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# Jordan Poverty Update - Volume I: Main Report

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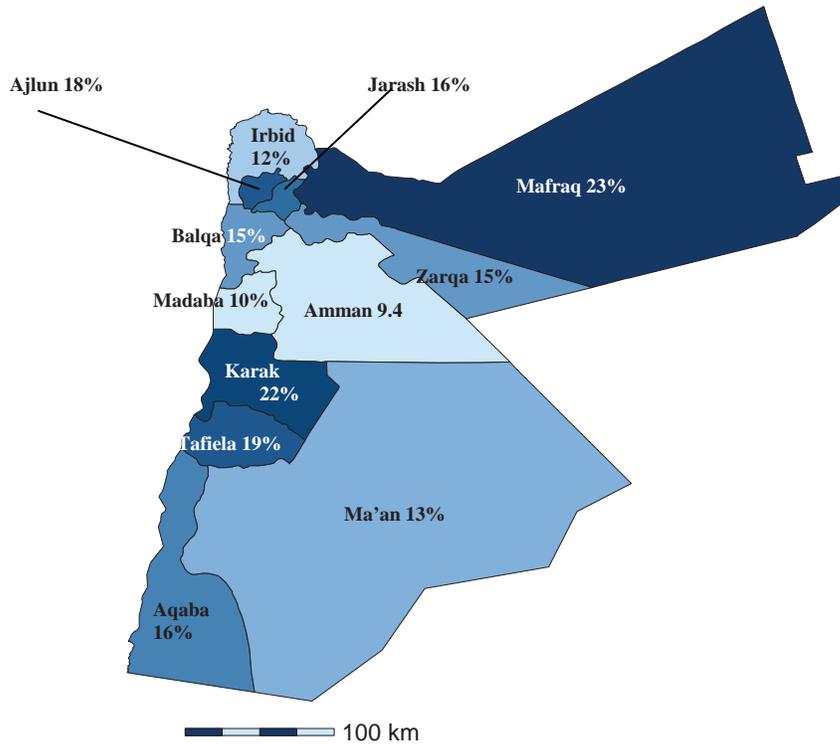
## EXECUTIVE SUMMARY

i. This report is a joint product of the Jordanian Department of Statistics (DOS) and the World Bank. The report was written by Adnan Badran (Head, Prices and Poverty Division, DOS), Susan Razzaz (Senior Economist, World Bank) and Professor Nanak Kakwani (Consultant, World Bank) under the leadership of Dr. Haidar Fraihat (Director General, DOS) and Farrukh Iqbal (Sector Manager, World Bank). The report has four goals:

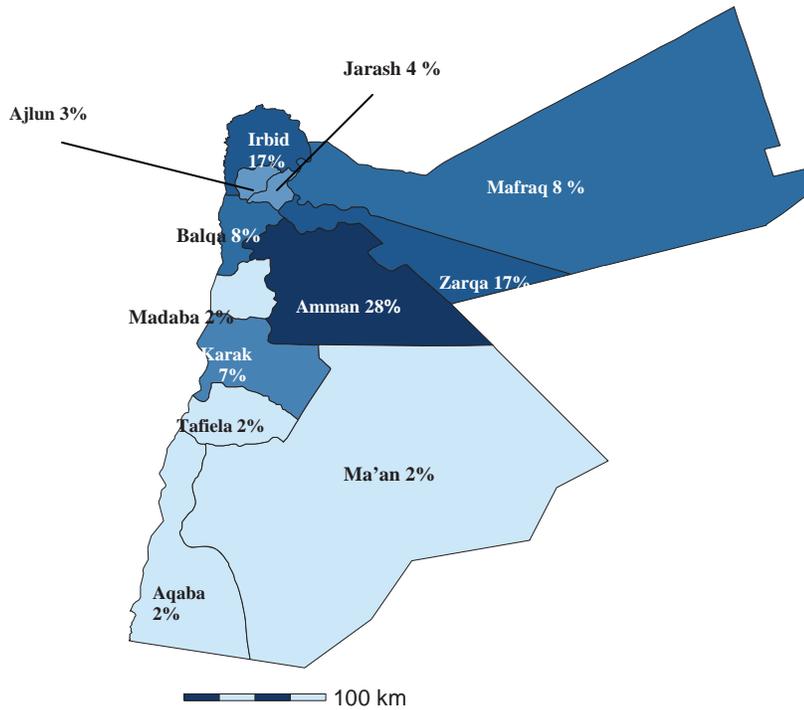
- 1) update the official Jordanian poverty line based on the 2006 Household Income and Expenditure Survey (HIES) using the methodology previously applied for the Poverty Assessment in 2002;
- 2) describe recent poverty trends;
- 3) understand the reasons for the discrepancy between the results of formal statistical analysis and popular perceptions of poverty trends;
- 4) provide preliminary information about the distributional impacts of fuel subsidies and measures to compensate for fuel subsidy elimination.

ii. Using 2006 as the base year, the Jordanian poverty line was JD 46.3 per person per month (JD 278 for a family of six). In 2006, 13 percent of the population was below the poverty line. The highest rate of poverty was observed in Mafraq governorate. Although Amman has the lowest poverty rate of all governorates, it is home to the largest number of poor individuals due to the concentration of population in Amman. Several sub-districts, including Rwashed, Wadi Araba and Aghwar Janoobiyah have very high rates of poverty.

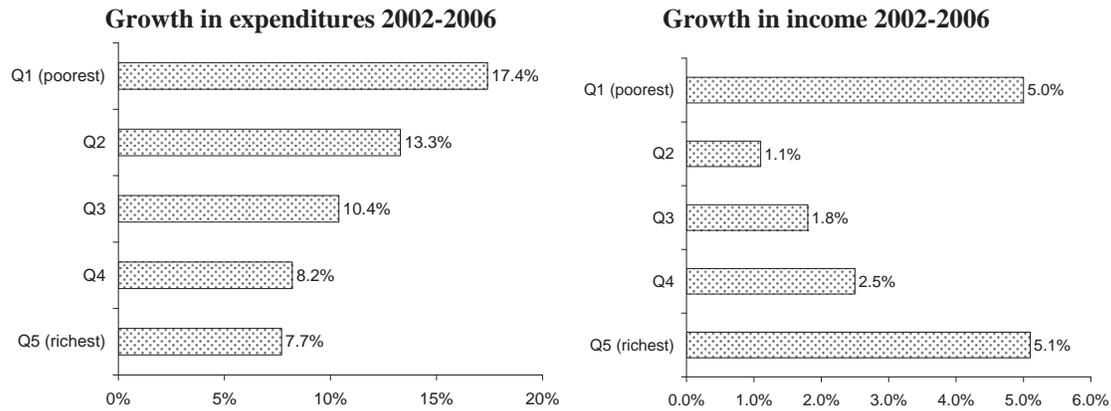
### Poverty incidence by governorate 2006



### Share of poor Jordanians living in each governorate 2006



iii. Poverty rates have fallen between 2002 and 2006, which is at odds with the *popular perception* that poverty rates have increased (or at best remained constant). Examination of the differences between the formal statistical results and the popular view reveals an important story. One reason for the discrepancy is that economists generally measure poverty using expenditures, while popular perceptions are often based on income. *We find that real expenditures have grown strongly but real incomes have been largely stagnant.*<sup>1</sup> Another reason for the discrepancy is that the official poverty line is set at a fairly low level, while popular perception of the level of income that corresponds to poverty may capture the lower middle class as well. We find that although the bottom quintile has done fairly well, the lower middle class has not done as well.



iv. Disturbingly, income would have fallen for most Jordanians if not for growth in transfer income. The growth in transfer income was primarily due to transfers made to compensate for the April 2006 fuel price increases (*dahm al mahroukat*) and gifts to government employees announced by the King on holidays (*makromah*). Income before transfers is comprised mainly of property/rental and labor income. Property/rental income fell between 2002 and 2006, apparently reflecting the dis-saving trend also observed at the macro level.<sup>2</sup> Labor income was stagnant for most Jordanians, although the wealthiest quintile saw significant gains.

v. As Jordanians face another year that appears much like 2006, ***it is crucial to look at the sustainability of current trends at both household and macro levels.*** Because labor income is the most important source of income for Jordanian households and is the only sustainable source of income growth at the macro level, ***employment and productivity must be an essential part of any strategy to improve the welfare of the population.***

vi. In February 2008, the Government took the bold step of increasing fuel prices, nearly eliminating fuel subsidies. At the same time, the Government put in place several compensating measures.

<sup>1</sup> Throughout the report, all expenditures and incomes are measured in real terms (in 2006 Jordanian Dinars).

<sup>2</sup> Between 2002 and 2006, the share of Jordanians owning real estate declined. This implies that a smaller share of Jordanians earns income from real estate and lives in their own homes, while a larger share pays rent.

vii. For most products, wealthier households received a disproportionately large share of Government spending on subsidies. Despite the fact that fuel subsidies were regressive, the pain from removal of subsidies is still felt strongly by all Jordanians, with the poor hardest hit.

viii. To ease the pain of fuel subsidy elimination, a variety of compensating measures have been introduced with varying potential to reach needy segments of the population:

- Although transfers through the National Aid Fund (NAF) are the most progressive of the measures, (in terms of share of budget reaching the needy), within the existing budget and targeting formula less than 15 percent of the bottom quintile can be reached by NAF.
- The one-time transfers (*dahm al mahroukat*) like those made in 2006 are slightly progressive and have the potential to reach the majority of the bottom quintile. However, these transfers are costly because of leakage to the non-poor.<sup>3</sup>
- Government salary increases, which comprise the bulk of the budget for compensating measures, are neither progressive nor regressive: due to the composition of government employment, these salary increases are focused on the middle classes.

ix. The new compensating measures are better-targeting the poor than the fuel subsidies. Fuel subsidies went primarily to the top two quintiles, while the compensating measures more strongly focus on the lower and middle classes. The reforms have had helpful distributional impacts. Nevertheless, inefficiency in targeting the compensating measures made the reform costly, reducing its benefits to the budget.

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<sup>3</sup> Targeting of the transfers is based on incomplete income information and it is therefore likely that many non-eligible households receive the transfers.

