined approach to expenditure management policies, and adversely impact the health of the financial sector. In 2008 a resumption of expansionary fiscal policy in response to price shocks has led to adverse public debt dynamics and increased reliance on donor grants. This risk is addressed by the fact that key measures, such as control over excessive tax exemptions and capital spending, and elimination of remaining key subsidies, which will reduce fiscal pressures, are already being implemented as prior actions. Furthermore, the Governments medium-term fiscal framework which establishes the expenditure ceilings for 2010 budget and indicative ceilings for the next two years, constrains the room for excessive spending without matching revenues. The risks in the banking system have been further addressed through an active CBJ approach to identify risks and strengthen the supervisory powers. Similarly, major risks related to the implementation of specific program components are not foreseen because the reforms are mature, supported by technical assistance and widely discussed within the Government and with key stakeholders and donors.

Hashemite Kingdom of Jordan
Ministry of Planning and International Cooperation
Office of the Minister

October 18, 2009

Mr. Robert Zoellick
President
World Bank
Washington D.C.

Ref.: Letter of Development Policy for the Recovery under Global Uncertainty Development Policy Loan

Dear Mr. Zoellick:

Over the last decade, Jordan's development process has been marked by the enormous progress made in economic liberalization—particularly in opening the trade regime and liberalizing private investment regime—in establishing modern regulation and institutions for the private sector development and privatization, in strengthening public financial management system, and in building human resources through a comprehensive education sector reform. The process of structural reforms has been accompanied by a painful fiscal consolidation that has steadily reduced government debt from above 200 percent of GDP in the early 1990s, to 62.4 percent by the end of 2008. All these achievements have helped our country establish a sound record as one of the lead reformer in MENA.

Despite the difficult regional political environment and our limited natural resources, we have achieved above-average development outcomes within our income group. Underpinned by our strong trade links with the region, our economy has shown strong performance since 2000 with annual real GDP growth averaging 7.5 percent and per capita GDP more than doubling. Growth has been broad based, led by manufacturing, construction, real estate and services sectors. Commensurate with strong growth in investments and GDP, labor force growth in Jordan has been strong. However, the unemployment among nationals declined slowly (from 14.5 percent during 2000-05 to 12.7 percent in 2008). Inflation remained low (except for the surge in 2008 driven by international oil and food prices) and although the external deficit widened, sizable FDI inflows enabled a steady and sizable increase in international reserves. While this can be credited to sound development policies which attracted substantial capital inflows, Jordan is vulnerable to adverse external events, such as the recent increase in world oil and food prices and the global recession as well as deterioration in external flows.

Achieving sustained growth and reducing unemployment and poverty are the main development challenges and the key priorities of the Government. Since 2005, Jordan's National Agenda put its emphasis on transforming Jordan into a modern knowledge-based economy with higher value added, increased productivity, employment and welfare through sustained and broadly-shared growth, while achieving fiscal sustainability. Modernization of the country's

economic, institutional and political infrastructure, reforming education, improving the business environment, and attacking deep poverty are at the core of this long-term development strategy. The National Agenda distinguished three consecutive phases: the first phase (2007-2012) is focusing primarily on improving the business environment, creating employment opportunities, and building the skills needed for the knowledge economy. The second phase (2013-2017) focuses on strengthening the industrial base, and preparing the ground for the development of high value-added sectors in the knowledge economy. The final phase (2018-onward) would complete Jordan's transformation to a world class competitor in the global knowledge economy.

The first phase of the National Agenda includes multi-ranging development areas. Among these areas are political development and inclusion, justice and legislation, investment development, financial services and fiscal reform, employment support and vocational training, social welfare, education, scientific research and innovation, and infrastructure upgrade. The Government programs approved since then, including the *executive program for Kuluna al urdun* (2007-2009)—"We are all Jordan" initiative—have been consistent with the goals of the National Agenda, and further defined and complemented its socio-economic objectives by setting up short- to medium-term implementation initiatives aiming also to increase participation and inclusiveness.

In pursuing our development goals, we are now facing a harsh international environment marked by the increase and volatility in hydrocarbon and commodity prices over the past few years, and, more recently, the outbreak of the international financial crisis, which quickly triggered an economic recession, primarily in developed countries. Jordan's real economy has been subjected to the repercussions of this crisis through three channels: sharply lower global and regional growth outlook (which affect exports and remittances), declining global oil prices (which have a positive impact on trade deficit but a negative impact on transfers and capital account), and declining private capital flows to developing countries (which were a major source of growth for Jordan in the recent past).

Reflecting these effects, domestic economic performance has worsened since September 2008. The collapse in commodity prices favored a reduction in expenditures through a decline in budgetary subsides but also generated a drop in tax revenues because of lower prices and lower economic activity, leading to increase in our financing requirement. Also, while improving the current account balance, the decline in international prices and more broadly global turmoil has reduced foreign inflows, and negatively affected growth.

In light of this, the Government of Jordan has responded to the global economic crisis by accelerating the structural reforms which have been under preparation over the last several years and by short-term policy actions aimed at addressing or preventing immediate adverse impact of the crisis on the economy. The main objectives of our policy measures are to: (i) reduce the fiscal vulnerability by broadening tax base, and enhancing effectiveness of government expenditures; (ii) increase resilience of the financial sector by further strengthening regulation and supervision, and improving access to credit; (iii) improve the business climate to encourage more private sector investment; and (iv) facilitate access of vulnerable groups to a more effective and fiscally sustainable social protection system.

These measures represent the continuation of past development policies and programs and are based on the achievements of previous years at the same time as they draw on goals for the future to achieve the established key objectives of the National Agenda and to strengthen the adaptability and the competitive positioning of the national economy.

I. Experience and Achievements to Date

Fiscal Adjustment and Reforms

Our National Agenda calls for radical fiscal reforms to improve budget performance and increase Government efficiency. It puts a particular emphasis on addressing expenditure pressures in order to control the budget deficit especially to address vulnerabilities due to the expected decline in foreign grants and increase in international oil prices over time. Among the key reforms to improve the budget performance were (i) phasing out oils subsidies by 2007 along with eliminating other subsidies; (ii) pension reform; (iii) reform of civil service pay and grading system to improve productivity; (iv) accelerating privatization and channeling the proceeds to facilitate the fiscal reforms; (v) tax reform to simplify the procedures, ensure fairness, broaden the tax base and improve collection performance; and (vi) modernization of customs administration. We have made a considerable progress in implementing and or initiating most of these critical reforms, which will strengthen fiscal management.

