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With special thanks to Mary Saba

STRATEGY FOR PUBLIC PRIVATE PARTNERSHIPS

Government partnerships with the private sector for the delivery of public services and economic development form a key component of the Government of Jordan (GoJ)'s economic development strategy. This commitment to Public Private Partnerships (PPP) was reflected in Jordan's program for social and economic transformation which aimed to: (i) attract more private capital by accelerating the privatization program, promoting private investment in large infrastructure projects and further improving the environment for private investment; and (ii) improve the efficiency and effectiveness of government institutions and delivery of basic public services through public sector reform programs. This commitment is reaffirmed in the National Agenda.

Background

GoJ has successfully engaged in many PPP projects, but there is still a significant need for further improvement in PPP practices, despite the recent success with the Amman East power station. There is significant market interest in PPP investment, with substantial local and regional liquidity available. PPPs present the GoJ with a unique opportunity to: (i) relieve the constraints on the budget; (ii) improve overall economic efficiency; (iii) mitigate risk; (iv) attract significant new private sector investment; and (v) strengthen the balance of payments.

Among many PPP projects implemented by GoJ, are some significant successful cases in infrastructure, energy, education, and tourism, such as Amman buses and water, the gas pipeline from Egypt, the tourism sector in Aqaba, tertiary education, and telecoms. There are also some failed or delayed experiences.

The needs are great and the GoJ lacks financial capacity to respond to these needs. Over the next decade, Jordan will likely need about US$6 billion to finance its infrastructure. The National Agenda emphasizes that Jordan's ambitious growth plans will not happen if there is not adequate water, power, transport and telecommunications. Studies show that there is a close relationship between economic growth and infrastructure development. For each percentage point of GDP growth in GDP, the infrastructure stock rises by one percent. There will be significant expenditure needed in the water and energy sectors. In Jordan, investment in these sectors is relatively expensive because there are no large rivers or easily exploitable energy resources.

Major Planned Infrastructure Projects 2006-2015

Sector	Illustrative Projects	Indicative Financing Required for the Sector
Energy	Amman East, Aqaba-Amman Power Transmission, Wind Power	$2-3 Billion
Telecom.		$0.2-0.3 Billion
Transport	Queen Alia International Airport, Aqaba Port, Zarqa Light Rail	$1-1.5 Billion
Water	Disi Water Conveyor[1]	$1-2 Billion
Other Municipal Projects	Solid Waste	$0.5 -1 Billion
Total		**$4.7-7.8 Billion**

Source: Bank Staff Estimates.

The GoJ needs to find more innovative means of financing. At present, total capital expenditure is 19 percent of the budget (about 7 percent of GDP.) This level of investment is insufficient to meet the needs and is significantly lower than other top–performing economies. Clearly, in an environment where the budget is under stress, the GoJ cannot provide for all the country's capital needs.

The GoJ will have to seek the assistance of the private sector. This can be done either by allowing the private sector to deliver the activity, or implementing some kind of partnership with the private sector. Private sector involvement brings three particular advantages: (i) it can help improve operational efficiency, thereby reducing operational outlays; (ii) it either removes capital expenditure or defers capital expenditure; and (iii) it strengthens the GoJ's balance sheet by transferring debt and some risk to the private sector.

[1] Excludes the Dead Sea/Red Sea Canal Project.

Jordan's PPP Program—Lessons Learned

Jordan needs effective decision-making and better preparation. Review of Jordan's PPP experiences in the water and sanitation, energy, transport, municipal services and tourism sectors provides a number of important lessons. PPPs have been successful when there has been a strong and committed leadership addressing design issue. PPPs have failed when the GoJ has been indecisive and where the projects have not been properly prepared.

In a number of cases, important PPP transactions were not properly conceived and planned. Basic questions were not answered before taking the project out to the market: (i) will investors bid for the project as conceived; (ii) is the GoJ willing and able to pay the expected charges, subsidies or grants; and (iii) are the project agreements complete and in a form that will be acceptable to private investors. Using the same complex hierarchical decision-making structure for PPPs as privatization deals resulted in delays and deterioration of private sector interest.

A review of Jordan's PPP program shows three broad lessons:

- There is room for improvement in how the PPP process is carried out.
- There is an opportunity to be smarter about subsidies.
- When Jordan's experience is compared against best practice, the need to strengthen the enabling environment is clear.

PPP provides an opportunity for the GoJ to make subsidies more efficient. For PPPs to work, tariffs should allow for cost recovery. For segments of the population that cannot afford cost recovery tariffs, Output Based Aid (OBA) or performance-based subsidy models can be used to bridge the gap. These models suggest that when affordability is an issue, subsidies can be justified as long as they are explicit, targeted and performance-driven. In the absence of cost recovery tariffs or OBA models, private investment will not be possible. Consequently, in the water sector, the GoJ settled for management contracts with the private sector, and in solid waste management, it failed to attract any private investment. In addition to designing smart subsidies, good regulation is essential. Investors need certainty that tariffs will remain viable. This can be achieved through independent regulators, as can be found in the electricity and telecom sectors or through regulation by contract.

Strengthening The Enabling Environment

There are a number of significant weaknesses in the enabling environment for PPPs when Jordan is compared to countries successful in PPPs:

- There is no overarching policy and legal framework.
- PPPs are not tightly integrated into the GoJ's economic planning.
- There is no dedicated PPP institutional capability.
- There are significant weaknesses in local capital markets.

Policy and legal framework is a necessary condition for overall PPP effectiveness. When the right framework is in place transactions will happen. Moreover international experience shows that countries which were successful in attracting private investment have a separate policy and legal framework for PPP and have branded it separately from privatization. In Jordan, PPPs are not closely aligned with economic planning. There are two concerns:

- PPPs carried out in isolation of economic planning may not be priorities or provide real savings.
- There is no mechanism to estimate, consolidate, and integrate contingent liabilities into the overall budget process.

PPPs need a dedicated institutional capability closely linked to the Ministries of Finance and Planning. A sound policy and legal framework, together with integration into the GoJ's economic planning is not enough. To resolve the processing problems mentioned above, a dedicated institutional capacity is required. At present Jordan lacks such a capacity.

PPPs can be used to encourage necessary capital, market reform. Strong local capital markets are essential if the full potential of PPPs is to be unlocked. Local investment banks have the potential to support PPPs, but lack basic tools, such as a robust bond market. One of the reasons for a weak bond market is the fact that the GoJ is not very active or innovative in raising debt through local capital markets on its own account or through PPPs. There is, thus, no reliable reference yield curve available to the market. Also there are no specific risk mitigation instruments available.

The GoJ must exercise leadership in this program. It is critical that PPPs be supported and monitored by the GoJ as a whole. PPPs should not be delegated solely to line ministries for implementation. There should be a strong, high level oversight of the program. This is where the Ministries of Finance, Planning and Industries can play important roles, and why a clear policy statement is so important.