## I. POVERTY IN 2006

### *The 2006 Poverty Line<sup>4</sup>*

The poverty line for 2006 was calculated by the Department of Statistics and the World Bank based on the 2006 Household Income and Expenditure Survey. As with previous poverty lines used in Jordan, the 2006 lines are based on the concept that those who consume below a minimum acceptable level are considered poor.<sup>5</sup>

The poverty line is comprised of two parts: a budget for food and a budget for other (non-food) expenditures. The poverty line budget for food was JD 19.9 per person per month in 2006, calculated on the basis of (i) estimated caloric requirements of 2340 calories per day,<sup>6</sup> and (ii) an average cost of JD 0.28 to purchase 1,000 calories.<sup>7</sup> The budget for other expenditures was set at the amount spent on non-food expenditures by Jordanians whose food budget was exactly at the poverty line food budget. On this basis, the poverty line non-food budget was JD 26.4 per person per month. Thus the poverty line budget (including both food and non-food components) was JD 46.3 per person per month.<sup>8</sup>

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<sup>4</sup> A detailed description of the methodology is included in the appendices.

<sup>5</sup> Consumption/expenditure data can be measured more accurately through household surveys than can income data, in part because of households' reluctance to share income data. Moreover, consumption/expenditure data provides a more reliable indicator of current living standards when incomes vary over time in ways households can predict and hence deal with through consumption/expenditure-smoothing behavior.

<sup>6</sup> The caloric requirement was estimated based on the age, sex and activity level of the Jordanian population.

<sup>7</sup> Because the same number of calories can be obtained from inexpensive foods or from expensive foods, wealthier people spend more per calorie consumed. In Jordan, the top 20 percent of the population spend about JD0.54 for 1,000 calories – about twice what the bottom 20 percent spend. The poverty line is based on the caloric cost of the bottom 20 percent of the population.

<sup>8</sup> This is equivalent to JD 556 per person per year or JD 3,312 per year for a family of 6. This same poverty line adjusted for inflation is equivalent to JD 55 per person per month in April 2008.

**Box I.1. What can a poor person afford to eat?**

As indicated above, the poverty line is based on a food budget of JD 19.9 per person per month, which allows an individual to consume sufficient calories to maintain a healthy body, based on the diet and prices of a typical Jordanian in the bottom 20 percent. The following describes the average weekly diet for a family of 6 at this budget:

Bread and biscuits	22 kg
Rice	2.4 kg
Flour	4 kg
Chicken	4.6 kg
Yogurt	2.4 kg
Eggs	15
Oil	1.2 liters
Fruits	8.6kg
Vegetables	14.4kg
Foul (fava beans)	1.2 cans
Hommus or foul	2 platters
Falafel	26
Prepared meals or Sandwiches	10
Sugar	2.3 kg
Chips	13 bags
Chocolate bars	8
Bottled drinks	30 liters
Frozen products	6 units

Because prices differ across the country, the poverty line needs to be adjusted accordingly. For example, a family of 6 living in Mafraq would be considered to be living at the poverty line if they spent JD 263 per month, while the same family would need to spend JD 291 per month to have the same standard of living in Amman (due to higher prices in Amman).

**Table I.1. Poverty Line: JDs per month (2006)**

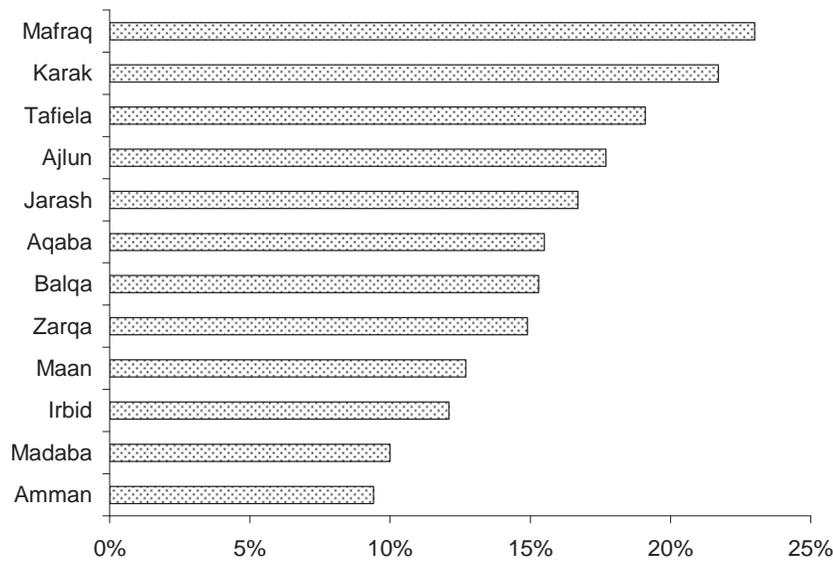
<b>Governorate</b>	<b>Per person</b>	<b>Per family of 6</b>
Amman	48.4	291
Balqa	45.2	271
Zarqa	45.7	274
Madaba	45.2	271
Irbid	45.0	270
Mafraq	43.9	263
Jarash	44.6	268
Ajlun	44.4	266
Karak	45.0	270
Tafiela	44.9	269
Maan	44.6	268
Aqaba	45.0	270
<b><i>Jordan as a whole</i></b>	<b><i>46.3</i></b>	<b><i>278</i></b>

A household at the poverty line can afford to consume sufficient calories (and non-food items) to maintain a healthy body. It is important to note, however, that this approach does not assume any specific spending pattern. A household whose total expenditure is higher than the poverty line could spend less than JD 19.9 per person per month on food (and more than JD 26.4 per person per month on non-food items): so long as their *total* expenditure is greater than JD 46.3 per person per month, they are not considered poor. A variety of reasons may explain why this group spends less than JD 19.9 per person per month on food despite the fact that they are not poor: they may have unusually high non-food expenditure (e.g. unusually large education or health expenses) or may have a source of food at below market prices (e.g. they may receive gifts of food or may receive meals at their place of work).

### 2006 Poverty Incidence and Characteristics of Poverty

Where the poor live. Poverty is not evenly spread within Jordan. Poverty rates are highest in Mafrq, Karak and Tafileh and lowest in Amman, Madaba and Irbid. More generally, poverty rates are higher in rural areas ant in urban areas. (Nineteen percent of the rural population is poor, compared to 12 percent of the urban population.)

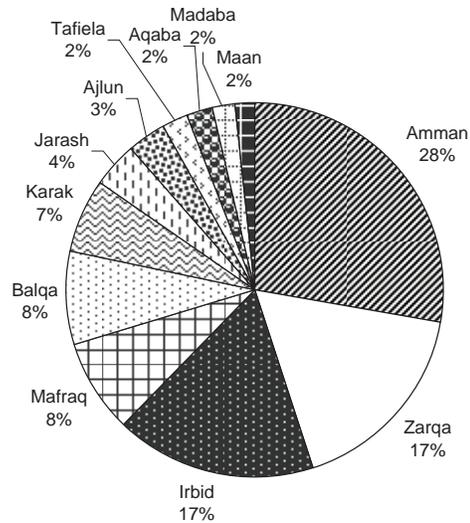
**Figure I.1. Poverty Rate (Percentage of the population who are poor, 2006)**



Although few of the residents of Amman are poor, there are more poor people in Amman than in other governorates due to the concentration of population of Amman. Indeed, the three governorates with the largest *shares* of poor people (Amman, Irbid and Zarqa), all have low poverty *incidence*. Moreover, because the Jordanian population is largely concentrated in urban areas, we note that three-quarters of all poor Jordanians live in urban areas, despite the fact that urban areas have lower poverty *incidence* than rural areas. The distinction between a governorate’s share of the poor and its incidence of poverty is important for targeting. If a governorate has a high share of the poor but a low incidence of poverty (e.g. Amman) it is easy to reach the poor (because they are geographically concentrated) but there is likely to be significant leakage to the non-poor (because the poor are living amidst the non-poor). If, on the other hand, a governorate has a low share of the poor but a high incidence of poverty, it may be costly to provide

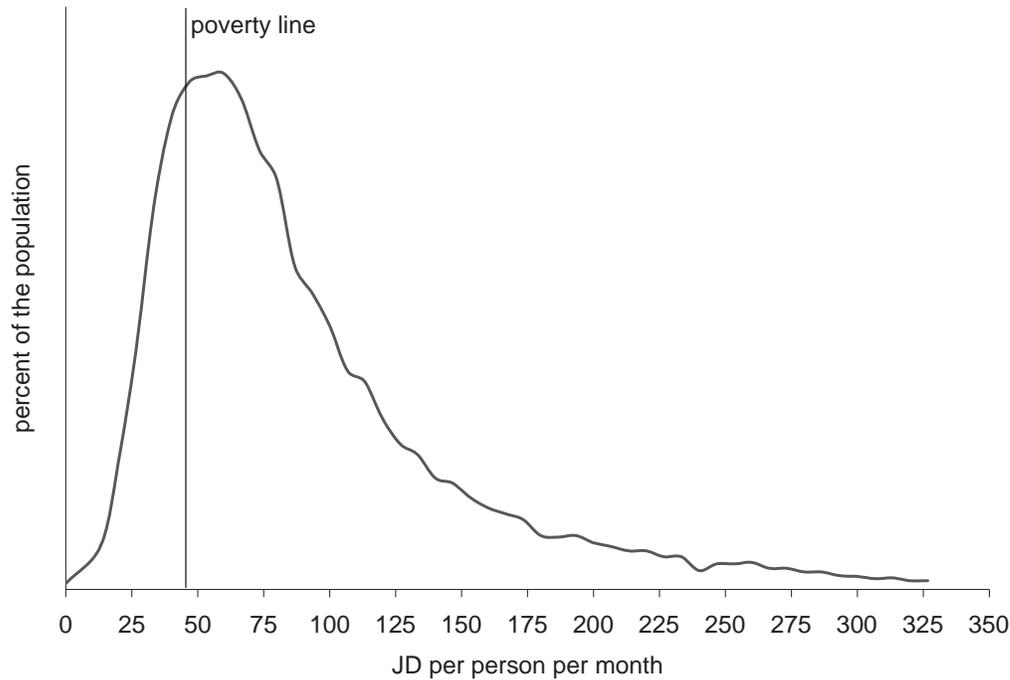
services (because they are often disbursed over a large geographic area), but leakage will be low (because a higher proportion of those reached will be poor).