Gradual elimination of the oil subsidy significantly helped our fiscal position in recent years. As part of our fiscal consolidation plan under the National Agenda, we took a decision to gradually eliminate the subsidy scheme: oil prices increased by almost 270 percent between July 2005 and April 2006 and the oil price subsidy eliminated as of February 2008. Our budget deficit excluding grants declined from about 12.0 percent of GDP in 2004 to 6.6 percent in 2006. However, in the face of sharp increase in hydrocarbon and commodity prices between 2007 and 2008, associated loss in real income for low and middle income groups, particularly in 2008, has largely been compensated by fiscal measures (including tax reductions and exemptions, various subsidies/transfers and substantial public sector pay increase). As a result, there has been an erosion of fiscal gains achieved over the previous years with the budget deficit excluding grants increasing to 9.4 percent in 2008. Fiscal pressures further increased this year with lower tax revenues than expected under the 2009 budget law despite some savings from budgetary subsidies due to sharp decline in international commodity prices. In response, we are putting our emphasis in the near term on preventing further increase in the budget deficit over and above 2008 level by bringing the implementation rate of the capital budget close to the recent year's average of about 85 percent, by rationalizing tax exemptions and by disciplining public consumption. Over the period ahead, our emphasis will be on both continued public financial management reform and key structural reforms that are critical to maintaining good economic performance, and achieving faster decline in poverty.

We have made a substantial implementation progress in public financial management reforms. A number of PFM reforms are currently underway, following the introduction of a three-year medium term expenditure framework (MTEF) with the 2008 budget, a new Chart of Accounts, revision to the budget planning timetable to allow for the Budget to be promulgated prior to the start of new fiscal year and revision of Jordan's Organic Budget Law. These reforms include installation of a Government Financial Management Information System (GFMIS), completion of a Treasury Single Account, further development of the MTEF, and implementation of steps towards the introduction of some results-orientation in the budget process. When it becomes operational, the GFMIS will significantly improve data reliability and will enable more timely and accurate centralized accounts reconciliation.

Concerning the public expenditure management and the MTEF reforms that were initiated in 2007, significant progress has been achieved in a short time although we are still at an early stage of these reforms. Among the achievements are: enhancement of the macroeconomic and fiscal analysis underlying the Budget; extension of the budget planning horizon to three years; adoption

of improved procedures for setting ministry resource ceilings; introduction of performance indicators into the budget documentation; and piloting of new policy-led budgeting procedures in some ministries such as Health Care and Education. Looking forward, our emphasis will be on strengthening the linkages between planning and budgeting with stronger focus on the efficiency and impact of public spending (both current and capital) in budget analysis and preparation, including through enhancing the strategic phase of the MTEF/budget preparation.

Financial Sector Reforms

The National Agenda puts its emphasis on strengthening governance and structure of financial services, facilitating funding to start-ups and SMEs, and developing the insurance sector. Through these reform, we aim at consolidating the substantial progress that the banking and insurance sectors made in updating the organizational frameworks and control procedures governing company operations as well as in introducing new financial instruments, and increasing competition and focus on retail banking.

Over the last few years, the Central Bank of Jordan (CBJ) has continued to carry forward the strengthening agenda through further development of bank supervision and ongoing updating and issuance of a number of regulations which has brought Jordan more closely in line with international standards. Some of the areas addressed through this effort include, *inter alia*: prompt corrective action, licensing, asset and liability management of foreign currency, business continuity, asset classification, corporate governance, internal control, and liquidity requirements for Islamic banks.

The CBJ has required banks to comply with the Basel II Capital Accord, effective 2008, while requiring much more focus by banks on risk identification, anticipation, and management processes. Preparation of an annual Financial Stability Report has begun, increasing the transparency of banking sector condition as well as policy making.

The CBJ has also taken a number of measures to promote financial sector stability in the wake of the global financial and economic crisis. Banks are being encouraged to build capital buffers, both through increased profit retention and through capital injections by shareholders, and the CBJ continues its efforts to oversee the implementation of the Basel II capital accord. The staffing of the supervisory function has recently expanded with the employment of fifteen new staff and a new on-site supervisory manual is in the final stages of preparation. Global consolidated supervision is also being pursued. The CBJ recently conducted examinations of selected bank operations of Jordanian banks abroad and intends to continue this program of supervisory visits in the coming year. In this context, it has increased contacts with foreign supervisory agencies and has established memorandums of understanding with thirteen foreign financial sector regulators and two domestic regulators. Furthermore, plans for a formal consolidated supervisory approach are being prepared which will include, inter alia, continuation of supervisory reviews of Jordanian banking operations abroad, periodic supervisory monitoring of consolidated banking entities, and further interaction with other supervisors. A review of the existing legal framework to determine if it provides adequate scope to execute comprehensive consolidated supervision will also be conducted.

Currently, the CBJ is in the process of enhancing the implementation of stress testing of banks and indentifying follow up actions. Going forward, the exercise will be conducted annually and will be used to assist in identifying and analyzing various forms of banking risk, to contribute to the analysis of capital adequacy under different scenarios, and when necessary, to identify the possible need to require remedial actions from banks. Likewise, it will provide banks' and the

CBJ an additional tool with which to identify developing systemic trends. The CBJ and banking sector are also in the process of undergoing a complete revamp of their statistical and regulatory reporting. Through this initiative we aim to upgrade and automate regulatory reporting so that it feeds into the Early Warning System; provide additional granularity needed to accumulate data series to measure compliance with Basel II; meet the (standardized) statistical data reporting configurations prescribed by IMF; and present the monetary and banking statistics on the website (and elsewhere) with more depth and accuracy. The first run pilot test for system-wide reporting is currently scheduled for the end of 2009.

The National Agenda emphasizes the importance of access to financial services for socio-economic development, in particular for SME development and for the poor and marginalized. The National Microfinance Strategy that is adopted in 2005 sets out a market-oriented vision for microfinance, with the public sector providing an enabling policy and legal framework, and not directly providing financial services. Jordan has one of the highest rates of market coverage (46 percent) for microcredit in the region. Microfinance institutions lend to low income borrowers (average loan balance is less than one-third of GDP per capita) and to women, who constitute 84 percent of microfinance institution clients. Microfinance institutions are not allowed to also directly offer savings and payment services, so broader microfinance access is much more restricted.