The policy matrix below summarizes the recommendations and provides some broad options to address challenges for a successful PPP program in an enabling environment. The policy matrix defines these measures in terms of short-term, medium-term, and long-term initiatives.

What TO Do First?

The list of issues identified is daunting. Clearly, it would take a number of years to satisfactorily resolve all the issues. Therefore, a parallel track should be adopted, whereby transactions continue and pilot some of the new concepts and at the same time work continues to build the institutional underpinnings for PPP. Three urgent institutional matters require attention:

- A comprehensive PPP policy statement that sets out commitment and some key operating principles in terms of responsibilities for implementation.
- The development of an agreed and consistent methodology to implement PPPs, including processes and procedures and establishing that detailed financial, market, and engineering analysis must feed into the design of transactions, and be carried out before transactions proceed. This includes the synchronization of the GoJ's procurement rules with PPP process.
- The development of a comprehensive approach to improving subsidy efficiency, so people needing subsidies continue to get them. The private sector can take on a larger share of project risk, and the quantum of subsidy paid from the budget can be reduced. This is an area where OBA techniques can be introduced.

In these areas, there has been some progress. A draft policy is under preparation. Work is underway on developing a standard methodology for PPP process.

The medium-term priorities will tend to resolve themselves naturally. In terms of other medium term priorities, the need to develop capital markets, building an internal incentive system for PPPs, and creating a water regulator represents the next group of issues to attend to. The issuing by the GoJ of longer maturity bonds so a secondary market can be developed is one such initiative. Fortunately, there is plenty of liquidity at present and the capital markets are unlikely to be a binding constraint to implement transactions. However, as the market becomes more sophisticated in terms of evaluating risks, these questions will become pressing. With internal incentive systems again this links closely with public expenditure reforms. What is important is to make sure they are included. Like many of the medium-term priorities which will tend to evolve naturally through pressure of market forces, the establishment of a water regulator can wait. If one looks at the other regulatory experiences in Jordan, it shows that medium-term priorities only evolved when there was a pressing market need.

Significant Needs For PPPs In Different Economic Sectors

There are investment needs in most areas of Government service delivery. Tourism and vocational training are other areas with investment needs and these areas have been assigned high priority in the National Agenda. Development of municipal level economic activities is also important.

If structured properly, there is tremendous potential for PPPs in Jordan in virtually every sector at both the GoJ and municipal level. A quick survey of various sectors shows that most of the pipeline for PPP projects will probably be in the following areas:

- Water (distribution);
- Wastewater (collection, treatment);
- Roads (O&M, bridges, bypasses);
- Other transport (airports, seaport);
- Electricity, including renewable energy generation;
- Social sector (delivery of health, education and housing with emphasis on facilities management);
- Waste Management (collection, disposal, landfills);
- Other municipal services.

A Policy Matrix summarizing the recommendations follows. The following Policy Matrix provides some broad options to address challenges in undertaking a comprehensive and sustainable PPP program in each sector. The policy matrix defines these measures in terms of short-term, medium-term and long-term initiatives.

POLICY MATRIX		
Area	**Issues**	**Options for Way Forward**[2]
ENABLING ENVIRONMENT		
Policy Gap	• GoJ's privatization program is associated with sale of assets. Most successful PPP programs focus on provision of more and better services and transferring risk to the private sector.	**Short-Term** • A formal PPP policy announcement would demonstrate a renewed GoJ focus on improving and enhancing service delivery and attracting private investment and expertise.
Legislative Gap	• Privatization Law allows private participation structures but does not cover all possible structures. • The Department of Public Works is drafting a procurement bill, to include PPP procurement. EPC is drafting its own regulations detailing the process for privatization transactions.	**Short-Term** • Given that the Privatization Law is the only legislation that deals with BOTs and its various forms, it would be appropriate if the PPP regulations are drafted by EPC. The existing draft regulations are for ALL activities under the Privatization Law. PPPs must be clear and a separate set of regulations issued, to avoid confusion.
Infrastructure Planning and Fiscal Issues	• Line Ministries undertake investment plans for service delivery, but the process is not structured. • Infrastructure planning is not closely aligned with the budgeting or fiscal planning process. • At times there is confusion on who gives the final sign off on projects. Project planning and approval process is diffused between the Ministries of Finance and Planning. • There is also a need for inter-ministerial coordination for cross sector issues. • There is very little understanding of implicit and explicit contingent liabilities arising out of PPP deals, let alone being able to value and "provide" for them.	**Medium-Term** • Infrastructure planning should be consolidated and closely linked to the budgetary process. Infrastructure projects must be backed by robust business cases. • Ministries / public institutions should prove that PPP is not the best way before receiving any allocations. • Guidance must be provided on how to understand, estimate, record and provide for explicit and implicit liabilities arising out of PPP deals. • Existing budgeting process to be replaced with a fully functional MTEF at the earliest. **Long-Term** • Create a specialized fund to backstop GoJ's commitments to PPPs, and create more confidence to invest and lower the project risks / costs.
Institutional Transaction Execution and Capacity Building	• EPC has developed strong in-house capacities over time, however, it still lacks project finance expertise and specific expertise in drafting and negotiating PPP type agreements.	**Short-Term** • There is a need for a separate ring fenced centralized PPP Unit. It could be created under the general umbrella of the EPC, but again it may be advisable to have its own branding. • The Unit must establish 'gateways' through which PPP projects must go and play a coordination role aligning its work with investment planning and budgeting functions. **Medium-Term** • Regulations must be accompanied by detailed guidelines. • Main terms of the PPP contracts can be standardized so that all projects have similar risk profiles.

[2] Short Term=1 year and less. Medium Term=1-3 years. Long Term=3+ years.