**Figure I.2. Share of poor Jordanians living in each governorate 2006**



Poverty is shallow. There are many Jordanians who live just above or just below the poverty line and many move in and out of poverty. Indeed, nearly half of those who were poor in the third quarter of 2006 were not poor in the following quarter.

**Figure I.3. A large part of the population is just above the poverty line**



The figure shows that a large share of the population consumes at levels just above the poverty line and are vulnerable to falling into poverty. Similarly, a large number of poor Jordanians consume at levels just below the poverty line: poverty is generally quite shallow.<sup>9</sup> The depth of poverty varies by governorate. The poor in Amman, for example, live closer to the poverty line than the poor in Mafraq. The ranking of governorates by depth of poverty is almost identical to the ranking by poverty incidence. For policy purposes, this means that targeting programs to governorates with high rates of poverty will also serve to reach the poorest of the poor.

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<sup>9</sup> The poverty line used in this report is JD 46.3 per person per month. If the poverty line had been set at a slightly lower JD 43.3 per person per month, the poverty rate in 2006 would have been 10.6 percent. If the poverty line had been set at a slightly higher JD 50 per person per month, the poverty rate in 2006 would have been 16.6 percent.

**Table I.2. Poverty incidence and poverty depth coincide closely (2006)**

<b>Governorate</b>	<b>Ranking by poverty incidence</b>	<b>Ranking by poverty depth</b>
Mafraq	1	1
Karak	2	2
Tafiela	3	6
Ajlun	4	5
Jarash	5	4
Aqaba	6	3
Balqa	7	7
Zarqa	8	9
Maan	9	8
Irbid	10	10
Madaba	11	11
Amman	12	12

The table below provides an indication of the overall scale of poverty. The table shows the funds required to bring all poor individuals up to the poverty line. (These numbers are only indicative. They do not include the cost of identifying poor individuals and transferring the funds, nor do they include allowances for leakage or exclusion errors.)

**Table I.3. Indicative cost of eliminating poverty (2006)**

<b>Location</b>	<b>Cost in JD millions per month</b>
Amman	1.8
Balqa	0.6
Zarqa	1.0
Madaba	0.2
Irbid	1.2
Mafraq	0.6
Jarash	0.3
Ajlun	0.2
Karak	0.5
Tafiela	0.1
Maan	0.1
Aqaba	0.2
Kingdom	6.8

Earnings characteristics reinforce each other as causes of poverty. Although our definition of poverty is based on expenditures, expenditure levels are related to income levels. In the following, we examine the four aspects of why per capita income is so much lower for the poor than for the non-poor.<sup>10</sup>

<sup>10</sup> A detailed discussion of the characteristics of the poor and the relationship between poverty and the labor market is included in the appendices.

- Poor adults have significantly *lower earnings potential* than non-poor adults. More than half of poor adults (52 percent) have less than basic education, compared with a third (34 percent) of non-poor adults.
- Largely as a result of their lower education, *earnings per employed person are lower* among the poor than among the non-poor – JD 2,266 per year vs. JD 3,352 per year.
- Not only do poor persons earn less when they are employed, but they are also *less likely to be employed*. Only 26 percent of poor adults are working, compared to 36 percent of non-poor adults.<sup>11</sup> (Poor adults have lower rates of labor force participation and higher rates of unemployment.)
- Moreover, poor households have a *higher number of dependent persons for each potential income earner*. The ratio of children to adults in poor households is 0.9 compared to 0.6 in non-poor households. This means that there is nearly one child for every adult (i.e. for every potential income earner) in poor households, but far fewer children to be cared for by every adult in non-poor households.

Put together, the lower potential earnings, lower employment rates, lower actual earnings and higher dependency rates result in a per capita income for the poor which is less than half that of the non-poor (JD 503 per year vs. JD 1,182 per year).<sup>12</sup>

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<sup>11</sup> Twenty-six percent of poor adults fall into one of the following categories: employees, employers, own account workers, unpaid family workers or unpaid workers. The remaining 74 percent of poor adults are either unemployed or not in the labor force.

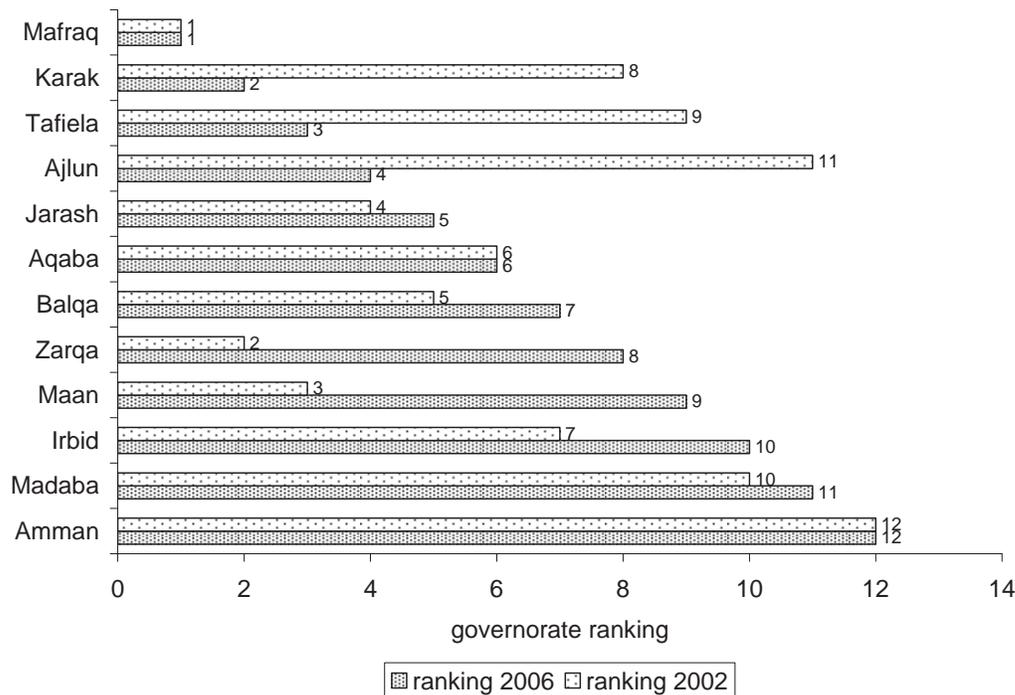
<sup>12</sup> Poor households have an average annual per capita income from labor of JD 307 and an average of JD 196 from other sources. Non-poor households have an average annual per capita income from labor of JD 710 and an average of JD 472 from other sources.

## II. TRENDS IN WELFARE OF THE POPULATION

Analysis of trends in welfare is important for evaluating the success of policies and programs. For example, if a poverty alleviation program were focused on sub-districts that had high incidence of poverty in 2002, we would hope to find that poverty incidence had declined in those sub-districts (or at least increased more slowly than it otherwise would have).

In Jordan as a whole, the poverty rate has fallen between 2002 and 2006.<sup>13</sup> Nevertheless, the experiences of governorates have varied widely: Whereas Zarqa, Maan and Balqa had relatively high poverty incidence in 2002, they now have relatively low poverty incidence. On the other hand, Karak, Tafileh and Ajlun had relatively low poverty incidence in 2002, but now have relatively high poverty incidence. Although Mafraq experienced a strong reduction in poverty, its ranking did not change. Figure II.1 shows the rankings of the 12 governorates in 2002 and 2006. For example, Karak had the 8<sup>th</sup> highest incidence of poverty in 2002 and the 2<sup>nd</sup> highest incidence of poverty in 2006.

**Figure II.1. Governorate poverty incidence rankings 2002 and 2006**



The following 20 sub-districts had the highest poverty incidence in 2006.<sup>14</sup> For each, we show their poverty incidence ranking in 2002 for comparison. There have been several changes since 2002. Some sub-districts (e.g. Ghawr Al-Mazra'a, Kufranjah, Qatraneh and Bsaira) entered the list due to increased poverty incidence. In other cases

<sup>13</sup> Analysis of trends in a population's well-being requires holding the poverty line level of consumption fixed in real terms while adjusting for changes in prices over time. When we do this using the 2006 poverty line, we estimate that 20 percent of the Jordanian population was poor in 2002.

<sup>14</sup> A complete list of sub-districts, with poverty incidence standard errors and confidence intervals is in the appendices.

(e.g. Mowjeb, Khaldiyah, Orjan, and Badiyah Shanaliyah Gharbiyah) the sub-districts did not exist as distinct entities in 2002 but were poor areas within wealthier sub-districts.<sup>15</sup>

**Table II.1. The Twenty Sub-districts with Highest Poverty Incidence in 2006**

<b>Subdistrict</b>	<b>Poverty ranking 2002</b>	<b>Poverty ranking 2006</b>
Rwaished	1	1
Wadi Araba	3	2
Aghwar Janoobiyah (Ghoor Al Safi)	6	3
Quairah	13	4
Ghawr Al-Mazra'a	25	5
Mowjeb	38	6
Diesah	12	7
Badiyah Shanaliyah	4	8
Kufranjah	68	9
Hosha	18	10
Khaldiyah	28	11
Qatraneh	37	12
Dair Al kahf	11	13
Bsaira	53	14
Bal'ama	20	15
Aghwar	26	16
Orjan	71	17
Borma	47	18
Badiyah Shanaliyah Gharbiyah	27	19
Mraighah	7	20

<sup>15</sup> In 2002, Quairah and Diesah were one sub-district, Mowjeb and Qasr were one sub-district, Khaldiyah, Mafraq, Manshiyah, Badiyah Shamaliya Gharbiyah were one sub-district, and Orjan, Ajlun and Sakhray were one sub-district.

### III. THE OFFICIAL POVERTY LINE VS. POPULAR PERCEPTIONS OF POVERTY

Comparison of official household survey data from 2002 and 2006 shows that poverty rates have fallen. This is at odds with the popular perception in Jordan that poverty rates have increased in recent years (or at best, remained constant).<sup>16</sup> It is important to take popular perceptions seriously in order to understand why people do not feel that the situation has improved.

