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With special thanks to Mary Saba
Microfinance—Helping The Entrepreneurial Poor Help Themselves

Microfinance is the provision of financial services to the entrepreneurial poor. This definition has two important features: it emphasizes a range of financial services—not just credit—and it emphasizes the entrepreneurial poor.

Credit for business activity is just one of the financial services needed by the poor. The poor also need credit for emergencies or life-cycle needs, and they need savings and deposit services. But, people who need savings do not necessarily need credit, and people who need credit do not necessarily need savings. Moreover, savings are important not only as a service for the poor, but also as a source of funds for microfinance institutions.

The entrepreneurial poor are defined as people who can increase their incomes through economic activities that can move them closer to, or even above, the poverty line. The entrepreneurial poor do not need assistance for themselves, but they may need help setting up or managing activities that will increase their incomes. In particular, they need help accessing the resources required to develop these activities. Credit is one of those resources. By contrast, the nonentrepreneurial poor—the extremely poor—require assistance simply to survive.

Providing financial services to the entrepreneurial poor increases household income, reduces unemployment, and creates demand for other goods and services—including nutrition, education, and health services. More than 500 million of the world’s economically active poor run small economic activities and businesses, but less than 5 percent have access to financial services.

This absurd gap between the supply of and demand for microfinance services is far too large to be filled by government and donor funds. But such funds are not needed, because a growing number of microfinance institutions have shown that poor people are bankable and that banking with the poor can be profitable and sustainable. The poor are willing to pay the high interest rates associated with microfinance in return for quick, convenient, and continued access to well-designed financial services. Simply put, the absurd gap can be filled through a substantial increase in the number of sustainable and profitable microfinance institutions.

Features Of The Industry In The Middle East And North Africa

Microfinance is a young industry in the Middle East and North Africa. The oldest program, that of the Alexandria Business Association, started in Egypt just over 10 years ago. In other parts of the world, especially Asia and Latin America, microfinance institutions have been around for several decades. So, in developing microfinance, practitioners and policymakers in the Middle East and North Africa can learn from other regions while adapting programs to their own environments.

The region’s emerging microfinance industry differs from those in other parts of the world:

- Expectations are too high—microfinance is not a panacea for, or solution to unemployment.
- Microfinance is narrowly defined—most microfinance institutions only offer credit for business activities and do not offer savings or deposit services.
- Governments are interested in regulating microfinance, and several countries have passed laws on microfinance. Such efforts risk jeopardizing the industry’s healthy development.
- Second generation issues may slow the industry’s growth. Many microfinance institutions are experiencing crises after rapid initial growth and need time to consolidate and restructure.
- New microfinance programs are applying Islamic finance methodologies, and
existing programs that use Islamic finance—some of them very large—have become more visible.

- Emerging lending programs for very small businesses are being implemented by commercial banks that apply best practices from microfinance to the financing of these businesses.
- Unemployment lending programs have many clients and large loan portfolios and are often confused with microfinance programs.

Table 1. Microfinance Indicators in the Middle East and North Africa, 1997 and 1999

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1997</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of microfinance programs</td>
<td>60</td>
<td>51*</td>
</tr>
<tr>
<td>Number of active clients</td>
<td>90,237</td>
<td>168,817</td>
</tr>
<tr>
<td>Outstanding loan portfolio (US$ million)</td>
<td>$44.6</td>
<td>$77.7</td>
</tr>
<tr>
<td>Average outstanding loan balance</td>
<td>$495</td>
<td>$460</td>
</tr>
<tr>
<td>Share of female clients (%)</td>
<td>31</td>
<td>46</td>
</tr>
<tr>
<td>Share of rural clients (%)</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Leading provider</td>
<td>Egypt</td>
<td>Egypt</td>
</tr>
<tr>
<td>Second leading provider</td>
<td>Jordan</td>
<td>Morocco</td>
</tr>
</tbody>
</table>

* The number of microfinance programs fell because some of the programs included in the 1997 count were reclassified as unemployment lending programs.