POLICY MATRIX		
Area	**Issues**	**Options for Way Forward**[2]
Project Monitoring and Auditing (and *ex-post* review)	• All ministries must have, like the Ministry of Water and Irrigation, a Project Management Unit monitoring PPP deals for compliance. • The Audit Authority has never audited privatization / PPP deals.	**Short-Term** • Independent *ex-post* audit of PPP deals will ensure transparency, timely decisions and well negotiated deals. Capacities maybe created within the Audit Authority to audit PPPs.
Dissemina-ting Strategy	• Other than having a website, there is very little other dissemination that EPU is involved in. The website, it seems is also not updated regularly.	**Short-Term** • PPP policy announced with proper media coverage. • Workshops must be organized to "educate" opinion leaders and national, governorate and municipal officials in PPPs.
Financing and Funding Constraints	• There is little project finance capacity in the market. • Long term fixed rate local currency finance is not available. Maximum term for fixed rate is 7 years after which it is floating. Local currency financing for over 9-10 years is not available. • Fixed income / bond market is very weak. GoJ is not very active in raising funds via bonds. The GoJ only sells bonds to commercial banks, therefore investment banks / companies can't create the underlying asset base for long-term debt instruments / hedge funds. • There are no hedge funds in Jordan offering risk mitigation instruments. There are no specialized debt / equity funds for which there seems to be a strong appetite. • Regional investors are willing to invest in Jordan. • Although financial institutions charge risk margins to finance GoJ projects, partial risk guarantees are not in demand. • CVDB has been active in financing municipal projects, but it only lends to the public sector.	**Short-Term** • Project finance principles have to be promoted in the market – this can be done by organizing workshops, seminars, training courses and study tours. **Medium-Term** • Launching a regional hedge fund needs to be done. A study into creating a debt/equity fund for infrastructure projects needs to be done. • Set up a special ring fenced road fund funded via various levies that can be used to finance road maintenance PPPs. • Explore the demand for creating an Output Based Aid Fund for subsidizing water projects. Options for using Bank guarantee instruments can also be explored. • CVDB's role and mandate needs to be expanded to include lending to the private sector. It can fill financing gaps, if any, due to the perceived sub sovereign risk. **Medium- to Long-Term** • The GoJ needs to become active in the bond market and help develop long term reference yield curves. Government bonds should be available to a larger base of customers. Secondary market for bonds needs to be created.
Regulation	• Private sector participation in infrastructure is dependent on its perception of sector risks. The key indicator is whether the sector is indepen-dently regulated. If there is no independent regulator, investors look at the country's procurement framework for PPPs and whether it has the capacity to "regulate through contract". The comfort the private sector needs is that key decisions like tariff setting is not done arbitrarily.	**Short-Term** • If the GoJ wants concession water distribution, or Solid Waste Management, to private sector, it would need tight provisions on tariff setting in the contract, and, in case, the concessionaire is not allowed to charge cost recovery tariffs, then the concession agreement will need to be very precise on how the gap would be filled. **Medium-Term** • Establish an independent Water Regulator.
SECTOR ISSUES		
Water and Sanitation	• The Amman experience with a private operator for distribution has been very successful and has provided benchmarks for the entire country. However the Ministry and the Water Authority believes that all the functions should be transferred into a public institution. Experience indicates that public entities succumb to political pressures and inefficiencies start creeping in. • There is an interest to look at OBA models to deal with cost recovery issues.	**Short Term** • The GoJ needs to seriously reconsider its views about creating public enterprises for operating water distribution utilities. The USAID funded study must be allowed to explore ALL options equally. **Short to Medium Term** • Whether public or private service delivery, the GoJ needs to come up with a clear and transparent policy on water subsidies. There is a need for explicit, targeted subsidies that are linked to service provider's performance.
Energy	• Jordan is trying to reduce its dependency on oil powered electricity generation and explore options in renewable energy. • The concession for the Oil Refinery runs out in 2008, after which the sector will have to open for competition. Huge investments are required to modernize it before it becomes able to compete.	**Short to Medium Term** • Pilot PPP projects in renewable energy sector can be undertaken. • Inputs can be provided to the options study being done on opening up of the Oil Sector (refined oil and related products).

POLICY MATRIX		
Area	**Issues**	**Options for Way Forward**
Transport	• Queen Alia International Airport (Amman) and King Hussein International Airport (Aqaba) need expansion. The GoJ would like to study the option of lumping the two transactions together. • Jordan has a decent network of 100% paved roads, but the roads have not been maintained well. Annual spending on road maintenance is US$12 million vs. US$25 million required. • The World Bank approved a loan to help the GoJ develop efficient transport and logistics services by removing bottlenecks and providing access to affordable land for investment and urban development purposes. The Ring Road will improve access to airport and other key locations and permit freight traffic to bypass urban areas. • There are two main projects underway in the Rail sector: (a) privatize Aqaba Railway and (b) Amman Zarqa Rail link. The GoJ is commissioning consultant services to draw up a master plan for the railway sector. At least two new lines will be considered, one running from Aqaba to the Dead Sea, and one from Amman to Iraq border. • Jordan only has one port at Aqaba which needs upgrading to be fully utilized. Therefore, the port should be linked to the rest of the country's transport infrastructure and supply chain.	**Short Term** • Transaction advisors for Queen Alia International Airport may need to be supervised especially if the scope of the project is increased to include creating a regional inter-modal supply chain hub around the airport. **Short to Medium Term** • Amman – Zarqa Rail Link may attract private sector interest, if there is sufficient government support upfront. The GoJ must make sure that the land is free from any claims. There will probably be a need to provide grants for the upfront capital cost. If the revenue risk is pushed to the operator, it will probably ask for minimum revenue guarantees. • There is an urgent need to rehabilitate and maintain roads. Private sector can be hired under performance-based contractual arrangements. **Medium Term** • PPPs can also be done for building bridges and bypasses. The Bank is already involved in the Amman Development Corridor Project that includes building a bypass around Amman. Similar projects maybe done in secondary cities. **Medium to Long Term** • There are good opportunities for private sector at the Aqaba port on a Landlord model. The port needs the private sector to rehabilitate and operate the port under a master concession model and make it more efficient to allow it to operate to its full capacity.
Solid Waste Manage-ment	• The GoJ subsidizes solid waste management, namely the difference between cost recovery and tariffs via budget support. The subsidy is across the board – high income neighborhoods pay the same as low income. The private sector can be involved immediately. However earlier attempts in Amman failed due to low tariffs that don't allow cost recovery.	**Short Term** • Aqaba could be a pilot for a Solid Waste Management PPP. **Short to Medium Term** • Scaled tariffs need to be introduced. This can be used to cross subsidize lower income areas under some performance-based arrangements with service providers. There may be a need for continued GoJ support for subsidies in some instances, but overall the burden on the fiscus will go down.
Other Services	• There are opportunities for private sector participation in facilities management, fleet management, revenue collection and tourism. Most PPP programs have substantial portfolios in these areas, mainly because they open up fiscal space for other government functions and enhance government efficiency.	**Short to Medium Term** • There is a whole spectrum of activities in which the private sector can be involved, and that would create better and more services and reduce the burden on the fiscus. Guidelines can be drafted on how to procure such services, and government institutions encouraged to procure services under longer-term contracts rather that incurring upfront costs procuring assets.

RECENT ECONOMIC DEVELOPMENTS

Overview

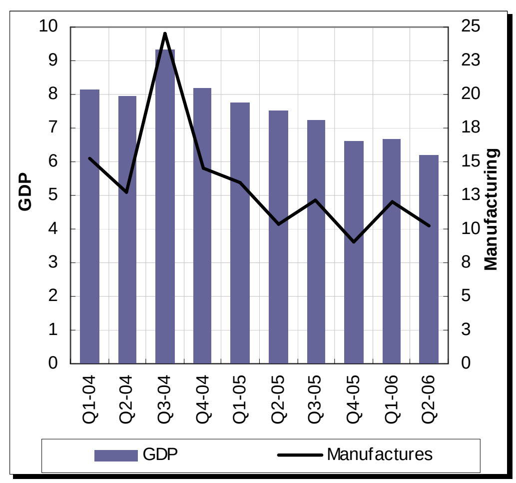
Jordan has maintained strong economic performance through the Third Quarter of 2006. Real GDP growth in the First Half of 2006 remained high at 6.4 percent. The growth is broad based and has been led by *manufacturing, construction*, *real estate and services sectors*. The continuing high demand for these sectors is partly explained by the high liquidity in the region. Capital inflows and inflow of tourists to Jordan reached record high levels since 2005. The strong economic growth helped boost public revenues significantly, while public spending has remained tight, resulting in lower public deficit. Increasing fuel prices, together with high demand in the economy, however, created inflationary pressures, which led the Authorities to tighten their monetary policy. The external Current Account Deficit reached record high levels—potentially nearing 20 percent of GDP by the end of the year—which points to the continued exposure of the economy to adverse economic shocks, particularly, in the region.