The efforts to understand the differences in views reveal an important story. One reason for the discrepancy in views is that economists generally measure poverty using expenditures, while popular perceptions are often based on income. Analysis in this report shows that expenditures have grown strongly, but incomes have grown only slightly. A second reason for the discrepancy in views is that the official poverty line is set at a fairly low level, while popular perception of the poverty line standard of living may be much higher. Analysis in this report shows that, although the bottom quintile has done fairly well, the lower middle class has not done as well.

Expenditure vs. income. As indicated above, we have used expenditures to measure poverty. This method is consistent with the joint Government of Jordan – World Bank Poverty Assessment (2004) and internationally practice among economists.<sup>17</sup> Popular perceptions, on the other hand, are often based on income. In most countries expenditure and income move in parallel. However, in Jordan there has been a significant diversion in these indicators over the past few years. Average expenditures have grown much faster than average income – a 9.5 percent increase in real expenditures compared to a 3.6 percent increase in real income.<sup>18</sup> And, incomes before transfers have grown even slower – only 1.5 percent over the period.<sup>19</sup>

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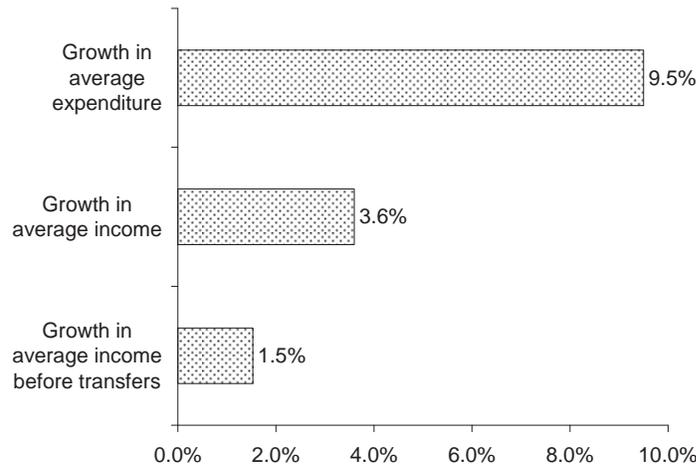
<sup>16</sup> Statements that poverty has increased can be found almost daily in the newspapers and magazines. For an example from the English-language press, see El-Shamayleh, Nisreen (2007) “Poor Growth” in *Jordan Business*, May 2007.

<sup>17</sup> The Poverty Assessment was based on the 2002 Household Income and Expenditure Survey and was published in 2004.

<sup>18</sup> Throughout the report, all expenditures and incomes are measured in real terms (in 2006 Jordanian Dinars). Household income growth was considerably lower than per capita GDP growth during this period. (Real per capita GDP grew at 1.5 percent in 2003, 6.1 percent in 2004, 4.7 percent in 2005 and 3.9 percent in 2006.) Personal income and GDP diverged for two reasons. First, GDP is a measure of production, rather than income, and in practice are measured slightly differently. Second, GDP covers production by anyone within Jordan’s borders, whereas the analysis in this report covers only Jordanians living within Jordan. (The coverage of the HIES does not match well with the coverage of GNP either. GNP covers production by Jordanians even if they live outside of Jordan.)

<sup>19</sup> Throughout this section we identify growth rates over the four year period 2002 to 2006. (Average annual growth rates are approximately one fourth as large.)

**Figure III.1. Growth in average household expenditure and average household income, 2002 to 2006**



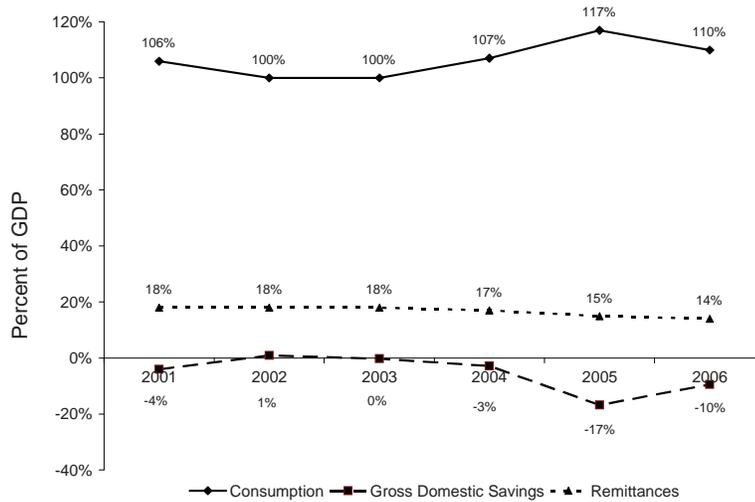
There are good reasons for using expenditures to measure poverty. Expenditure can be measured more accurately than income and expenditures are a better proxy for consumption (what we ultimately care about). At the same time, income – especially income before transfers – is an important aspect of an individual’s well being because it is an indicator of his ability to choose the consumption basket most desirable to himself and to provide independently for his own needs.

Continued growth in expenditures beyond the growth in incomes is not sustainable. When expenditures grow faster than incomes it implies that the population is drawing down its savings or spending beyond its means. At the household level, we see a gap between expenditures and income growth. This gap is also visible at a national level. Macro level data shows that consumption has been consistently larger than production and that savings is consistently negative.<sup>20</sup>

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<sup>20</sup> Jordanian excess consumption is largely financed by remittances of Jordanian working abroad and sale of assets to non-Jordanians.

**Figure III.2. Macroeconomic data on consumption, savings and remittances as share of GDP (2006)**



Source: World Bank and official data

How low is the poverty line? The second reason the calculations presented here may not match popular perceptions is that people may be referring to different levels of consumption when they use the term “poverty line.” As indicated above, the definition used for this report is the level of consumption needed to maintain a healthy body.<sup>21</sup> By this definition a poor person is someone who is probably not eating enough to maintain a healthy body. Given that few Jordanians suffer from malnutrition, we should expect a low poverty rate based on this rather extreme definition.

Common use of the term “poverty” in Jordan is less precise and probably refers to a much less dramatic form of deprivation. When Jordanian journalists write about the typical poor person, they are probably referring, not to the poorest of the poor, but to the lower middle class (i.e. quintile 2). Indeed, many civil servants feel that they are poor and because they tend to be quite vocal, the image of the civil servant as a typical poor person has spread.

<sup>21</sup> Recall that the poverty line is comprised of two parts, the number of JDs needed to purchase a sufficient number of calories (based on the diet of the bottom quintile of the Jordanian population) plus an allowance for non-food consumption.

### Box III.1. When you think of a “poor” Jordanian, which group are you thinking of?

If you are thinking of a family of six, in which each employed adult earns an average of JD 226 per month, you are not thinking of a poor person. You are thinking of someone in the second quintile.

A person who would be considered poor by the definition of this report lives in a different type of household – one with eight members, in which the average earnings of each employed person are no more than JD 190 per month, including both cash and in-kind earnings.<sup>22</sup>

	Poor Households	Households with Govt. employees	Q1 (poorest)	Q2	Q3	Q4	Q5 (richest)
Children	4	2	4	3	2	2	1
Household size	8	6	7	7	6	5	5
Adults as % of all household members	51%	59%	47%	50%	57%	63%	66%
% of adults with less than basic education (% of adults)	52%	33%	52%	44%	37%	32%	23%
Employed as % of all household members	14%	27%	10%	15%	19%	24%	32%
Employed adults as % of all adults in household	26%	44%	20%	29%	33%	38%	47%
Per capita real income (JD/month)	42	95	30	49	68	97	212
Earnings per employed (JD/month)	190	250	166	200	224	247	385

Annual per capita income of the lower middle class (quintile 2) is JD 745. This is considerably lower than the national average (JD 1,094) and it is clear that those in quintile 2 are *relatively* worse off than the average. Although those in quintile 2 are *relatively* worse off than the average, they are still far better off than the poor who have an annual per capita income of only JD 503. Regarding households headed by government employees, this group is fairly evenly represented in all expenditure quintiles.<sup>23</sup> Thus, while many households headed by government employees are in the lower middle class, the average government employee does not meet our definition of poor.

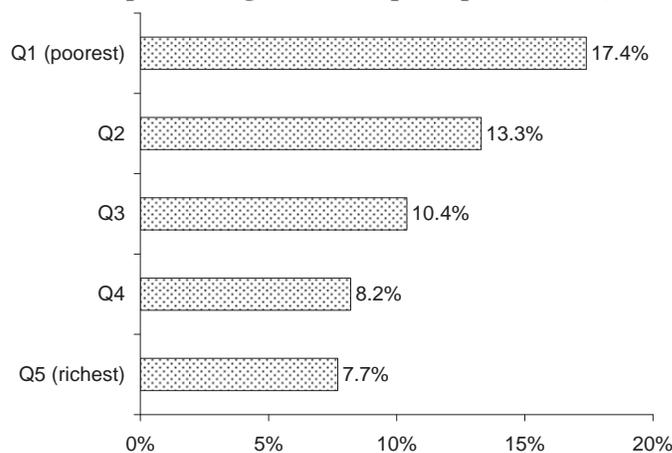
Now we put together these two issues and consider the changes in expenditure and income for the various quintiles. The figure below shows that all groups have experienced a significant growth in real expenditures (consumption) over recent years. This is consistent with the finding of poverty reduction. Indeed, that real expenditure

<sup>22</sup> In this table households are assigned to quintiles according to their per capita expenditure. The results using assignment based on per capita income are slightly different. See the appendices.

<sup>23</sup> Thirteen percent of households headed by government employees are in the bottom expenditure quintile (Q1), 26 percent are in Q2, 23 percent are in Q3, 23 percent are in Q4 and 15 percent are in the highest expenditure quintile (Q5).