Source: World Bank surveys of microfinance institutions.

Between 1997 and 1999 the region’s microfinance industry nearly doubled, from about 90,000 active clients to almost 170,000 (see Table 1). Egypt remains the region’s leading provider, but has lost market share. Morocco is second, having experienced dramatic growth since 1997—from fewer than 4,000 active clients to more than 42,000. But other countries, such as Lebanon and the West Bank and Gaza, saw their microfinance industries stagnate or even shrink. This was mainly due to microfinance players in these countries going through restructuring and consolidation as they faced second-generation issues.

The average outstanding loan balance dropped slightly, from US$495 in 1997 to US$460 in 1999. This happened for two reasons: (1) new programs began by offering small initial loans—loans that will increase with timely repayment, and (2) women accounted for a larger share of borrowers (46 percent, up from 31 percent), and women are usually poorer and need smaller initial loans.

As in 1997, most of the region’s microfinance programs are local Nongovernmental Organizations (NGOs), foundations, or cooperatives. Egypt’s National Bank for Development is still the only bank in the region actively engaged in microfinance. Although more private banks are making small loans, they are considered very small business lending programs. The absence of government-sponsored microfinance programs has not hindered the industry’s development.

Of the 60 microfinance programs surveyed in 1997, two were fully sustainable and eight were close to it. Together, these 10 programs served about 80 percent of the region’s active microfinance clients—important because clients want continued access to financial services. Another 10 programs were small but had as their main objective the sustainable provision of microfinance. All these programs were implementing best practices. Most of the region’s remaining programs were in bad shape and not implementing best practices. These patterns still hold: programs implementing best practices serve most of the region’s active clients.

Table 2. Number and Market Share of Best Practice Microfinance Institutions in the Middle East and North Africa, 1999

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Institutions</th>
<th>Number of Best Practice Institutions</th>
<th>Market Share of Best Practice Institutions (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt</td>
<td>17</td>
<td>8</td>
<td>90</td>
</tr>
<tr>
<td>Jordan</td>
<td>8</td>
<td>3</td>
<td>36 (66)*</td>
</tr>
<tr>
<td>Lebanon</td>
<td>5</td>
<td>3</td>
<td>91</td>
</tr>
<tr>
<td>Morocco</td>
<td>7</td>
<td>3</td>
<td>90</td>
</tr>
<tr>
<td>Tunisia</td>
<td>6</td>
<td>1</td>
<td>55</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>3</td>
<td>2</td>
<td>96</td>
</tr>
<tr>
<td>Yemen</td>
<td>4</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>24</td>
<td>88</td>
</tr>
</tbody>
</table>

* The market share of Jordan’s three best practice programs increases to 66 percent if the sample excludes the microcredit program of a large government agency that does not implement best practices and in effect gives grants, not loans.

Source: World Bank survey of microfinance institutions.
The Future Of The Industry In The Middle East And North Africa

All the programs surveyed were asked how many active clients they expected to serve within five years—that is, by the end of 2004. Their goals were ambitious: together they expected to serve more than 422,000 active clients by that time. And, assuming that new programs are established—for instance, nine more foundations are being set up in Egypt following the Alexandria Businessmen’s Association model—the region’s microfinance industry could end up serving more than 500,000 clients.

Are these expectations realistic? Perhaps not. One reason is that there appears to be a limit to the size and growth of NGOs that only grant credit. The 10 programs that in 1997 were fully sustainable or close to it, today serve 63 percent of active clients, down from 80 percent. The 10 programs that in 1997 were small, but seeking full sustainability, now serve 20 percent of the market, up from less than 6 percent. Finally, a few new programs have emerged with full sustainability as an objective. They serve just 6 percent of clients but are expected to grow rapidly in the next few years.