Real Sector Developments

At 6.4 percent, real GDP growth was strong in the First Half of 2006. Although the rate of real growth slowed compared to the 7.6 percent registered in the First Half of 2005, the 2006 growth performance remains stronger than expected. This positive outlook is largely explained by the strength of private aggregate demand stimulated by massive Capital Inflows, mainly Foreign Direct Investments (FDI).

On the supply side, the leading sectors are services, construction, real estate and manufacturing. In the services sector, restaurant and hotels benefited from increasing regional demand, boosting their activity by 5.1 percent in the First Half of 2006 compared to 2.2 percent during the same period in 2005. *Community, Social, and Personal Services* (CSP) increased by 12.2 percent over 7.6 percent growth achieved in 2005. The dynamism of CSP reflects the positive income effect of continuing high external inflows to the non-tradable sectors. The other non-tradable sectors that have benefited from the external inflows are the *construction and real estate sectors*, growing by 14.6 and 2.5 percent, respectively, against 7.5 and 1.2 percent growth registered in the First Half of 2005. The *manufacturing sector* also remained dynamic, growing by 11 percent, thanks to the strong external and internal demand. Preliminary data for the Third Quarter of 2006, however, points to a slow-down in the economic activity. The Industrial Production Index, declined by 0.6 percent in the Third Quarter of 2006, compared to a 9.1 percent increase registered during the First Half of 2006 and 10.3 percent increase registered during the Third Quarter of 2005.

Figure 1. Real GDP Growth and the Manufacturing Sector



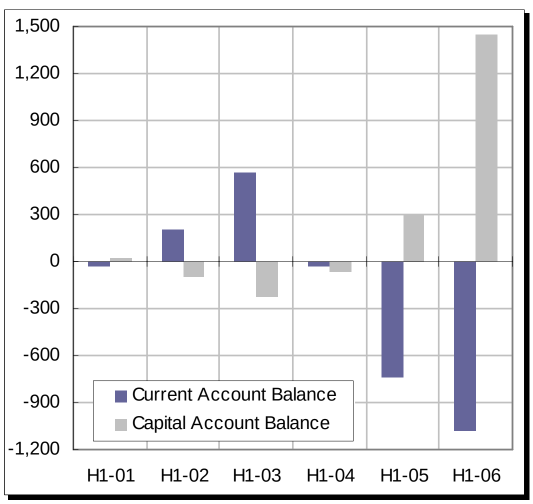
Source: Ministry of Planning and World Bank staff calculations.

External Sector Developments

Jordan's Current Account Deficit rose by 44 percent in the First Half of 2006 over the First Half of 2005. The increase in the external deficit stems from a large increase (18.5 percent over the First Half of 2005) in the Trade Deficit of Goods and Non-Factor Services (GNFS), which reached US$2.9 billion in the First Half of 2006. This increase reflects a 12 percent increase in imports of GNFS, partly offset by a 6.9 percent increase in exports of GNFS. Net Workers Remittances and Net Compensation of Employees grew by 5.9 percent, but fell well short of financing the growing Trade Deficit—covering only 35 percent of the shortfall. The Current Account Deficit was largely financed by the Capital Inflows, with FDI and other capital inflows continuing to record large increases. FDI inflows alone amounted to US$2.18 billion, roughly four times the level attained in the First Half of 2006 and higher than the US$1.67 billion attained in 2005. The Capital Account surplus hit US$2 billion by mid-year compared to US$429 million registered in the First Half of 2005 (Figure 2). The large Net Capital Inflows allowed Jordan to raise the foreign reserves of the Central Bank to US$6.3 billion by September 2006, compared to US$5.3 billion registered at end-2005.

Figure 2. Current and Capital Account Balances

(US$ million)



Source: Central Bank of Jordan, Ministry of Planning and World Bank staff calculations.

The growth rate of exports of goods has somewhat slowed, but Jordan continues to diversify its export offer. Exports of goods rose by 18.2 percent during the first three quarters of 2006. The clothing industries located in the Qualified Industrial Zones (QIZs) remain the major exporters of manufactured goods: clothes exports increased by 16.5 percent during the first three quarters of 2006, against 9.2 percent in the same period last year. Their share in total exports remained stable at around 25 percent. Exports of chemicals and manufactured goods other than clothing, which have higher value added, rose by 13.9 percent, but their share in total exports slightly declined to 32.8 percent against 34 percent a year earlier. Similarly, exports of food and beverages grew by 11.6 percent, while their share in total exports declined to 9.1 percent from 10.9 percent achieved in the same period of last year. The most dynamic component of exports was re-exports, benefiting from diversion of Lebanese international trade activity to Jordan during the hostilities of the summer of 2006: re-exports have soared by 57 percent in the first three quarters of 2006, accounting for 50 percent of the increase in total exports.

The growth rate of imports of goods has also slowed down, particularly in the Third Quarter of 2006, registering only a 10.1 percent increase during the first three quarters of 2006, compared to 31 percent increase registered in the same period last year. This outcome is the combination of a 13.5 percent increase in imports of goods during the First Half of 2006 and a 2 percent increase only in the Third Quarter of 2006. Price dynamics account for 4.4 percentage points of the increase registered during the first three quarters of 2006, with the remaining 5.5 percentage points reflecting the increase in import volume. The price dynamics, in turn, is explained by a 35 percent increase in the oil price index, partly offset by a 4 percent decrease in the price index of all other import items. The latter development is partly explained by the appreciation of the Jordanian Dinar against the Euro over the period.

Fiscal Developments

The GoJ's domestic revenues continued to increase significantly for the third year in a row. Domestic revenues grew by 26 percent in the first three quarters of 2006, compared to a 23 percent increase achieved during the same period last year. The most dynamic revenue components were Sales Tax and taxes on *income and profits,* accounting for 30 percent and 24 percent of the increase in total revenues, respectively. Accordingly, cumulative domestic revenue collection, as of September 2006, reached 89 percent of the budget target set for 2006. The revenue collection is expected to overshoot the 2006 target by at least 10 percent. Overall, the strong performance of domestic revenues reflects the strength of the economy since last year.