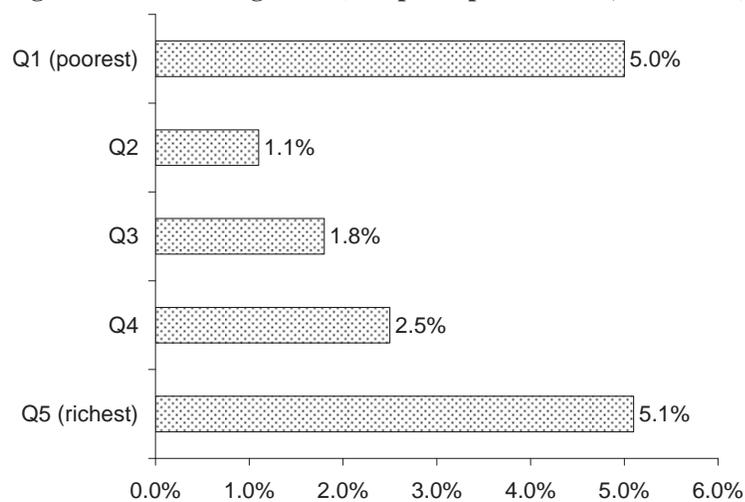
growth has been highest for the poorest group implies that poverty reduction is occurring faster than increases in welfare of the average Jordanian.

**Figure III.3. Expenditure growth (real per capita increase, 2002-2006)**



When we look at growth in real income, however, we see a very different story. As mentioned earlier, average income growth has been lower than average expenditure growth. Moreover, the figure below shows that the second quintile (Q2) has had stagnant income – about a quarter of a percent per year.<sup>24</sup> If common perceptions of poverty are based on income (rather than expenditure) and based on a vision of the second quintile as being poor, the evidence confirms that the situation of this group has barely improved.<sup>25</sup>

**Figure III.4. Income growth (real per capita increase, 2002-2006)**



<sup>24</sup> Interestingly, the bottom quintile has experienced much stronger growth in real income, consistent with their increased expenditures.

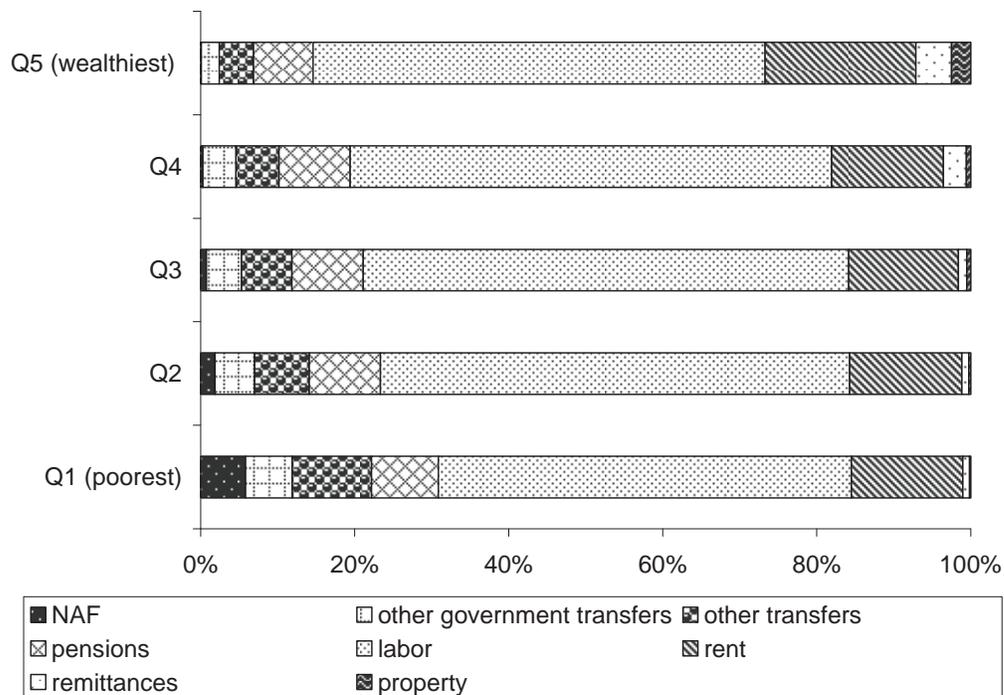
<sup>25</sup> If we examine income growth in population in 20 increments (each comprising 5 percent of the population), we find that the bottom and top 5 percent were the only groups that experienced double digit income growth. See the appendices for more details.

## Sources of Income

Jordanians of all classes get their income from a variety of sources. The figure below shows the sources of income by quintile. Several points are worth noting:

- Labor income (employee and self-employed/employer income) accounts for the majority of income for all groups. It is clear from the figure that even a small increase in labor income can have large impacts on the income of the poor: labor policy is an essential component of any poverty reduction effort.
- Poorer quintiles rely heavily on transfers. NAF, other transfers and other government transfers together account for 22 percent of income for the bottom quintile. Wealthier households also receive transfers – in fact, the wealthiest receive large remittances – but are less reliant on transfers.
- Wealthier households receive a large part of their income from rent and property income. The figure shows that poorer quintiles also receive significant rents. It should be noted, however, that most of this income is the imputed rental value of owner-occupied homes and is not income received as cash. (Imputed rent from owner-occupied housing is included both as income and as expenditure in order to appropriately compare homeowners with renters who share similar levels of welfare.)

Figure III.5. Sources of Income (2006)



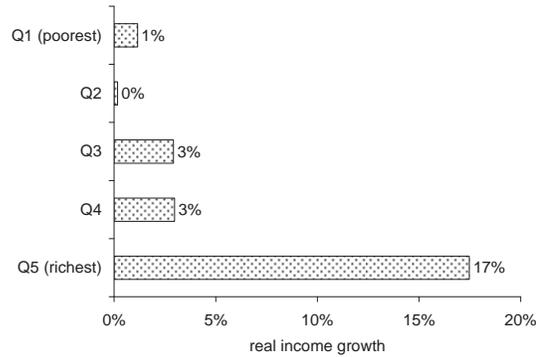
**Labor Income.** Labor income includes employee income,<sup>26</sup> and the income of self-employed persons<sup>27</sup> and employers. The second, third and fourth quintiles rely most strongly on employee income (49 to 50 percent of income), while the poorest and richest quintile rely less strongly on employee income (43 percent and 41 percent respectively.)

<sup>26</sup> Employee income includes wages, allowances and in-kind payments to employees.

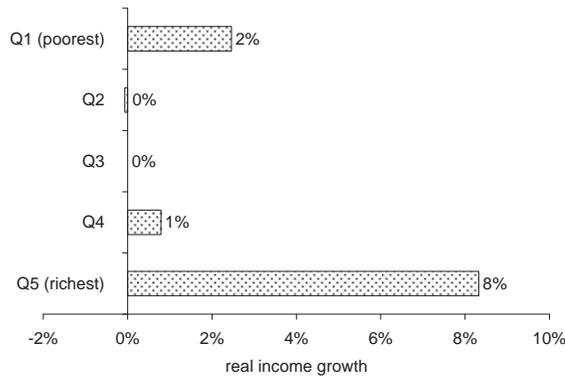
<sup>27</sup> Self-employed persons are listed in the household survey as “own account” workers.

Labor income grew strongly only for the richest. This group benefited from high growth in employee income and especially from high growth in self-employment/employer income. Other quintiles experienced no significant growth in employee income. Like the richest quintile, the third and fourth quintiles experienced growth in self-employment/employer income, but the bottom two quintiles experienced no growth in self-employment/employer income: the bottom quintile actually experienced a decline.

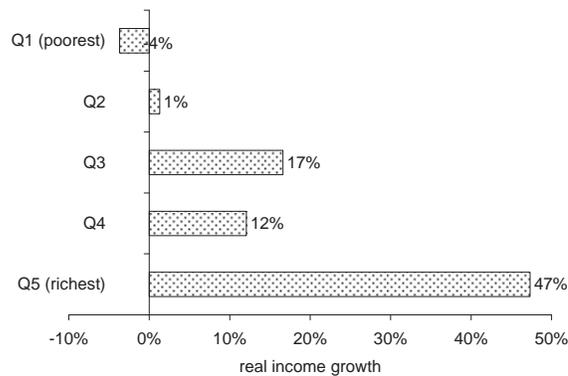
**Figure III.6. Growth in total labor income**



**Figure III.7. Growth in employee income**

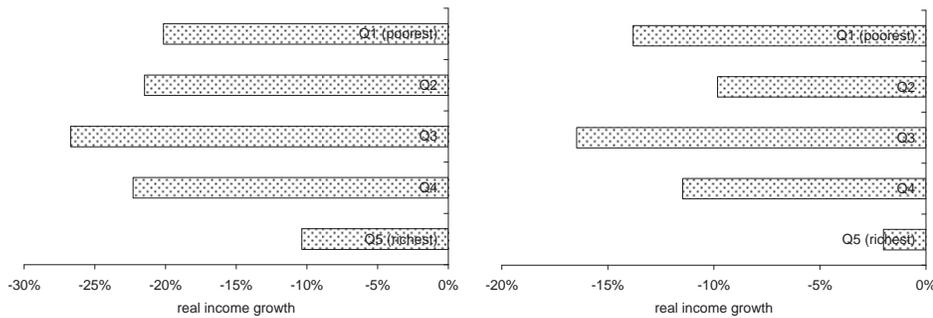


**Figure III.8. Growth in self-employment/employer income**



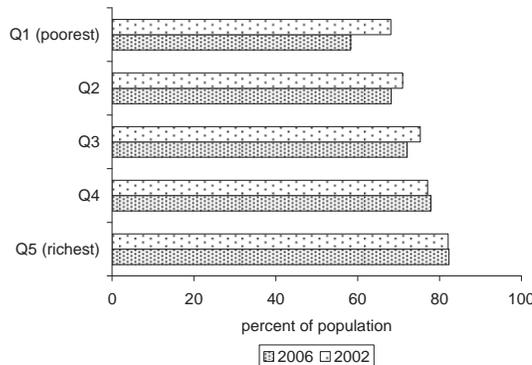
**Rent and Property Income.** The most significant parts of rent and profit incomes are building rents and profits and interest.<sup>28</sup> Building rents appear large in size (from 14 to 19 percent of total income, depending on quintile) because this category includes imputed rent of owner-occupied housing as well as rental property. Seventy-two percent of the population owns their own homes – even among the bottom quintile, 58 percent own their own homes. Ten percent of the overall population (and 3 percent of the bottom quintile) owns rental property. Profit and interest income was a significant part of income in 2002 (from 1 percent of income for the poorest quintile to 4 percent of income for the richest quintile), though it was not significant for any but the wealthiest in 2006.