More recently we initiated wide ranging legal and financial infrastructure reforms to broaden access to financial services. The CBJ has embarked on lowering the threshold on credit reporting by banks, while improving the timeliness and quality of the reported data in the public credit registry. The Ministry of Industry and Trade has led the preparation of a draft law to allow the creation of a private credit bureau, which would further reduce credit risk by including information on all borrowers, by including non-bank lenders such as financial and leasing companies, and by enabling banks to expand SME and consumer lending safely using credit rating and scoring techniques. Collateral constraints to increased access to finance have also been eased alongside credit information deficiencies, through the 2008 Financial Leasing Law. We expect to achieve further progress through a Secured Transactions Law that would allow the use of movable assets as collateral and out-of-court collateral enforcement. Finally, we consider telecoms and payments innovations as another avenue for improving access to finance in Jordan.

Business Environment Reforms

A key element of our development strategy is to make Jordan an attractive location for knowledge-based private investment in order to support further job creation. This rests on the fact that the earlier waves of structural reform initiated in the mid 1990s did not trigger a sufficient private sector response to significantly affect unemployment. To complement these reforms, we broadened our free trade agreements (in the region, with EU and the USA) and engaged in an extensive privatization program. By 2006, 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 order to further expand these gains we adopted a more strategic approach to capital formation in 2008, combining efforts to improve the investment climate and attract/encourage private business investment, which involves promoting Public Private Partnerships (PPPs) for selected infrastructure investments, and reserving the Government-only investment for general public goods.

In parallel, we increased our emphasis on the depth and pace of reforms to enhance the

business environment. In 2008, we established a Committee to coordinate and facilitate faster improvement in the business environment headed by the Ministry of Planning and International Cooperation. The Committee, which includes representatives of ministries and agencies concerned, devised a strategy to improve the business environment in Jordan on the basis of the framework provided by the World Bank's Doing Business report, and key areas of concern underlined by the 2007 Investment Climate Report. Key areas in this plan include:

- *Improving entry and exit regulations to foster competition.* In mid-2008, we reduced the minimum required capital to establish an LLC (from 795 percent of GDP per capita in 2007 to 24 percent in 2008) to encourage businesses to enter the formal sector. We are now aiming at abolishing both the minimum capital requirements for LLC and the requirement for depositing 50 percent of the capital of LLCs in commercial banks within the upcoming new Companies Law. Other measures in motion include expanding facilities for e-payment of registrations fees and taxes, expanding the one-stop-shop with specialized offices (municipality office, public notary, chamber of commerce, chamber of industry, Income and Sales tax office) for company registration in additional locations and introducing a new Bankruptcy and Insolvency Law.
- *Improving the tax administration process.* All tax forms has been simplified since late 2008 and an investor's guide to all taxes in Jordan has recently been prepared (April 2009). In early 2009, an online filing system for Income Tax has become operational and, following a 2008 amendment of the relevant legislation, limited electronic payment facilities have been made available through the proprietary IT system of the Income and Sales Tax Department. While this is a major improvement, the system is still in its infancy. In the coming period, we plan to significantly improve and expand the system.
- *Improving further the working of customs in order to facilitate trade.* The introduction of the ASYCUDA World System and its integration with the Single Window system currently operational in Aqaba, the Comprehensive Integrated Tariff System, and many other Customs systems since April 2009 will increase the efficiency of the Customs clearance process and therefore greatly facilitate trade.
- *Improving contract enforcement procedures.* Since early 2009, specialized sections (Maritime Law, Companies and Commercial Agencies, Intellectual Property, Liquidation and Bankruptcy, Documentary Credit and Letter of Guarantee) have been created in the first court of Amman which handles roughly 80-85 percent of the civil cases (incl. business disputes) in the country. In addition, a computerization of case management and an electronic filing system are now being implemented in all courts. In the upcoming year, we plan to create similar specialized sections in the remaining 16 first instance courts of the country outside Amman. This new system should better facilitate the resolution of business disputes once it is fully operational.

We have also increased our emphasis on strengthening the framework for investment development and growth across regions. A new draft Economic Zones Law has been prepared. In order to rationalize the management of the zones and the incentives which are provided for investors, this law proposes the establishment of a single authority that will merge the tasks of overseeing the activities of three existing categories of zones (development, free and industrial zones). This new authority will be autonomous, and will have the ability to conduct management of the zones and establish other contracts (including contracts related to selling and renting land). In addition, a new Investment Promotion Law is being drafted for discussion in the upcoming session of the Parliament. It aims to transform Jordan Investment Board into a pure investment promotion agency without any kind of registration activities.

Social Insurance and Social Safety Net Reform

Among the core themes of our National Agenda is social welfare which consists of three priority areas: (i) public health care, (ii) social security and (iii) poverty alleviation. In public health care, the main challenges being addressed are developing a cost effective medical insurance system to cover all Jordanians, reforming health sector policies and improving the institutional framework, and enhancing the operational efficiency of the public health care system. In social security, we embarked on a reform plan to expand coverage, revise benefits and eligibility criteria, and ensure financial sustainability of the Social Security Corporation (SSC). In the poverty alleviation area, our priorities have been to reduce poverty rates via a series of strategic and institutional reforms, including renewal of the National Aid Fund (NAF), providing assistance to the unemployed poor to integrate in the workforce, increasing penetration of microfinance services in poor communities, among others.

The social security system of Jordan provides old age, disability and survivors' pensions but is not financially sustainable as currently structured. It covers 36 percent of the labor force at a cost of 5.7 percent of GDP—among the highest in the region. The conclusions of different analysis conducted jointly by the SSC and World Bank reaffirmed the urgent need to introduce reforms to make the system sustainable in the long term. In addition to this, there is a need to substantially increase the scope of the social security programs in areas such as maternity benefits, unemployment and health insurance.

The SSC has prepared an ambitious reform proposal addressing the most critical issues embedded in a new draft Social Security law. It includes the following: (i) adjusting pension benefit formulas and eligibility conditions to ensure financial sustainability and equity; (ii) expanding coverage by extending the mandate to contribute to firms of less than five employees; (iii) introducing savings mechanisms to protect workers against the risk of income loss due to unemployment; (iv) introducing maternity benefits to finance maternity leave currently paid by employers to eliminate a significant disincentive to hire women; and (v) introduce social health insurance mechanisms. The Government has approved this law in June 2009, the discussion of which was initiated in the July-August 2009 extraordinary session of the parliament. As part of the reform process, the SSC also developed a comprehensive program to build institutional capacity with the support of the World Bank and other partners.