Growth in public spending has slowed considerably. Expenditures declined by 0.7 percent in the first three quarters of 2006, compared with the 16.2 percent increase registered in the same period last year. This low increase is largely explained by major reductions in oil subsidies, resulting in a 62 percent decline in oil subsidies since April and compensating for significant increases in interest payments (32 percent) and pension transfers (14.4 percent). The increase in interest payments reflected the combined effect of a 20 percent increase in the domestic debt portfolio and higher interest rates on Jordanian Treasury bills and bonds. Between September 2005 and September 2006, interest rate on three-months T-bills has increased by 118 basis points (bpt) to 6.58 percent, and interest rate on six-month T-bills has increased by 76 bpt to 6.91 percent.

Table 1. Central Government Budget

	2004	2005	2006
Domestic Revenues	**1592**	**1956**	**2467**
Tax Revenues	1069	1351	1657
Income and Profits	179	248	373
Sales Tax	608	760	914
Customs	197	223	230
Other	85	120	140
Non-Tax Revenues	472	574	782
Repayment	51	31	27
Total Expenditures	**2191**	**2545**	**2527**
Current Expenditures	1643	2098	2056
Excluding debt service	1539	1968	1885
o/w Defense and Security	474	523	565
o/w Oil Subsidies	177	423	210
Debt Service	104	130	171
External	64	76	85
Internal	39	54	86
Capital Expenditures	548	447	471
Surplus / Deficit	**-599**	**-589**	**-61**
Primary Balance	**-495**	**-459**	**111**
Balance Including Grants			
Surplus / Deficit	**71**	**-165**	**100**
Primary Balance	**174**	**-35**	**271**
Grants	670	424	160

Source: Jordanian Authorities and World Bank staff estimates.

Higher revenues and the reduction in oil subsidies helped control the budget deficit. The cumulative budget deficit before grants was JD61 million at end-September 2006, compared to JD589 million registered in the same period last year. The budget balance after grants was in surplus by JD70 million, despite a major decline in grants, which were down to JD160 million compared to JD424 million in September 2005. The primary balance showed a similar pattern.

The total debt stock of the public sector increased by JD452 million since December 2005, with the share of domestic debt in total on the rise. The share of foreign debt in total debt decreased from 67 percent at end-2005 to 64 percent in September 2006. In contrast, the share of domestic debt increased to 36 percent of the total debt from 33 percent at end-2005. Over 35 percent of the external debt will be maturing in the coming five years, requiring (on average) about US$500 million financing annually, thus exerting stronger pressure on Jordan's Foreign Accounts—by matter of comparison, external debt maturing in 2005 did not exceed US$417 million.

Prices, Money and Banking

Inflation measured by the Consumer Price Index (CPI) accelerated in the first three quarters of the year following the cuts in oil subsidies. The CPI increased by 6.2 percent in the first three quarters of 2006, well above the 2.8 percent increase registered during the same period in 2005. Prices in the *fuel and electricity sector* (which accounts for 4.3 percent of the CPI) rose by 27 percent, compared with 5.4 percent increase attained a year earlier, revealing the strong role played by oil subsidies in sheltering consumers from the increase in oil prices.

The broad money supply (M2) grew by 8.8 percent between December 2005 and September 2006, down from a 13.8 percent increase registered a year earlier. This outcome reflects both the increase in foreign capital inflows and domestic assets. Indeed, among the counterparts of M2, Net Foreign Assets rose by 16.6 percent and Net Domestic Assets by 1.2 percent. The most dynamic aggregate of the money supply was the currency in circulation in Jordanian Dinars (increasing by 13.8 percent), followed by demand deposits in foreign currencies (increasing by 9.5 percent), and by time deposits in Jordanian Dinars (increasing by 8.3 percent).

Lending to the private sector continued to increase in line with strong demand for credit and substantial increase in the banks' resources. Claims on private sector (resident) rose by 21.7 percent (JD1.7 billion) between December 2005 and September 2006, slightly below the 23.1 percent increase registered a year earlier. The share of these claims in the commercial banks' assets rose to 39.4 percent in September 2006 from 36 percent in December 2005. By sector, consumers and stock market investors remained the most dynamic borrowers, with a 31 percent increase in lending to these two groups in the first three quarters of 2006. Commercial banks' claims on the public sector increased by 21 percent over the first three quarters of 2006.

The Authorities' interest rate policy has become increasingly tighter. To control the inflation, the Central Bank has raised the discount rate by 100 bpt since December 2005. Most interest rates on deposits have risen and lending rates followed, albeit at a lower pace. More specifically, interest rates on overdrafts have increased by 39 bpt during the first three quarters of 2006; by 18 bpt on interest rates on loans and advances increased; and by 94 bpt on discounted bills and bonds. However, the prime lending rate that banks offer to their best clients decreased by 25 basis points, which indicates strong competition in the banking sector for the best private clients.

The Amman Stock Exchange (ASE) index dropped by 25.7 percent since December 2005, but it is still significantly higher than its December 2004 level. The change in the index was less dramatic than observed in the rest of the region's capital markets, with the index remaining 43 percent higher than its level of December 2004. Part of the decline in the ASE was triggered by the Securities Commission's decision to prohibit brokers from lending to investors in excess of their margin accounts. That decision, led investors to sell stocks to pay their debts to brokers. The decline in the broad ASE index was fueled by drops in insurance (36.3 percent) and banking (29.2 percent) indexes. The decline in services and industry indexes were relatively lower, reaching 22.6 percent and 11.7 percent, respectively.

Table 2. Real Interest Rate and GDP Inflation

	Dec-04 percent	Dec-05 percent	Change 04/03 (bpt)	Sep-06 percent	Change 06/05 (bpt)
Central Bank Rediscount Rate	**3.75**	**6.50**	**275**	**7.50**	**100**
Certificates of Deposit (3-month)	**2.85**	**6.20**	**335**	**6.58**	**38**
Certificates of Deposit (6-month)	**3.20**	**6.95**	**375**	**6.91**	**-4**
Treasury Bills (6-month)	**3.36**	**6.21**	**285**	**6.73**	**52**
Treasury Bonds	**7.05**	**8.82**	**177**	**8.15**	**-67**
Average Interest Rates on Deposits					
Demand	0.36	0.47	11	0.88	41
Saving	0.74	0.83	9	1.11	28
Time	2.50	3.52	102	5.10	158
Average Interest Rates on Lending					
Overdrafts	8.81	9.26	45	9.65	39
Loans and Advances	7.59	8.10	51	8.28	18
Discounted Bills and Bonds	8.96	7.92	-104	8.86	94
Prime Rate Served to Best Clients	6.00	7.00	100	6.75	-25

Source: Central Bank of Jordan and World Bank staff estimates.

BANK GROUP OPERATIONS

To support Jordan's National Agenda, the Bank's lending program over the next four years will revolve around the following four cross-sectoral clusters:

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

IBRD Projects In The Pipeline

○ ***Social Protection Enhancement Project*** (US$10 million). The Project will assist the Government of Jordan in its efforts to alleviate poverty among the poorest of the population, while providing opportunities to become self-reliant. These will be achieved by enhancing the social protection programs through: (i) improving targeting and administration of the cash assistance programs; (ii) strengthening and improving the quality of social welfare services; and (iii) strengthening and further developing programs aimed at developing earning skills and capacities of the poor and vulnerable.