**Figure III.9. Growth in total rent and property income and building rent (a component of the total)**



Building rental income fell for all but the top quintile. This reflects the fact that a significant share of the population appears to have sold off assets as part of the overall dis-saving we noted in the previous paragraphs. Home ownership among the poorest quintile declined from 68 to 58 percent (Figure III.10) and ownership of rental property among this group declined from 5 percent to 3 percent (Figure III.11).<sup>29</sup>

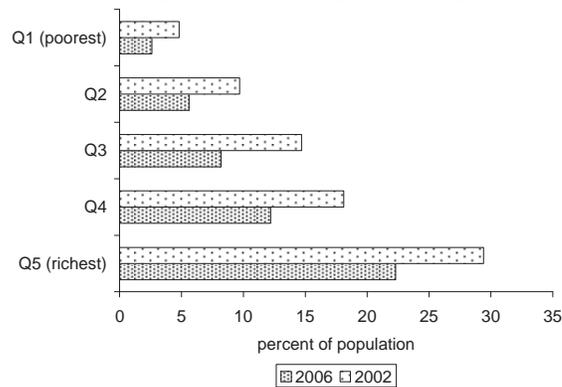
**Figure III.10. Percentage of population owning a home for their own use**



<sup>28</sup> Other components include: deposits, bonds, loans, dividends, other property income, land rents, and other rents.

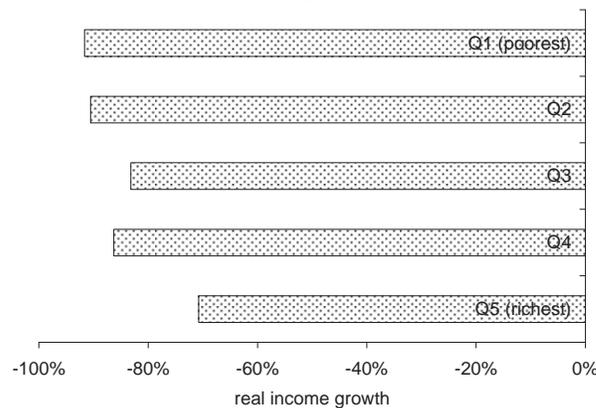
<sup>29</sup> A similar pattern can be seen in the reduced share of the population owning land. Whereas 26 percent of the population (16 percent of the bottom quintile) owned land in 2002, only 22 percent of the population (12 percent of the bottom quintile) owned land in 2006. See the appendices. The decline in rental income occurred despite the fact that the rental income one could receive from owning a given property increased during this period.

**Figure III.11. Percent of population owning a building they rent out for profit**



Profit and interest income fell for all groups, though it is important to remember that this category of income is quite minor for the poorer groups, so the decline had a minor impact on the poorer groups. The dramatic fall in profits and interests may be partially tied to the crash in the Jordanian stock market which occurred in December of 2005. This cannot explain all of the fall, however, because most of the rise in the stock market occurred after 2002.<sup>30</sup>

**Figure III.12. Growth in profit and interest income**



Transfer Income. Transfer income as a whole constitutes a third of income for the poorest quintile falling to a fifth of income for the richest quintile. The most significant types of transfers are pensions, transfers and gifts from households in Jordan, remittances, and NAF and what is listed simply as “other government transfers”.<sup>31</sup> “Other government transfers” is mostly gifts announced by the King on holidays (makromah) or coinciding with increases in the price of fuel (dahm al mahroukat).<sup>32</sup> In

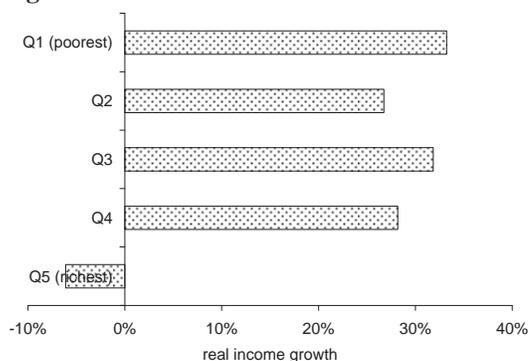
<sup>30</sup> The index of the Amman Stock Exchange 118 percent between end-December 2004 and the week of November 14, 2005. By end-December 2006, the index was 40 percent lower than on the week of November 14, 2005.

<sup>31</sup> Other components of transfers include: social pensions (workman’s compensation), insurance pension (money received from insurance company, not associated with work), Zakat, and transfers from NGOs.

<sup>32</sup> Note that these gifts are paid by the government budget. This category also includes payment to Jordanian soldiers upon return from a UN peace-keeping mission and academic scholarships received by public employees (neither of which were received by a large number of individuals).

2006 these gifts accounted for 6 percent of the income of the poorest quintile falling to 2 percent for the richest quintile, but were virtually non-existent in 2002. Pensions constitute 8 to 9 percent of household income. Gifts/transfer from households in Jordan constitutes 10 percent of income for the poorest, falling to 4 percent for the richest. Remittances are largely a phenomenon of the wealthy, with the richest quintile receiving 5 percent of its income from remittances, while the poorest quintile receives only 1 percent of its income from remittances. Conversely, NAF is strongly progressive, with the poorest quintile receiving 6 percent of its income from NAF and the richest quintile receiving virtually no income from NAF.<sup>33</sup>

**Figure III.13. Growth in total transfer income**



All but the richest quintile experienced a very large growth in transfer income. However, the composition of these transferred varied.

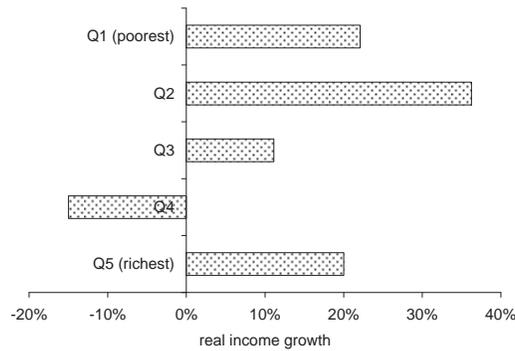
- Pension income fell for bottom two quintiles and the top quintile, though it increased for the 3<sup>rd</sup> and 4<sup>th</sup> quintiles. The decline for the bottom quintile was quite significant (21 percent decline in pension income, which is equivalent to decline of 2 ½ percent of total income).
- Gifts and transfers from other households in Jordan increased for the bottom two quintiles but fell for the top three quintiles.
- Remittances (non-resident transfers) fell for all quintiles except the 4<sup>th</sup> quintile (the upper middle class). Because remittances the poorer quintiles receive a small part of their total income from remittances, the decline had little impact on them.<sup>34</sup>
- Income from the National Aid Fund (NAF) increased for all quintiles except Q4 (the upper middle class). Indeed, the increase was larger for the 2<sup>nd</sup> quintile (the lower middle class) than for the poorest quintile. (The 20 percent growth in NAF income by the richest quintile is not a major concern because it was from such a low base – from JD 1.5 to JD 1.8 in real terms.)
- All quintiles experienced a very dramatic increase in the category of transfers called “government (other).” As stated above, these gifts announced by the King were

<sup>33</sup> NAF is targeted at the poor. Indeed, any NAF benefits accruing to the non-poor can be considered leakage: the fact that quintiles 2 and 3 receive 2 percent and 1 percent of their income from the NAF can be considered leakage. See the later section of the report on mechanisms to reach the population.

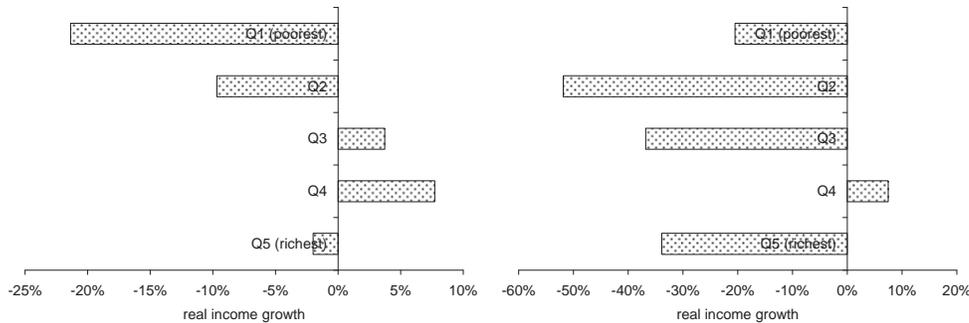
<sup>34</sup> Macro level data indicates that remittances have increased between 2002 and 2006. The reason for the discrepancy between macro data and household survey data is not clear. It may be that remittances through official channels (measured in the macro data) have increased even if total remittances received by households have not.

virtually non-existent in 2002 (growing from JD 4 in 2002 to JD 40 in 2006 in real terms). In 2006, King’s “makromah” was given twice to all civil servants, military and retired government personnel: once in the amount of JD 100 and once in the amount of JD 60. In addition, households earning less than JD 1000 per person per year were eligible for compensation following the April 2006 fuel price increases. The maximum compensation received was JD 150 per family.<sup>35</sup> Indeed, without that category, transfers would have declined by 5 percent for the average Jordanian. (Without the government (other) category transfers would have increased by 8.1 Percent for the 1<sup>st</sup> quintile (poorest), 0.8 percent for the 2<sup>nd</sup> quintile, 6.6 percent for the 3<sup>rd</sup> quintile, 5.5 percent for the 4<sup>th</sup> quintile and would have declined by 15.7 percent for 5<sup>th</sup> quintile (richest).)