The 10 leading programs lost market share because they did not grow as quickly as the formerly small, but currently sizable programs. The 10 leading programs grew from 71,000 active clients in 1997 to 105,000 in 1999. Though this 47 percent growth is respectable, it appears low given the large unmet demand for microfinance. By contrast, the formerly small programs grew from 5,000 clients in 1997 to 33,000 in 1999—growth of more than 600 percent.

There are several reasons for the disappointing growth of the 10 market leaders. Some underwent restructuring and consolidation as a result of crises. A few others seem to be resting on their laurels—they are sustainable and are the darlings of donors, but seem to lack the drive to reach more poor people. Some, especially those in small markets, have narrow market niches and serve one target group with one loan product. They may have to diversify to grow, targeting other groups and introducing new financial products.

Finally, slow growth may be caused by a lack of funds for onlending. Most of the market leaders still depend on donor funds, but they do not need to. They could start raising commercial funds for onlending by, say, borrowing from banks. Some donors have not encouraged their programs to pursue this route—they too are resting on their laurels.

Some programs in the region have tried to raise funds commercially, but have encountered legal and regulatory obstacles. In borrowing from banks for onlending, having the legal form of an NGO can be an impediment because it lacks transparency and accountability. Banks are often unwilling to lend to NGOs, especially if they cannot sue them. Two of the region’s 10 leaders have changed legal form, from NGOs to private companies, in order to borrow commercially. But these changes were recent, so it is too early to tell whether the companies will now be able to borrow from banks.

One of the 10 leaders tried to change into a bank (which would make perfect sense because as a bank it could collect savings and deposits), but the US$30 million minimum capital required for banks (in this case in Egypt) was too much of a financial obstacle.

For programs to reach the scale of microfinance institutions in other parts of the world, they must raise funds commercially—including taking deposits. This will also enable them to broaden their approach to microfinance, moving beyond credit for businesses. By mobilizing savings and deposits, they will be able to serve thousands more clients.

In many cases mobilizing commercial funds for onlending will require transforming from an NGO into a private company, bank, or nondeposit-taking financial intermediary. But, even more important will be the transition from a program to a locally-owned and managed institution. Donors and practitioners alike should be prepared for the array of new training needs that may arise for programs that decide to transform into a new legal entity and institutional form.

Policymakers, meanwhile, should be prepared to create legal environments that are appropriate for prudent but growing microfinance. This may well be the greatest challenge facing the region’s microfinance industry over the next few years.
Microfinance In Jordan

Although Jordan’s role as the region’s second largest provider of microfinance has been overtaken by Morocco, Jordan’s industry remains active—with eight microfinance programs, three unemployment-lending programs, and one Islamic lending program. New programs implemented using best practices show promise for the industry’s future development.

The Future Of Jordan’s Microfinance Industry Looks Promising

Jordan’s microfinance industry grew about 40 percent between 1997 and 1999, from almost 13,000 active borrowers to almost 18,000. The outstanding loan portfolio jumped from US$11.4 million to US$17.6 million. The average outstanding loan balance dropped slightly, probably due to the entry of three new players, all funded by USAID and implementing best practices. Since they are young programs and relatively new to the business, they have started with small initial loans to enable clients to build up track records. Almost half the clients are female, and a similar share live in rural areas.

The largest microfinance player in Jordan is a government organization that does not target the entrepreneurial poor, but rather the destitute poor, the handicapped, and other marginalized groups. The organization’s repayment rate is the lowest in the country because repayment is not routinely enforced and because many borrowers should not have received loans in the first place, as they are not creditworthy or are too poor to benefit from loans. Some borrowers may be willing, but often are not able to pay, and having a loan puts them in debt—possibly increasing poverty. Although the program targets the poorest, its average outstanding loan balance is one of the highest of Jordan’s eight microfinance programs. This only increases the likelihood of nonpayment. Many of the organization’s clients should have been given grants (for social reasons) or would have benefited from savings services. Given the program’s fundamental flaws, it is no surprise that it expects to see a drop in active clients over the next few years.