○ ***Private Participation in Infrastructure Project*** (US$20 million). The Project will establish an Infrastructure Fund that will address market failures that have prevented significant private sector involvement in the financing of small to medium-sized (US$2-20 million) infrastructure projects taking place. These market failures include the availability of financing for: (i) the construction phase of projects; (ii) the long-term; and (iii) renovation and energy conservation activities. The type of interventions used for the Fund will include guarantees and loans.

○ ***Employer-Driven Skills Development Project*** (US$10 million). The Project would provide financial resources for institutional reform and capacity development, technical assistance and investments in the technical and vocational education and training sector by: (i) increasing employers' participation in workforce skills development; (ii) strengthening the institutional capacity of employment skills, and developing related agencies; (iii) developing labor market information system.

IBRD Ongoing Projects

The current portfolio in Jordan consists of seven investment projects for a total commitment amount of US$280 million, of which US$110 million has been disbursed to-date. The portfolio also includes a partial risk guarantee for US$45 million.

○ ***Higher Education Development Project (HEDP).*** (US$34.7 million.) The objective of the Project is to initiate improvements in the quality, relevance and efficiency of Jordan's higher education, and to support Jordan's program to reform sector governance.

○ ***Horticultural Exports Promotion Learning and Innovation Loan*** (US$5 million). The Loan will initiate the process of establishing Jordan as a reliable supplier of non-traditional, high-value export crops to niche markets in the European Union and Gulf countries.

○ ***Education Reform for the Knowledge Economy*** (US$120 million). The Project supports systemic educational reform in Jordan that extends from Early Childhood Education through Secondary Education. The Project will contribute to the development of human capital with the skills and competencies required by the Knowledge Economy.

○ ***Amman Development Corridor*** (US$30 million). The Project aims at: (i) assisting Jordan's growth strategy by providing needed infrastructure to support Amman's role as a regional center for trade and services; and (ii) helping ensure that Jordan's road assets are managed in a cost-effective and sustainable manner.

Active Portfolio	Approval Date	Loan Amount US$ M	Undisbursed Amount US$ M	Primary Sector	Closing Date
Investments					
Higher Education Development	Feb-00	34.7	4.7	Education	Jun-07
Horticultural Exports Promotion Learning and Innovation	Jun-02	5.0	2.2	Agriculture Markets and Trade	Dec-07
Education Reform for Knowledge Economy	May-03	120.0	51	Education	Dec-08
Amman Development Corridor	Jun-04	38.0	30.1	Transport	Jun-09
Public Sector Capacity Building	Mar-05	6.5	5.9	Public Sector	Mar-09
Regional and Local Development	Dec-06	20.0	20.0	Urban Development	Dec-11
Cultural Heritage, Tourism and Urban Development Project	Jan-07	56.0	56.0	Urban Development	Sep-12
Total		**280.2**	**169.9**		
Partial Risk Guarantee					
Amman East Power Guarantee	Mar-07	45.0		Energy	

○ ***Public Sector Capacity Building Project*** (US$6.5 million). The objective of the Project is to support the ongoing implementation of the Government's public sector reform strategy by ensuring that the required institutional infrastructure is in place and functioning. It also seeks to support an important set of cross-cutting reforms in areas ranging from policy coordination to improved financial and human resource practices.

○ ***Regional and Local Development Project*** (US$35 million). The objectives of the Project are to: (i) strengthen the intergovernmental finance system; (ii) upgrade financial management, technical and administrative capacities at the local level; and (iii) increase the coverage and quality of municipal service provision, with particular emphasis on under-served areas.

○ ***Cultural Heritage, Tourism and Urban Development*** (US$35 million). The objective of the Project is to develop regionally balanced cultural tourism through regeneration of historic urban neighborhoods and creation of cohesive and culturally rich urban attraction poles.

○ ***Amman East Power Guarantee*** (US$45 million). The Project's main objective is to meet Jordan's electricity needs in an economically and environmentally sustainable manner to contribute to economic growth and the well-being of Jordan's population. The purpose of the IBRD Guarantee is to enhance competition, and therefore help reduce the Project's financing costs. The Project components consist of a 370-MW gas-fired, combined-cycle power station to be developed, owned and operated by a private sector project company. The power station will be constructed east of Amman, and about 1 km from the Arab Gas Pipeline. The fuel supply will be natural gas from Egypt; distillate fuel oil will serve as backup fuel for emergency operations only.

Ongoing Grants

Jordan's active grant portfolio includes 10 grants for a total of US$22.9 million, of which US$9.1 million has been disbursed to-date.

o ***Sustainable Development of Renewable Energy Resources and Promotion of Energy Efficiency Grant*** (US$1 million). The objectives of the Grant are to: (i) contribute to the Government's efforts to integrate climate change concerns in its economic development strategy by removing the barriers to promoting the development of Jordan's renewable energy resources (wind, solar and geothermal), and in enhancing the efficiency of energy use in line with the policy to meet the energy needs of Jordan in an economic and environmentally sustainable manner; and (ii) support a feasibility study for the future development of a commercial size wind energy project with private sector involvement.

○ ***Conservation of Medicinal/Herbal Plants Project*** (US$5 million). The Project supports the conservation, management and sustainable utilization of medicinal and herbal plants in Jordan through ensuring effective *in-situ* protection of threatened habitats and ecosystems and *ex-situ* sustainable use. The main components are: (i) institutional strengthening; (ii) pilot sites conservation; (iii) public awareness and education; and (iv) income generation activities.

○ ***Ozone Depleting Substances (ODS) Phaseout II*** (US$5 million). The overall objective is to assist Jordan in phasing out the use of ODS within its territory through, *inter alia*: (i) the introduction of appropriate policy measures; (ii) the institutional strengthening of responsible governmental entities; and (iii) the implementation of specific cost-effective priority investments to reduce consumption of Ozone Depleting Substances in the manufacturing and servicing sectors.

○ ***Promotion of a Wind Power Market*** (US$350,000 Global Environment Facility). The objective of the Project is to remove barriers to wind farm development, including lack of a legal and regulatory framework, lack of institutional capacity and inadequate information on wind resources, with the reforms clearing the way for a private entity to build a 60MW wind farm.

○ ***Privatization Technical Assistance*** (US$9.5 million). The objectives of the Grant are to strengthen the investment climate and job creation, leading to new investments and to improve effectiveness and efficiency of the delivery of public services, and creation of fiscal space.

○ ***Project Preparation Technical Assistance Grant (PHRD) for the Employer-Driven Skills Development Project*** (US$350,000). The Grant supports the Project preparation by improving the institutional capacity of the future implementing agencies, carrying out employers' consultations and carrying out surveys.

○ ***Project Preparation Technical Assistance Grant (PHRD) for the Social Protection Enhancement Project*** (US$495,000). The Grant supports the Project preparation to enable the Project to begin implementation as soon as it is effective.