**Figure III.14. Growth in components of transfers: NAF**

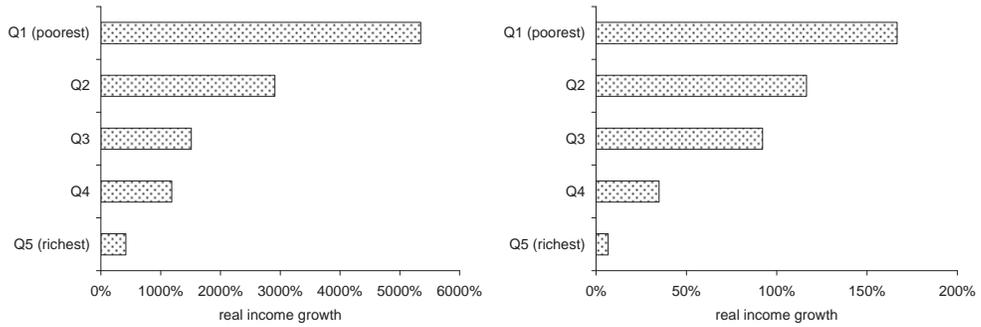


**Figure III.15. Growth in components of transfers: pensions and remittances**



<sup>35</sup> Compensation was made in two installments using the following formula: households earning less than 400 JD per person per year received JD 25 per person (not to exceed JD 150 per household); households earning between JD 400 and JD 800 per person per year received JD 15 per person (not to exceed JD 90 per household); households earning between JD800 and JD 1000 per person per year received JD 10 per person (not to exceed JD 60 per household). The Government used records from the tax department and the Social Security Corporation to determine eligibility. Income which was not registered with the tax department or the Social Security Corporation was not considered. It is likely, therefore, that a significant number of households who were not eligible actually received benefits. It is estimated that 430,000 families received benefits at a cost of JD 32 million for the public sector and JD33 million for the private sector.

**Figure III.16. Growth in components of transfers: government (other) and transfers from other households**



To sum up the income story: income grew fastest for the poorest and the richest, while the middle class experienced very little income growth. This is due to the distribution of and growth rates of two important sources of income: labor income and transfers. First, the wealthiest quintile was the only group that experienced large increases in labor income. Second, transfers increases most strongly for the poorest. The impact of this increase was also magnified by the significance of transfers as a source of income for the poorest.

#### IV. ELIMINATING FUEL SUBSIDIES AND THE ASSOCIATED COMPENSATING MEASURES

##### *Distributional Impact of Subsidies*

Jordan had subsidies on many products until 1994. Since then, subsidies remained only for fuel products, bread and cattle feed. As the international price of oil increased, the fuel subsidies became a significant budgetary cost and economic distortion, prompting Government to eliminate fuel subsidies from its 2008 budget. Fuel prices were increased in February 2008 and the Government announced its intention to completely eliminate subsidies.<sup>36</sup> Fuel prices were increased again in March and electricity prices were increased as well.<sup>37</sup> At the same time, the Government put in place several compensating measures.<sup>38</sup>

**Table IV.1. February 2008 Fuel Price Increases<sup>39</sup>**

<b>Item</b>	<b>Old price</b>	<b>New price</b>	<b>Increase</b>
Regular	430 fils	unleaded (90) 575 fils	33%
Unleaded	640 fils	unleaded (95) 660 fils	3%
Super	605 fils	unleaded (95) 660 fils	9%
Kerosene	315 fils	555 fils	76%
Diesel	315 fils	555 fils	76%
Heavy oil for			
Electricity	JD165	JD348	111%
LPG	JD4.25	JD6.5	53%
Buses <sup>40</sup>	-	-	23%
Amman taxis	54m for JD 0.1	60m for JD 0.1	-
Airport taxis	-	-	10%

<sup>36</sup> It was initially announced that the price of gas cylinders would be raised to free market price (around JD 10) and the subsidy on fodder would be eliminated as of April 1. More recently the King announced a postponement in the price increases for gas cylinders and fodder and plans to make electricity and water free for all teachers.

<sup>37</sup> The March fuel price increases set unleaded (90) at 585 fils a liter and unleaded (95) at 665 fils per liter. To cover the fuel subsidies during the first quarter of 2008, the Government plans a supplemental budget request of 500 million JD. (See Jordan Times, March 17, 2008.)

<sup>38</sup> A more detailed discussion of the Jordan's experience with fuel subsidies and the compensating mechanisms is included in the appendices.

<sup>39</sup> See Jordan Times February 8-9, 2008 and March 4, 2008. Also note that the Ministry of Water is expected to announce higher prices, with the greatest increase expected for those who consume the most. About three quarters of subscribers consume less than 50 cubic meters every 3 month cycle. Seventy percent of the cost of water goes to energy costs. One third of energy in the Kingdom is consumed by the water sector. See Jordan Times February 11, 2008.

<sup>40</sup> Transport numbers from Jordan Times Feb 8-9, 2008 and February 12, 2008 quoting Public Transport Regulatory Commission.

**Table IV.2. March 2008 Electricity Price Increases (for households)<sup>41</sup>**

<b>Monthly Consumption</b>	<b>Old price (fils per kW)</b>	<b>New price (fils per kW)</b>	<b>Increase</b>
1-160 kW	31	32	3%
161-300 kW	59	71	20%
301-500 kW	67	85	27%
Over 500 kW	82	113	26%

Consumer subsidies are a form of government transfer. These transfers are not received as income, however, and are therefore not included in the analysis of the preceding section. By definition, subsidies mean that the Government pays a portion of the cost of the products consumers buy. This generally implies that consumers receive transfers whenever they purchase subsidized goods. We can, therefore, calculate the size of the transfer using information on household expenditures of subsidized goods.

Because fuel is used in production and distribution of many products consumers buy (e.g. water and food), households received transfers indirectly when they purchase those items as well as directly when they purchase fuel. In the following, we examine direct subsidies through purchases of fuel and indirect subsidies through transportation services. Analysis of the indirect benefit received through the many other products consumers buy is important and is likely to be significant.<sup>42</sup> Such analysis, however, requires more data than is presently available and could be addressed in a separate report.

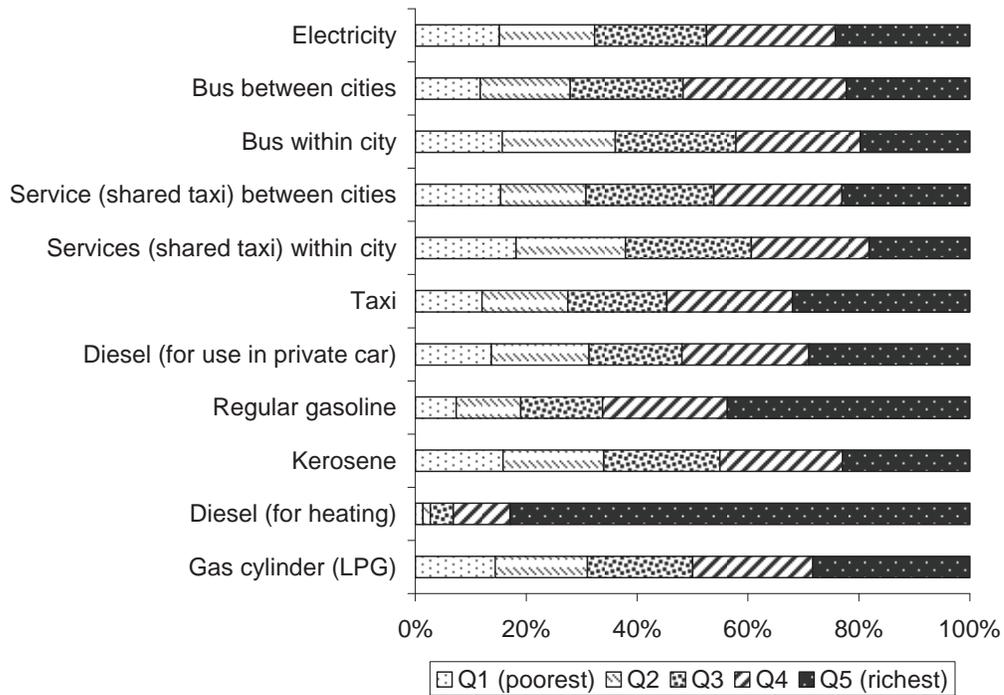
Subsidies are generally a fixed proportion of the price of a product no matter how much is purchased. This means that the size of the transfer received is directly proportional to the size of expenditures. (Electricity is an exception which we discuss below.) The share of the transfer budget going to each quintile is, therefore, proportional to that quintile's share in the expenditure of all households combined. (Even without knowing the size of the transfer budget for each product, we can calculate the distribution impact of the subsidy.)

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<sup>41</sup> The cost of heavy oil used for power generators increased by 111% (from JD 165 to JD348 per toned.) Heavy oil constitutes fifteen percent of the fuel used in power generation. Egyptian gas accounts for 85 percent. (See Jordan Times, February 11, 2008)

<sup>42</sup> With removal of fuel subsidies the general price level (CPI) is expected to increase. According to some estimates, inflation could reach 12-13 percent in 2008. (See Jordan Times, February 11, 2008.)

**Figure IV.1. Share of fuel subsidy budget received (2006)<sup>43</sup>**



Because higher quintiles have greater per capita consumption of fuel products the transfer they receive is larger. For example, the bottom quintile receives only 7 percent of the government budget spent on regular gas, while the top quintile receives 44 percent. This large difference is due to the fact that wealthier households are more likely than other households to own cars. By contrast, the middle class is more likely to use shared taxis (reflected in the fact that the 3<sup>rd</sup> quintile receives the largest share of subsidies for shared taxis).<sup>44</sup> Nearly all households use gas for cooking, so the distribution of subsidies on gas cylinders is relatively evenly spread. Regarding heating, because only wealthy households have central heating, the subsidy for solar (diesel used by central heating systems) is very heavily skewed to the wealthy. (The top quintile receives fully 83 percent of these transfers.)

The distribution of the budget for gas cylinders (LPG) deserves special attention because it is the one fuel product for which subsidy removal has been postponed. The figure shows that the richest quintile receive a disproportionate share of this subsidy (28 percent of the budget compared to 14 percent of the budget going to the poorest quintile). This finding means that even a universal transfer to all citizens would be better targeted than the subsidy on gas cylinders (LPG). For this reason, the government is urged to complete the subsidy removal on gas cylinders (LPG) without delay.