Aside from this program, Jordan’s largest program is the Microfund for Women. Like its cousin in the West Bank and Gaza, FATEN, the program did not grow in recent years for two reasons: (1) it spun off from its parent organization, Save the Children, into a locally managed and governed NGO—a necessary step for financial and institutional sustainability, and (2) it had to deal with fraud that occurred because of rapid early growth. The fund emerged from this experience stronger and wiser and is well on its way to sustainability and increased outreach.

Jordan has several new programs, all funded and assisted by USAID and implementing best practices, with potential for sustainability and growth. It is hoped that lessons learned from USAID’s recent experiences in Jordan and other Middle Eastern and North African countries, would not only emphasize growth targets but also, more importantly, emphasize institutional development. It is encouraging that USAID helped set up these programs as separate, independent legal entities, which will contribute to their institutional development.

The future of Jordan’s microfinance industry looks promising, with one experienced best practice player and several runners-up. These programs together expect to serve more than 35,000 active clients by 2004. Even if fewer clients are reached—which may be advisable given the risks of rapid growth—these programs are poised for sustainability and outreach.

Unemployment And Very Small Business Lending

Jordan has three programs with characteristics of unemployment lending programs: (1) the large Development Employment Fund, a quasi-governmental organization; (2) the program of the Industrial Development Bank; and (3) the small UNRWA program. Although the Development Employment Fund also acts as a wholesale funder of microfinance programs, providing loans to NGOs and other organizations for onlending to microentrepreneurs, only its direct lending program is considered here. Despite the willingness of the fund’s managers to change and
restructure, Jordanian politicians have been unwilling to commit to such a restructure.

The Industrial Development Bank’s program is also mixed, with some characteristics of an unemployment lending program, as well as a small enterprise-lending program. The program is shrinking.

Together, Jordan’s three unemployment-lending programs have about 5,500 active clients and an outstanding loan portfolio of almost US$25 million. Most clients are male.

**Islamic Finance**

A large player in Jordan’s microfinance market that was not included in the 1997 World Bank survey is the Orphans’ Fund Management and Development Association. It appears to be set up along the lines of Lebanon’s Monetary Housing Institute, making working and investment capital loans using Islamic finance principles and making emergency and consumer loans. It claims 15,000 active clients and a loan portfolio of US$25 million.
Jordan managed well the challenges it faced during and after the war in Iraq. The country withstood the shock economically and politically better than most observers had expected, and proved able to resume normal economic activity and continue on the path of structural reforms. This renewed proof of resilience bodes well for the future, although some of the long-term impact of the conflict will still pose challenges for the years to come.

Some risks remain on fiscal and external accounts. With 20 percent of its exports and 16 percent of its imports—mainly crude oil—depending on the Iraqi market, Jordan’s external position is highly exposed to developments in its neighboring country. The interruption of Iraqi oil grant/discount received a positive solution when Saudi Arabia and the United Arab Emirates agreed to supply subsidized oil to Jordan, with additional financial backup from Japan. However, this support in 2003 could not eliminate the structural impact of the war in Iraq on the Balance of Payment. On the fiscal side, a low intensity threat of widening fiscal imbalances remains, despite the already planned or emergency fiscal measures. Thus, risks of imbalances remaining for the coming years will have to be offset by prudent fiscal management and continued strong export performance.

**Output And Prices**

After posting a positive 5.3 percent nominal growth rate for 2002, the economy slowed down at the beginning of 2003. The Industrial Production Index declined by 14.3 percent during the First Quarter of 2003 compared to the same period in 2002. The slowdown in manufacturing industries, which accounts for more than 75 percent of industrial output, reached 17.7 percent. Mining and quarrying production was less impacted with only a 2 percent decrease. The decrease in the Industrial Production Index in the First Quarter of 2003 means that almost 19 percent of the GDP decreased by 14.3 percent which, on a yearly basis, is equivalent to a 2.7 percent negative impact on the nominal GDP growth.