The reform of the social safety net and the renewal of the National Aid Fund is another area of top priority. Overall, Jordan has most of the programs commonly found in a relatively well developed and diversified social safety net system. The objective of the safety net reform is to improve the operations and management, coverage of the targeted poor population, and targeting efficiency and effectiveness of the cash assistance extended to the population through the NAF.

Total public spending on safety nets is estimated at more than 1.0 percent of GDP, with two-thirds (0.6 percent) spent through the NAF. The total number of beneficiaries is estimated at about 8-10 percent of the population, with NAF reaching 4.0 percent of the population. While the total amount of benefits would be more than sufficient to eliminate chronic poverty, recently completed studies suggest that this requires addressing factors that limit the relative efficiency and effectiveness of the NAF, including improving the targeting method and strengthening NAF administration, with emphasis on increased use of Management Information System in managing and monitoring programs. We aim to address both of these issues through implementation of the NAF Renewal Plan in partnership with the World Bank, which is expected to increase NAF coverage of the target poor population and reduce the error of inclusion.

II. Objectives and Components of the Program

In this context, we consider the support of the World Bank though the *Recovery under Global Uncertainty* Development Policy Loan to be important. The aim of the loan is to support polices adopted by the Government to promote economic recovery and improve the resilience of the Jordanian economy through the following actions:

- Reducing tax exemptions that distort relative prices and create inequity, and scrutinizing tightly introduction of future preferential tax rates via Cabinet decision threby: (i) eliminating all tax exemptions without specific duration or amount and issued through its authority; (ii) making Cabinet consideration of any new exemption conditional on an explicit framework that identifies the rationale, costs in foregone revenues, and establishes a specified duration; and (iii) clarifying that no tax exemptions will be proposed through non-tax legislation.
- Enhancing fiscal sustainability through (i) a revised 2009 budget as a baseline for the medium-term fiscal framework (2010-12) in which 2009 public expenditures, other than subsidies, were reduced by at least 4.0 percentage points of GDP compared to original 2009 budget; and (ii) 2010 Budget Circular with a comprehensive policy framework—including stable wage and salary expenditures in terms of GDP compared to 2008-09 and termination of remaining subsidies for oil derivatives and barley—and resulting expenditure ceiling, which translates into a lower budget deficit before grants by at least 1.0 percentage point of GDP over 2009.
- Enhancing budget calendar to strengthen the initial strategic phase of budget preparation, during which budget performance, strategies and priorities are reviewed and medium-term spending requirements evaluated. This decision is important as the new calendar includes a Cabinet level consultation in the first quarter of each year on the key parameters and issues underlying the development of the MTEF based on a Budget Policy and Priorities Paper.
- Expanding analysis of banking sector risks through issuing guidelines on stress testing to individual banks, and completing stress testing of selected banks, which, in turn, will inform our follow-up approach.
- Initiating a process of broadening and strengthening the CBJ's consolidated supervision procedures through a plan to conduct consolidated supervision of the relevant banks in the sector. Among the steps we plan are ensuring that the CBJ has adequate legal scope to effectively conduct comprehensive consolidated supervision; undertaking targeted examinations of material foreign operations of Jordanian banking entities to inform design of the relevant supervisory strategy(s); securing MOUs with the relevant host countries of Jordanian banking operations; and regular update of supervisory strategies to include documentation and oversight of banking group(s) overall organizational configuration, governance structures, group risk profiles and the like.
- Government commitment to address the lack of information on potential borrowers that constrains SME and individual lending in Jordan *via* approval by the Cabinet of a draft Credit Bureau Law that provides a framework for sharing borrower credit information and history for both bank and non-bank borrowers, and that gives borrowers the right to verify their data.
- Increasing the CBJ's ability to effectively monitor risk in bank lending while providing aggregate portfolio information for banks to enhance their credit scoring models via reducing the reporting threshold to the public credit registry initially from JD30,000 to JD20,000, thereby doubling the number of bank borrowers covered.

- Government commitment to eliminate high costs of creating a company *via* approval by the Cabinet of a draft Company Law, thereby (i) abolishing the minimum capital requirements for limited liability's companies and (ii) eliminating the requirement for depositing 50 percent of the capital of limited liability's companies in commercial banks.
- Fostering firm's entry and job creation through expanding the one-stop-shop and representative offices setting (already existing in Amman and five other locations in the country) to the four locations which have not yet any representative offices, with offices for municipalities and the Income and Sales Tax Department are fully operational.
- Government commitment to improve the bankruptcy and insolvency regime in Jordan and provide clarity for stakeholders, hence, allowing for easier market exit *via* approval by the Cabinet of a draft Bankruptcy and Insolvency Law thereby defining secured creditor priority order in bankruptcy cases.
- Improving the resolution of business disputes and contributing to reducing the operating cost of firms through instituting fully operational specialized commercial sections at eight courts outside Greater Amman.
- Improving tax administration for the benefit of Jordanian firms by contributing to reduction in their operating costs through initiating the implementation of (i) an online filing system for general sales tax return; and (ii) an electronic payment system for corporate income tax and general sales tax connected to the e-government gateway.
- Government commitment to establish mechanisms to respond to adverse labor market consequences of shocks to the economy *via* approval by the Cabinet of a draft program to provide unemployment insurance benefits to the members of Social Security Corporation, as part of the new draft Social Security Law.
- Initiating the process towards improving the effectiveness of the NAF by testing (on a nationwide sample) the new targeting mechanism that is envisaged under the NAF Renewal Action Plan.

For the above reasons, the Government of the Hashemite Kingdom of Jordan requests the approval of the program.