<sup>43</sup> This table only shows the subsidy received directly by households through consumption of the fuel and fuel-related products. It does not indicate indirect subsidies received through other products which are intensive in their use of fuel (e.g. water and food). The subsidy received for electricity is estimated based on a true cost of JD 0.62 per kilowatt hour. This true cost was taken from the paper “Consumption of Subsidized Electricity at an Ordinary House” prepared by the Electricity Regulatory Commission.

<sup>44</sup> The consumer prices of shared taxis are not directly subsidized. However, their prices are indirectly subsidized through the gasoline they use.

Electricity prices are based on a lifeline tariff, meaning that the price per kilowatt increases with consumption. In 2006 this structure implied that those households which use less than 160 kilowatts per month paid an average price of JD 0.031 per kilowatt, while those who consume 600 kilowatts paid an average of JD 0.056 per kilowatt – nearly twice as much.<sup>45</sup> The Electricity Regulatory Commission estimates that the true price of electricity is approximately twice the rate charged to households that consume less than 160 kW hours per month (that is, the true price is approximately JD 0.62 per kilowatt hour). Accordingly, even households which use a lot of electricity receive a subsidy.

The government budget spent on subsidizing most fuel products went largely to the upper quintiles. The largest shares of the budget for subsidies on gas cylinders, solar, kerosene, and gasoline used in private cars and taxis all accrued to the top quintile. The largest shares of the budget for subsidies going to public transportation and electricity accrued to the middle and upper middle classes. Unfortunately, we cannot calculate the total transfer received for all fuel products combined because we do not know how much government budget goes to each product. It is clear, however, that the fuel subsidies were regressive.

Despite the fact that fuel subsidies were regressive, the pain felt from removal of subsidies will be felt strongly by all Jordanians. The share of total expenditures on fuel products is remarkably constant across income quintiles – ranging between 26 percent for the top quintile and 28 percent for the lower middle class (the 2<sup>nd</sup> quintile).<sup>46</sup> The poor (the bottom 13 percent of households), however, spend a much larger share of their expenditures – 35 percent. The poor will be the hardest hit by fuel price increases than any other segment of the population. If, for example, all fuel prices increased by 50 percent, the poor would need to spend 17.5 percent more to keep their consumption unchanged.

### ***Distributional Impact of Compensating Measures***

In order to ease the pain associated with the February 2008 increases in fuel prices, the Government announced a package of compensating measures.<sup>47</sup> This section examines the potential of the various measures to reach the poorer segments of the population and estimates what share of the budget allocated for compensating measures will go to these segments.

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<sup>45</sup> Businesses paid more: hotels, for example, paid JD.061 per kilowatt.

<sup>46</sup> See details in the appendices.

<sup>47</sup> This section only covers the measures explicitly linked to the fuel subsidy removal. Other projects are also intended to support similar groups. For example, 33,000 housing units are planned to be built over 5 years for civil servants and poor households. (See Jordan Times December 11 and 12, 2007.)

**Table IV.3. Compensating measures<sup>48</sup>**

<b>Measure</b>	<b>Beneficiaries</b>	<b>Benefit</b>	<b>2008 Budget (millions)</b>
Govt. employee salary increase	Civil servants, military, security and Govt. retirees	JD45 – JD50 per month <sup>49</sup>	JD355
Private sector employees	Private sector employees earning < JD1,000 per person annually	JD10- JD25 per person, one time payment <sup>50</sup>	JD40
NAF benefit increase	Existing NAF beneficiaries	JD3-10 per person per month <sup>51</sup>	JD7.5
Increased bread subsidy	Entire population	Depends on consumption	JD10
Tax removed for thirteen basic food items	Entire population	Depends on consumption	JD30 in lost revenue
Cattle owners' payment	Cattle owners (with <300 head of cattle)	JD10 per head	JD25-JD30
Incentives to grow cereal	Cereal farmers	Depends on multiple factors	JD 20
Retirees registered with SSC	Retirees registered with SSC	JD30 per month	JD36 (not part of Govt. budget)

The potential of compensating measures to reach those worst affected. The table below estimates the percent of each quintile that can be reached by each compensating measure. (These are actual percentages reached by the various transfers in 2006). It is clear from the table that using the existing targeting mechanisms, NAF benefits can reach only a small share of the poor (15%).<sup>52</sup> Indeed, increases in pensions can reach approximately the same percent of the poor. The government wage increase can reach only 9 percent of the bottom quintile (i.e. 9 percent of the bottom quintile are government

<sup>48</sup> Details of the compensating measures can be found in the appendices.

<sup>49</sup> Government employees earning less than JD300/month in base pay (85 percent of government employees) will receive an increase of JD50/month. Pay increases are retroactive to January 1, 2008. Others will receive an increase of JD45/month.

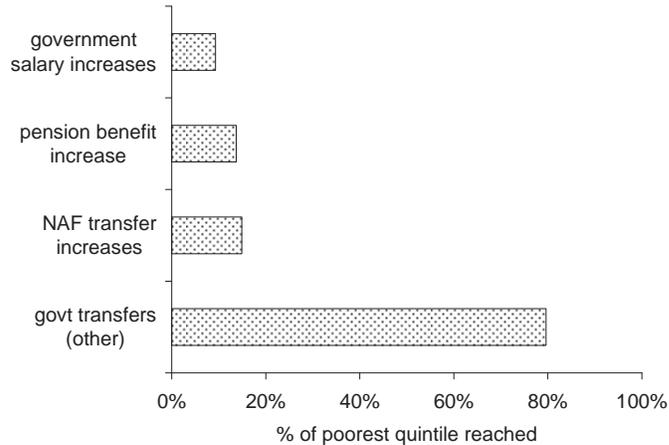
<sup>50</sup> Families are ineligible if they have income registered with the Tax Department or Social Security Corporation totaling more than JD 1,000 per person per year. The same list (of about 430,000 families) that was used to compensate the population for fuel price increases in 2006 will be used again in 2008. See the appendices for details.

<sup>51</sup> In May 2007, NAF benefits were increased from JD26 to JD33 per beneficiary per month. As of February 1, 2008, benefits were increased to JD36 per beneficiary per month. Because the transfer from JD26 to JD33 had not been completed for all beneficiaries, some beneficiaries will receive an increase of JD10. The maximum benefit per family is now JD180 per month.

<sup>52</sup> The Ministry of Social Development is currently working on an improved targeting mechanism that would dramatically increase the percentage of poor people that can be reached by the NAF.

employees or retirees.) In theory transfers to families earning less than JD 1,000 per person per year can reach all of those in the bottom quintile. According to the data from the household survey, most – but not all – of this group was reached through similar measures in 2006.<sup>53</sup> Most of these measures are much better at reaching the middle class and wealthy households. NAF is the main exception: by design, NAF reaches only a small portion of the middle class (5%) and highest quintile (2%).

**Figure IV.2. Ability of each measure to reach poorer Jordanians**



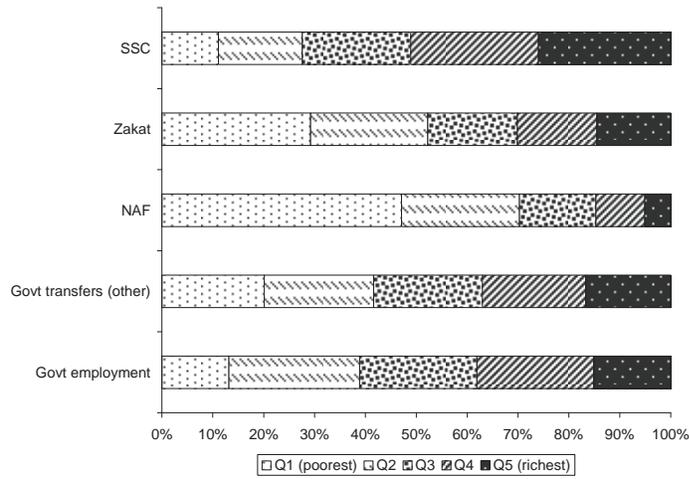
Distribution of transfers from compensating measures. The potential of a measure to reach the poor does not necessarily make the measure pro-poor in terms of government spending. How progressive or regressive a mechanism will be is based on the share of the budget that goes to each quintile. We get a rough idea of this by examining what percent of beneficiaries belong to each group.<sup>54</sup>

The figure below shows that the benefits of NAF are highly pro-poor – 47 percent of beneficiaries are in the bottom quintile. Zakat is the second most pro-poor, but here the beneficiaries are much more evenly spread among the population. The government (other) category was neither progressive nor regressive in 2006. (Recall that this category includes not only the transfers to families with income below JD1,000 per person per year, but also includes His Majesty’s gifts to government employees, known as “makromah”. It is likely that the part of this category that goes to families with income below JD 1,000 per person per year is considerably more progressive than implied by this figure.) Budget spent on wage increases for government employees largely benefited the middle class: neither the richest nor the poorest quintile received proportional benefits. The pension system (SSC) is not a budget transfer mechanism, but maintains its own budget. It is not surprising that the wealthier quintiles are disproportionately represented among beneficiaries: although SSC provides some degree of redistribution among participants, it is primarily a retirement savings mechanism and, as such, has a disproportionate share of the higher quintiles among its participants.

<sup>53</sup> It is likely that some eligible households did not apply for the transfers in 2006. (It is also possible that some households did not report transfers during the survey, though a failure to report the income is unlikely to apply disproportionately to the bottom quintile.)

<sup>54</sup> A more precise estimate can be obtained from the income received from each measure. The results are similar to those presented here. See the appendices.

**Figure IV.3. Who are the beneficiaries of each measure?**



Taken as a whole, the compensating measures are better targeted than the fuel subsidies. Based on preliminary analysis, fuel subsidies appear to have gone primarily to the top two quintiles, while the compensating measures more strongly focus on the lower and middle classes.

There is room to improve the targeting of the measures to provide more support to the poor. Nevertheless, it is clear from this section and the previous section that the benefits of the newly-created compensating measures will be more evenly distributed than the benefits of the newly-eliminated fuel subsidies had been.

MAP SECTION