○ ***Project Preparation Technical Assistance Grant (PHRD) for the Private Partnership in Infrastructure Project*** (US$750,000). The Grant supports the Project preparation by providing a feasibility study and a business plan for the Fund, and consultation workshops with the financial sector, service providers, construction sector and consumers.

○ ***Project Preparation Technical Assistance Grant (PHRD) for the Higher Education Development II*** (US$380,000). The Grant supports the preparation of the second phase of the Higher Education Development Program.

○ ***Statistical Capacity Building Grant - Development of the Statistical Master Plan*** (US$74,800). The objective of the Grant is to evaluate Jordan's current statistical system and propose a sustainable national statistical system through the design of a Statistical Master Plan.

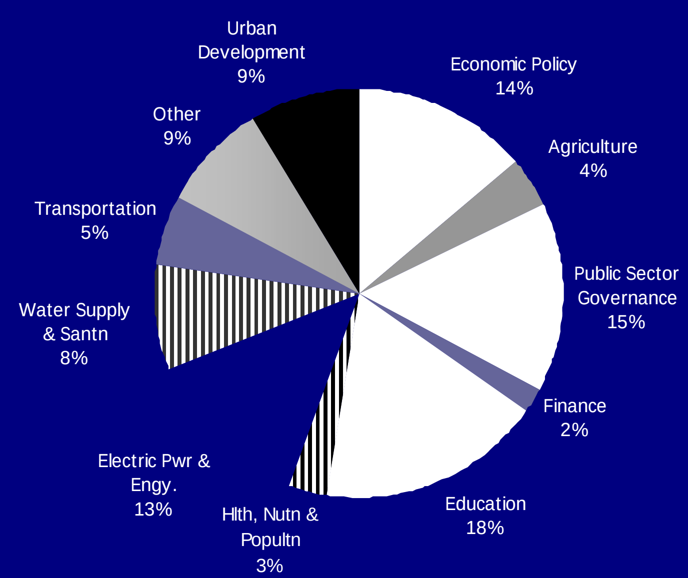
Further information on ongoing and pipeline projects can be found at:
http://www4.worldbank.org/sprojects/

Bank Lending To Jordan – Fact Sheet

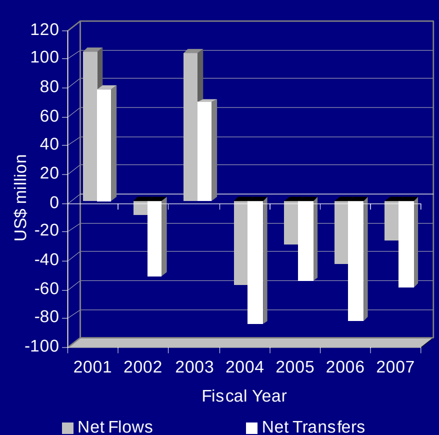
Jordan joined the World Bank in 1952, and received its first IDA credit in 1961. Over the past 44 years, a total of 85 credits, and loans have been granted to Jordan for a total amount of US$2,346 million. Jordan is also a member of IFC, ICSID, and MIGA.

IDA	US$86 million (15 Credits)
IBRD:	US$2,260 million (70 Loans)
Of Which:	
Investments:	US$1,476 million
Development Policy Loans:	US$870 million (8 Projects)
Disbursements:	US$2,123 million
Repaid:	US$1,182 million
Obligation:	US$927 million

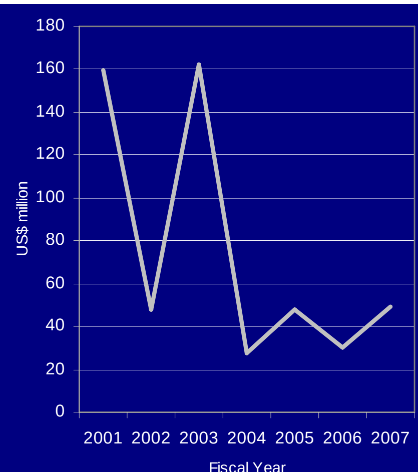
Sectoral Distribution by Value



Net Flows and Net Transfers



Disbursements



Projects Approved by Fiscal Year

Fiscal Year	# Of Projects	US$ M.
1994	2	100.0
1995	3	146.6
1996	2	120.0
1997	2	140.0
1998	3	67.0
1999	3	210.0
2000	1	34.7
2001	1	120.0
2002	1	5.0
2003	2	240.0
2004	1	38.0
2005	1	15.0
2007	3	121.0
Total	25	1357.3

A STRATEGY FOR MODERNIZING THE SOCIAL SAFETY NET SYSTEM IN JORDAN

Event

On December 4, 2006, members of the World Bank's Jordan Social Protection Team presented to H. E. Prime Minister Bakhit *the strategy for modernizing the social safety net system in Jordan*, with particular focus on the renewal of the National Aid Fund (NAF). The presentation was attended by H. E. Minister of Planning and International Cooperation, the Director General of NAF, the Secretary General of the Ministry of Social Development, the Director General of the Department of Statistics and other high level officials.

Key Messages

The presentation's key messages were:

- Resources to alleviate and prevent poverty are adequate in Jordan, but they are not used efficiently or effectively, nor have the intended impact and results been achieved.
- Delivery systems are not fulfilling their mission and they are in need of modernization.
- The NAF cannot do a significantly better job in reducing poverty, given its current program design and mandate. Hence, a new definition of the target population and new targeting mechanism are needed.

The Prime Minister asked the World Bank Team and its Jordanian counterparts to continue with the development of the new targeting formula and mechanism for NAF assistance and asked to be informed regularly of the work progress. He also expressed his support for the proposed Social Protection Enhancement Project.

Summary of the Presentation

The presentation on the *Social Safety Net System in Jordan, a Strategy for Modernization and Development* included a description of major components (and safety nets as one of them) of a social protection system and their major programs, and a short review of Jordan's safety net programs and assessment of their efficiency and effectiveness and impact on poverty.

Jordan spends about 1 percent of GDP on safety net programs annually. Overall, the programs reach an estimated 8-10 percent of the population. However, only one fourth of the recipients are empirically found to be poor. The biggest cash social assistance program targeted at the poor, implemented by the NAF (about 0.6 percent of GDP in 2005) is empirically found to reach only a small fraction of the poor and its impact on poverty is negligible.

According to the 2005 Household Expenditure Survey, only 17 percent of the population with per capita consumption below NAF threshold reported receiving NAF assistance. Most (94 percent) of NAF beneficiaries reported having per capita consumption above the NAF threshold. This poor performance is determined by the current NAF mandate, the design of the programs and implementation constraints, including: the current definition of target groups, targeting mechanism, weak implementation capacity and inadequate monitoring and evaluation. Secondly, between 1998 and 2005, close to US$400 million was invested into a range of economic empowerment projects implemented under the Enhanced Productivity Program (EPP); yet, their poverty impact and sustainability are unclear. Finally, the third key element of the safety nets—social care and rehabilitation services provided to needy women, children and youth, persons with disability and the elderly are undeveloped and cover only a fraction of the needy population in a fragmented and uncoordinated manner.