Suhair Al-Ali

Yours sincerely,

Suhair Al Ali
Minister

Oct 18, 2009

HASHEMITE KINGDOM OF JORDAN - RECOVERY UNDER GLOBAL UNCERTAINTY DPL – POLICY MATRIX

Objectives	Key Issues	Policy Actions Taken Prior to Board Approval	Key Expected Outcomes (by November 2010)
		I. FISCAL/MACROECONOMIC FRAMEWORK	
Reinstituting the fiscal consolidation plan towards reducing fiscal imbalances and maintaining macroeconomic stability.	Preferential tax rates, issued without comprehensive consideration of their revenue, and efficiency and equity implications, substantially increased, creating distortions by altering relative prices in the economy.	**The Cabinet has issued a decision that (i) eliminated tax exemptions without specific duration or amount and issued under the Cabinet's authority; (ii) made Cabinet consideration of any new exemption conditional on an explicit framework that identifies the rationale, costs in foregone revenues, and establishes a specified duration; and (iii) clarified that no tax exemptions will be proposed through non-tax legislation.**	*Outcome:* The Ministry of Finance has developed a framework for selecting project specific tax exemptions. *Baseline:* 0 (September 2009). *Source:* Ministry of Finance.
	Excessive public expenditures generate substantial pressure on the budget. Putting the budget deficit and the associated debt dynamics on a downward-sloping path is a major policy priority in order to maintain macroeconomic stability.	**The Prime Minister has issued 2010 Budget Circular, including:** • **Medium-term fiscal parameters for 2010-12 with a revised budget for the fiscal year 2009, as a baseline in which 2009 public expenditures, other than subsidies, were reduced by at least 4.0 percentage points of GDP compared to original 2009 budget law;** • **Comprehensive policy framework—including stable wage and salary expenditures in terms of GDP compared to the fiscal years 2008-09 and termination of remaining subsidies for oil derivatives and barley—and resulting expenditure ceiling, which translates into a lower budget deficit before grants by at least 1.0 percentage point of GDP in 2010 over 2009.**	*Outcome:* Lower budget deficit and financing requirement in 2009 than suggested by the budget execution parameters in the first quarter of 2009, and in 2010 than in 2009. *Baseline:* Budgetary expenditure execution rates in January-June 2009, and 2009 budget out-turn. *Source:* Ministry of Finance.
Strengthening effectiveness and efficiency of public spending.	The current downturn in the economy highlights the importance of stronger focus on identification of budget policy and priorities with a more balanced approach to improve effectiveness and efficiency of both capital and recurrent spending.	**The Ministry of Finance has adopted an enhanced budget calendar to strengthen the initial strategic phase of budget preparation, during which budget performance, strategies and priorities are reviewed and medium-term spending requirements evaluated. The calendar includes Cabinet level consultations in the first quarter of each fiscal year on the key parameters and issues underlying the development of the MTEF based on a Budget Policies and Priorities Paper.**	*Outcome:* New budget calendar, facilitating the first Cabinet discussion in the first quarter of 2010 on budget performance, strategies and priorities based on first such Study. *Baseline:* 0 (June 2009). *Source:* Ministry of Finance and General Budget Directorate.

Objectives	Key Issues	Policy Actions Taken Prior to Board Approval	Key Expected Outcomes (by November 2010)
		II. FINANCIAL SECTOR POLICIES	
		A. STRENGTHENING OF THE REGULATORY AND SUPERVISORY FRAMEWORK	
Further improving the transparency of the banking system, and risk recognition and management of evolving risks.	Enhanced analysis of the banking system under stress scenarios contributes to process of improving identification of risks that may not be immediately evident.	**The Central Bank of Jordan has completed a first run of stress testing on the aggregate banking sector balance sheet and has issued guidelines on stress testing to individual banks; first run stress testing by selected banks has been completed.**	*Outcome:* All banks run first pilot stress test. Stress testing process becomes a part of individual banks' risk management process and Central Bank systemic evaluation; prospective capital needs become more measurable. *Baseline*: Stress testing for some banks is not conducted as a regular part of banking sector oversight or risk management process. *Source*: Central Bank
	Consistent with evolving international best practice and the issues brought to light by the global financial situation, the Central Bank will evaluate the need for an expanded approach to consolidated supervision to ensure it is capturing all relevant risks to the country's financial system.	The Central Bank of Jordan has prepared a plan to broaden and strengthen its consolidated supervision procedures. As part of this plan, the following activities are projected: • Evaluation of existing legal and regulatory structure to ensure that supervision has adequate scope to conduct comprehensive consolidated supervision. • Targeted examinations of material foreign operations of Jordanian banking entities to inform design of the relevant supervisory strategy(s). • Securing MOUs with the relevant host countries of Jordanian banking operations; • Regular update of supervisory strategies to include documentation and oversight of banking group(s) overall organizational configuration, governance structures, group risk profiles and management processes, and central control functions.	*Outcome:* Selected examinations of major company subsidiaries conducted and MOUs with relevant supervisory agencies signed. *Baseline:* Initial steps to begin consolidated supervision have begun. *Source:* Central Bank.

Objectives	Key Issues	Policy Actions Taken Prior to Board Approval	Key Expected Outcomes (by November 2010)
		B. ACCESS TO FINANCE	
Improving access to financial services, at lower risk and cost.	Bank lending to SMEs is held back by a lack of credit information and by restrictions on use of collateral. This worsens the crisis impacts on SMEs and artificially restricts income and employment generation by the majority of Jordan's enterprises.	**Cabinet has approved a draft Credit Bureau Law that makes full borrower credit information and history available, for both bank and non-bank borrowers, and that gives borrowers the right to verify their data.** Central bank has reduced the reporting threshold to the public credit registry from JD30,000 to JD 20,000, thereby doubling the number of bank borrowers covered.	*Outcome:* Ministry of Industry and Trade have issued a Request for Proposal for a provider to develop a credit bureau. *Baseline:* No credit bureau, only a public credit registry. *Source:* Min. of Industry &Trade *Outcome:* 40,000 more borrowers covered, representing 14% of bank borrowers. *Baseline:* 40,000 borrowers covered. *Source:* Central Bank.
		III. BUSINESS ENVIRONMENT REFORMS	
		A. REDUCING THE REGULATORY BURDEN ON FIRMS	
Reducing entry and operating costs.	Regulations are perceived as complicated and costly by firm's managers and therefore constitute a barrier to job creation and growth.	Reduction of entry costs, rationalization of entry regulations and clarity of information **The Cabinet has approved a draft Company Law—which defines inter alia the conditions of creation and the various legal forms firms can take—thereby:** • **Abolishing the minimum capital requirements for limited liability's companies;** • **Eliminating the requirement for depositing 50 percent of the capital of limited liability's companies in commercial banks.** Facilitation of the registration process. The Companies Control Directorate of the Ministry of Industry and Trade has expanded the one-stop-shop and representative offices setting (already existing in Amman and five other locations in the country) to the four locations which have not yet any representative offices, with offices for municipalities and the Income and Sales Tax Department fully operational.	*Outcome* Minimum capital requirement for limited liability's companies is 0 percent of GNI in 2010. *Baseline:* Minimum capital requirement for limited liability's companies is 24.2 percent of GNI in 2008. *Source:* Ministry of Industry and Trade. *Outcome*: Four additional one-stop-shops outside Amman. offering a full range of services. *Baseline*: Partial services in representative offices of one-stop-shops outside Amman. *Source:* Min. of Industry& Trade

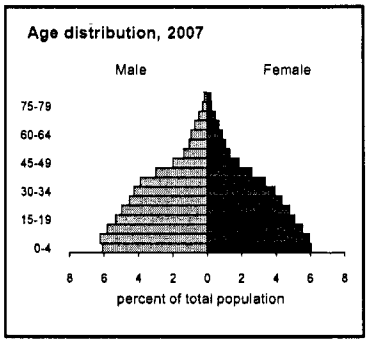
Objectives	Key Issues	Policy Actions Taken Prior to Board Approval	Key Expected Outcomes (by November 2010)
		Rationalization of exit regulations. **The Cabinet has approved a draft Bankruptcy and Insolvency Law thereby defining the priority order of secured creditors in bankruptcy cases.**	*Outcome.* Clear definition of secured creditor priority in bankruptcy case in a unique legal document. *Baseline.* Definition of secured creditor priority in bankruptcy case unclear and provisions are scattered across multiple legal documents. *Source.* Ministry of Industry and Trade.
		Improvement in contract enforcement processes **The Ministry of Justice has instituted fully operational specialized commercial sections at eight courts outside Greater Amman to improve the resolution of business disputes.**	*Outcome:* Commercial cases are brought in eight selected courts outside Amman. *Baseline:* Marginal number of commercial cases in the eight courts outside Amman. *Source:* Ministry of Justice.
		B. IMPROVING THE WORKING OF THE TAX SYSTEM	
Improving tax administration	Tax procedures are perceived as complicated and time consuming by firm's managers and therefore constitute a barrier to job creation and growth.	The Ministry of Finance has initiated the implementation of : • an online filing system for general sales tax returns; • an electronic payment system for corporate income tax and general sales tax connected to the e-government Gateway.	*Outcome*: On-line filling system and electronic payment systems used by at least 10 percent of corporate tax payers. *Baseline:* On-line filling system and electronic payment systems used by 1.5 percent of the corporate taxpayers. *Source:* Ministry of Finance.

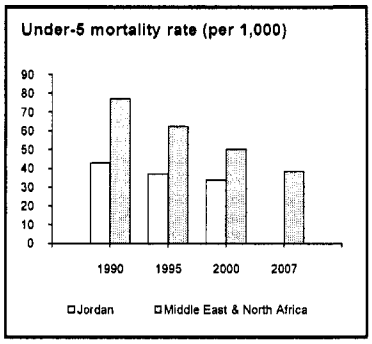
Objectives	Key Issues	Policy Actions Taken Prior to Board Approval	Key Expected Outcomes (by November 2010)
		IV. SOCIAL INSURANCE AND SOCIAL SAFETY NET REFORM	
Protecting workers affiliated to SSC against the risks of becoming unemployed.	Though evidence of significant lay-offs is not available, results from firm-based surveys indicate that about a third of the firms expect to reduce their level of employment for the upcoming year, if the economic downturn continues. Currently, Jordanian workers in the formal sector do not have any income protection mechanism if they face the risk of unemployment.	**The Cabinet has approved a draft Unemployment Insurance Program, as part of the draft Social Security Law, to provide unemployment insurance benefits to the members of Social Security Corporation which consists of the following:** • **A flexible mechanism of unemployment insurance savings accounts (UISA) financed by contributions of employers and employees;** • **Provisions allowing to use the balances of savings accounts or borrow from accumulated pension rights with limits to be determined by regulations;** • **Coverage for all Social Security Corporation members after a minimum vesting period to be defined by regulations.**	*Outcome:* All SSC members covered by the new UISA scheme. *Baseline:* 0 percent (beginning 2009). *Source:* Social Security Corporation.
Increasing the effectiveness and poverty impact of the National Aid Fund.	As Jordan's main public safety net institution, the NAF coverage is low, leakage is high, and poverty impact is small. In 2006, only some 20% of people under the threshold for the NAF assistance received benefits.	**The National Aid Fund has initiated testing of new targeting mechanism that is envisaged under the NAF Renewal Action Plan, including:** • **Improved questionnaire finalized;** • **Database software developed;** • **Data from at least 2,000 households out of planned total 6,000 collected.**	*Outcome:* Coverage of target poor population by NAF assistance increases to 40 percent of those under NAF threshold (as measured by consumption methodology). *Baseline:* 20 percent (2006). *Source:* National Aid Fund, Ministry of Social Development.

Jordan at a glance

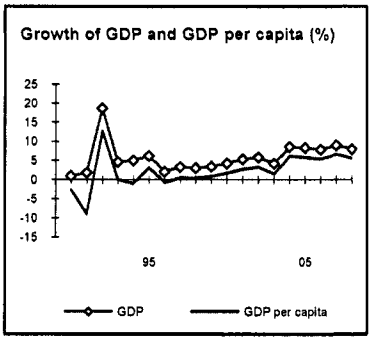
9/8/09

Key Development Indicators	Jordan	M. East & North Africa	Lower middle income
(2008)			
Population, mid-year (millions)	5.9	313	3,435
Surface area (thousand sq. km)	*89*	8,778	35,510
Population growth (%)	2.2	1.7	1.0
Urban population (% of total population)	80	57	42
GNI (Atlas method, US$ billions)	20.5	883	6,543
GNI per capita (Atlas method, US$)	3,510	2,820	1,905
GNI per capita (PPP, international $)	*5,150*	7,402	4,585
GDP growth (%)	7.9	5.9	10.2
GDP per capita growth (%)	5.6	4.1	9.1
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	4	..
Poverty headcount ratio at $2.00 a day (PPP, %)	3	17	..
Life expectancy at birth (years)	..	70	69
Infant mortality (per 1,000 live births)	..	32	38
Child malnutrition (% of children under 5)	..	..	25
Adult literacy, male (% of ages 15 and older)	95	82	88
Adult literacy, female (% of ages 15 and older)	87	65	77
Gross primary enrollment, male (% of age group)	94	108	112
Gross primary enrollment, female (% of age group)	59	103	109
Access to an improved water source (% of population)	..	89	88
Access to improved sanitation facilities (% of population)	..	77	55