The final and key part of the presentation focused on what should be done to improve efficiency, effectiveness and the poverty impact of social safety net programs. A range of measures, including those related to the political economy of change, was proposed for the GoJ's consideration. For NAF renewal, the key suggestions included: (i) redefine the target population by focusing on the very poor households, irrespective of their socio-economic characteristics; (ii) introduce an indicator-based targeted mechanism and make eligibility testing and benefit award decision-making objective to the extent possible; (iii) improve benefit administration; (iv) develop an integrated MIS with a comprehensive database of poor and vulnerable households; (v) introduce a monitoring and evaluation system; (vi) separate policy making from policy implementation; and (vii) develop transitional arrangements.

Regarding the EPP, an impact assessment to quantify costs and benefits and assess sustainability was proposed as a base to inform decision-markers on which EPP projects to retain and how to improve implementation arrangements. For social care and rehabilitation services, a gradual expansion was suggested based on a community-based service provision model, and with the Ministry of Social Development developing related policies, regulating, setting up standards and performing monitoring and evaluation. Finally, in order to link various social safety net elements into an integrated system, the introduction of case management and referral system was proposed.

RECENT WORLD BANK PUBLICATIONS

MENA Publications

Water, Food Security and Agricultural Policy in the Middle East and North Africa Region (MENA Working Paper Series 47). The paper provides an overview of the key issues in water management, food security and agricultural policy in the Middle East and North Africa region (MENA) today with a view to furthering discussion and debate on this critical issue to growth in the MENA region.

Explaining Large Inventories: the Case of Iran (MENA Working Paper Series 48). According to Iran's National Accounts, during the period of 1988-2003 the annual change in inventories averaged 7.3 percent of GDP. In an ideal economy with no distortions, change in inventories should be zero on average. Because of inefficiencies and statistical errors, in developing countries it typically falls in a range between one and two percent of GDP. The paper argues that variation in the change in inventories in Iran could be explained by: impact of cost of capital effect and supply shocks expectations in a context of high dependency on the oil revenues and imports of capital/intermediary goods; periodical softening and hardening of budget constraints of public enterprises; variations in statistical errors related to differentials between PPI and CPI inflation; and possibly shifting financial constraints which may bind on private purchases of goods and services.

Iran - Power Sector Note (Report No. 38360). Over the past decade, the Iranian electricity sector's ability to supply reliable service has come under increasing pressure. This is evidenced by more frequent gas supply constraints to generation plants, high levels of debt and increasing losses in the network. The key roots of the problems in the sector are the under-pricing of natural gas which fuels the majority of the power generation, and the low retail electricity tariffs which lead to high per capita consumption of electricity and thus large investment requirements in new generation capacity to keep up with the demand. The Government of Iran is aware of the challenges and is pursuing a number of reforms to improve the performance of the sector, including private sector participation in the generation of electricity, and implementation of a power pool with a view of developing a competitive market. While these reforms will eventually contribute towards a more sustainable sector, their implementation and success will require tackling the under-pricing of natural gas and electricity. Without tackling these issues, the impact of reform efforts will remain limited, and to some extent academic, and run the risk of increasing the Government's fiscal exposure as under-writer of the policies and transactions in the sector. This Report reviews some key challenges in the sector and highlights their strategic implications.

Morocco - Poverty and Social Impact Analysis of the National Slum Upgrading Program (Report No. 36545). The Report titled "*Villes sans bidonvilles*" has been conceived as a contribution towards greater receptiveness, and seeks to bring some insights on the social dynamics of the neighborhoods targeted by the program and on the impacts to be expected from upgrading the operations.

Libya - Country Economic Report (Report No. 30295). The Libyan economy is dominated by hydrocarbons and the public sector. Sizeable oil wealth has supported decent living standards for Libya's population and socioeconomic development compares favorably with standards in other MENA countries. Libya has the potential to raise oil production and revenues significantly in coming years given its large reserve base, but the main challenge for Libya is to promote growth of the non-oil sector and spur diversification of its economy. Non-hydrocarbon GDP growth has been weak and oil revenue volatility has been transmitted to non-hydrocarbon GDP growth. Weak non-oil GDP growth reflects both insufficient private investment and low productivity of capital Improving efficiency and productivity growth is a precondition for faster growth and a greater investment effort. Strong productivity growth is also a prerequisite for competitive diversification out of hydrocarbons.

Implicit Pension Debt in the Middle-East and North Africa—Magnitude and Fiscal

Implications (MENA Working Paper Series 46). This Paper breaks down the contingent liability of a mandatory pension system into two components: (i) the implicit pension debt; and (ii) the pay-as-you-go asset. It then estimates these two components for 12 pension schemes across 6 countries and presents international comparisons. The results indicate that implicit pension debts are large, often higher than the explicit public debt. The large majority of pension schemes have negative pay-as-you-go assets. Under these circumstances, it is misleading to consider the implicit pension debt a contingency, as governments will have to finance it with almost certainty. The Paper recommends including the implicit liabilities of the mandatory pension system and the pay-as-you-go asset.

Recent Publications on Jordan:

- ***Jordan—Country Assistance Strategy*** (Report No. 35665-JO).
- ***Strategic Options for Energy Sector Development*** (Report No. 32281).
- ***Jordan—Poverty Assessment*** (Report No. 33802).

Project Appraisal Documents for ongoing projects, Implementation Completion Reports for closed projects and Project Information Documents for projects under preparation are also available on-line.

Bank Publications

How Universities Promote Economic Growth (ISBN: 0-8213-6751-X SKU: 16751). With technological capability increasingly becoming the touchstone of competitiveness in an open and integrated world environment, the role of universities in economic growth is taking on a greater salience. Not only do they impart education, but are also coming to be viewed as sources of industrially valuable technical skills, innovations and entrepreneurship. Realizing this potential of universities so as to spur growth is now a priority in developed and developing countries. This calls for coordinated policy actions. The distinguished contributors to this Volume examine the wealth of international experience on the efforts underway to multiply linkages between universities and businesses, and offer valuable and succinct guidance on some of the most effective policy measures being deployed by national and regional governments, by firms and universities themselves to enhance the contribution which tertiary institutions can make to economic change.

World Development Report 2007: Development and the Next Generation (ISBN: 0-8213-6549-5 SKU: 16549). The theme of the World Development Report 2007 is youth. As this population group seeks identity and independence, they make decisions that affect not only their own well-being, but that of others, and they do this in a rapidly changing demographic and socio-economic environment. Supporting young people's transition to adulthood poses important opportunities and risky challenges for development policy. Are education systems preparing young people to cope with the demands of changing economies? What kind of support do they get as they enter the labor market? Can they move freely to where the jobs are? What can be done to help them avoid serious consequences of risky behavior, such as death from HIV-AIDS and drug abuse? Can their creative energy be directed productively to support development thinking?

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