Net Aid Flows	1980	1990	2000	2008 [a]
(US$ millions)				
Net ODA and official aid	1,275	886	552	*1,014*
Top 3 donors (in 2007):				
United States	50	58	188	260
European Commission	11	7	81	55
Germany	24	174	44	28
Aid (% of GNI)	32.3	22.5	6.4	*4.6*
Aid per capita (US$)	585	279	114	*173*



Long-Term Economic Trends	1980	1990	2000	2008	1980–90	1990–2000	2000–08
					(average annual growth %)		
Consumer prices (annual % change)	11.0	16.1	0.6	14.9			
GDP implicit deflator (annual % change)	-0.4	12.7	-0.4	16.0			
Exchange rate (annual average, local per US$)	0.3	0.7	0.7	0.7			
Terms of trade index (2000 = 100)	88	93	100	118			
Population, mid-year (millions)	2.2	3.2	4.9	5.9	3.7	4.3	2.3
GDP (US$ millions)	3,910	4,160	8,470	21,301	2.5	5.0	7.2
		(% of GDP)					
Agriculture	7.9	7.7	2.3	2.9	6.8	-3.0	8.5
Industry	24.1	26.2	25.5	34.0	*1.9*	5.2	8.8
Manufacturing	8.9	13.6	15.7	20.4	0.5	5.6	10.1
Services	68.0	66.0	72.1	63.1	2.3	5.0	6.4
Household final consumption expenditure	78.5	74.9	80.6	81.4	1.9	5.0	7.0
General gov't final consumption expenditure	29.2	24.0	23.7	25.4	1.9	4.7	6.5
Gross capital formation	37.2	30.8	22.4	25.6	-1.9	0.3	11.0
Exports of goods and services	40.4	59.8	41.8	58.1	4.8	2.6	7.0
Imports of goods and services	85.3	89.6	68.5	90.5	1.2	1.5	8.0
Gross savings	31.1	21.0	23.1	14.3			

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.
a. Aid data are for 2007.

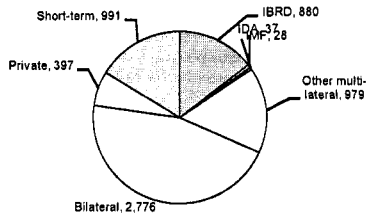
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2008
(US$ millions)		
Total merchandise exports (fob)	1,901	7,954
Total merchandise imports (cif)	4,602	17,030
Net trade in goods and services	-2,259	-6,889
Current account balance	60	-2,397
as a % of GDP	0.7	-11.3
Workers' remittances and compensation of employees (receipts)	1,845	3,802
Reserves, including gold	3,434	8,925

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	32.2	31.1
Tax revenue	16.0	18.3
Current expenditure	29.5	29.7
Overall surplus/deficit	-2.0	-4.6
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	7,355	6,088
Total debt service	740	959
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	86.8	28.6
Total debt service (% of exports)	12.6	5.7
Foreign direct investment (net inflows)	814	1,956
Portfolio equity (net inflows)	-186	563

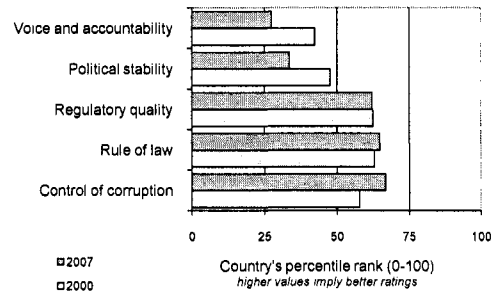
Composition of total external debt, 2008



US$ millions

Private Sector Development	2000	2008
Time required to start a business (days)	–	14
Cost to start a business (% of GNI per capita)	–	60.4
Time required to register property (days)	–	22
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2007
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	58.4	242.1
Bank capital to asset ratio (%)	7.0	6.7

Governance indicators, 2000 and 2007



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2007
Paved roads (% of total)	*100.0*	*100.0*
Fixed line and mobile phone subscribers (per 100 people)	21	94
High technology exports (% of manufactured exports)	8.0	1.1

Environment		
Agricultural land (% of land area)	12	*11*
Forest area (% of land area)	1.0	..
Nationally protected areas (% of land area)	*3.4*	*3.4*
Freshwater resources per capita (cu. meters)	*135*	119
Freshwater withdrawal (billion cubic meters)	..	*0.9*
CO2 emissions per capita (mt)	3.2	*3.8*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	3.4	*3.5*
Energy use per capita (kg of oil equivalent)	1,082	*1,294*

World Bank Group portfolio	2000	2007
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	798	910
Disbursements	38	27
Principal repayments	53	91
Interest payments	53	51
IDA		
Total debt outstanding and disbursed	57	39
Disbursements	0	0
Total debt service	3	3
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	77	34
of which IFC own account	77	34
Disbursements for IFC own account	4	15
Portfolio sales, prepayments and repayments for IFC own account	26	5
MIGA		
Gross exposure	40	4
New guarantees	39	0

Note: Figures in italics are for years other than those specified. 2008 data are preliminary.
.. indicates data are not available. – indicates observation is not applicable.

9/8/09

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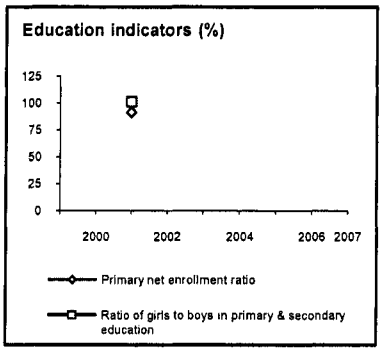
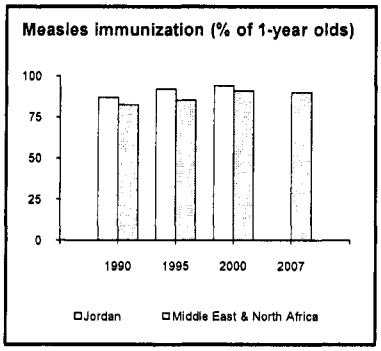
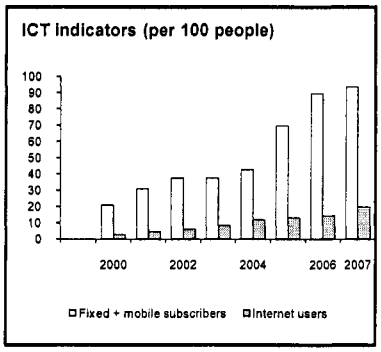
With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Jordan			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2007**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	*2.8*	*<2*	..	*<2*
Poverty headcount ratio at national poverty line (% of population)	*15.0*	*11.7*	..	..
Share of income or consumption to the poorest qunitile (%)	..	*7.6*	..	..
Prevalence of malnutrition (% of children under 5)	6.4	6.4	..	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	66	67	*91*	..
Primary completion rate (% of relevant age group)	*101*	*98*	97	*99*
Secondary school enrollment (gross, %)	*82*	*86*	89	*89*
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	93	102	*101*	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	23	22	21	..
Proportion of seats held by women in national parliament (%)	..	1	..	*6*
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	43	37	34	..
Infant mortality rate (per 1,000 live births)	35	31	28	..
Measles immunization (proportion of one-year olds immunized, %)	87	92	94	..
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	41	..
Births attended by skilled health staff (% of total)	87	*97*	*100*	..
Contraceptive prevalence (% of women ages 15-49)	35	*50*	*56*	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	10	..
Tuberculosis cases detected under DOTS (%)	..	76	40	..
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	97	..	96	..
Access to improved sanitation facilities (% of population)	98	..	99	..
Forest area (% of total land area)	1.0	..	1.0	..
Nationally protected areas (% of total land area)	..	*3.4*	*3.4*	*3.4*
CO2 emissions (metric tons per capita)	3.2	3.2	3.2	*3.8*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	3.0	3.3	3.4	*3.5*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	7.8	7.6	12.9	10.2
Mobile phone subscribers (per 100 people)	0.0	0.3	8.1	83.4
Internet users (per 100 people)	0.0	0.0	2.7	19.7
Personal computers (per 100 people)	..	0.8	3.1	*6.7*







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MAP SECTION

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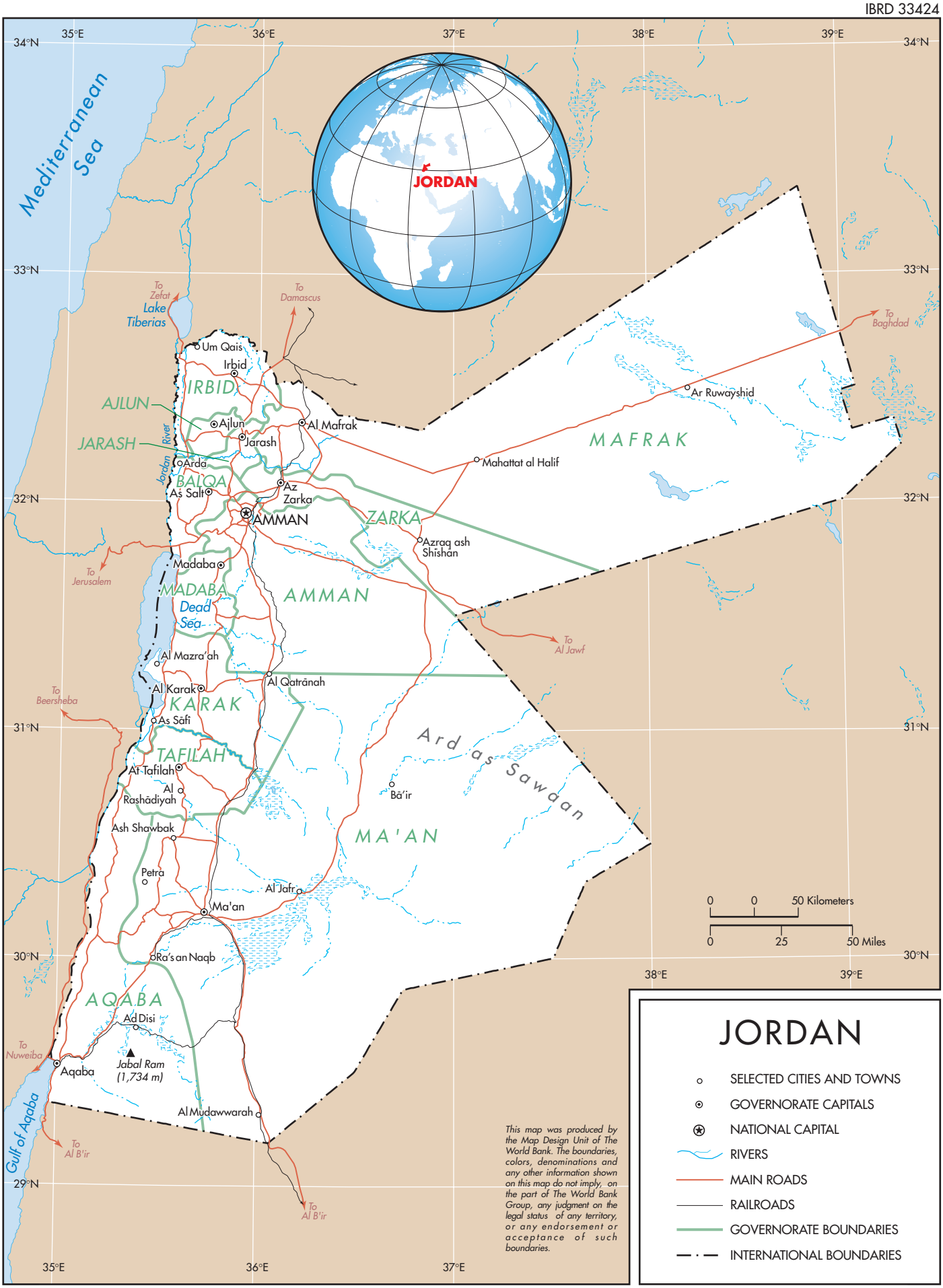

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