**Table 1. Key Economic Activity Indicators**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>% Variation Q1-01/Q1-02</th>
<th>% Variation Q1-02/Q1-03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Production Index</td>
<td>14.4%</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15.8%</td>
<td>-17.7%</td>
</tr>
<tr>
<td>o/w Cement Production</td>
<td>32%</td>
<td>-13.1%</td>
</tr>
<tr>
<td>Electricity Production</td>
<td>4.4%</td>
<td>-7%</td>
</tr>
<tr>
<td>Export Growth</td>
<td>19.8%</td>
<td>15.7%</td>
</tr>
<tr>
<td>GDP Growth (Nominal)</td>
<td>5.5%</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Jordanian Authorities and World Bank Staff estimates.

Contrasting with the Industrial Index, exports increased by 15.7 percent compared to the First Quarter of 2002. One explanation to the contrast in Industrial Index evolution compared to the exports evolution might be the delay between production and export. For example, in the case of clothes (26.3 percent of total exports in the First Quarter of 2003), 72 percent increase in exports in the First Quarter of 2003 mismatches the 4.8 percent decrease in the production index, but seems consistent with its 41 percent increase in the Last Quarter of 2002.

Another explanation could be the substitution of a weakening internal demand by the external demand. Thus, for the first four months, the year-to-year average Inflation Rate dropped from 2.8...
percent in 2002 to 1.2 percent in 2003. Inflation in food items became negative, while price decrease in clothing items deepened. The appreciation of the Euro did not have an inflationary effect on the CPI, despite the fact that 25 percent of imports are billed in Euro. Neither did the raise of several taxes on goods and services. Such a development suggests an important drop in internal demand.

**Figure 2. Consumer Price Index**  
*April 2001 to April 2003*

Another indicator of the drop in internal demand is the average growth of resident deposits in the banking sector during the first four months. While the Growth Rate stood at 5.5 percent between the first four months of 2001 and 2002, it rose to 7.2 percent between 2002 and 2003. This increase in deposits seems to be a natural reaction of Jordan exports, with particularly high performance in the clothing sector. Growth in clothes exports, mainly Qualified Industrial Zones (QIZs) products drove the 15.7 percent growth in total exports.

**Table 2. Average Change in CPI**

<table>
<thead>
<tr>
<th></th>
<th>January 01</th>
<th>January 02</th>
<th>January 03</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>-0.6%</td>
<td>1.9%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Clothing</td>
<td>1.8%</td>
<td>-1.5%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Housing</td>
<td>0.9%</td>
<td>2.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other Goods &amp; Services</td>
<td>1.6%</td>
<td>6.7%</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>0.5%</td>
<td>2.8%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

Source: Jordanian Authorities and World Bank Staff estimates.

**Merchandise Exports**

Other sectors performed well on the international market in the First Quarter of 2003, particularly exports from the potash, fertilizers, and vegetable oils industries.

Figures shown in Table 3. indicate that some sectors experienced a severe drop in their exports or a substantial slowdown in their export growth. Some changes are directly linked to the war in Iraq, especially in the cases of Pharmacy and Paper products, as a substantial part of their exports is to the Iraqi market.

**Figure 3. Quarterly Growth of Exports (yoy)**

The geographical distribution of exports growth matches the sectoral evolution as exports to the United States, mostly QIZ products, rose by almost 100 percent, and pushed the part of total exports to United States from 11.3 percent in the First Quarter of 2002 to 24.5 percent in the First Quarter of 2003. Exports to Arab Countries dropped slightly, by 0.5 percent, but exports to Iraq dropped by 12.8 percent. Exports to Arab countries in total exports decreased from 52.3 percent in the First Quarter of 2002 to 45 percent in the First Quarter of 2003 (see Figure 4).

The depreciation of the Jordanian Dinar against the Euro stimulated an increase of 36.1 percent of the value of exports to the European Union (EU).
### Table 3. January-March Exports

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th></th>
<th>2003</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JD Million</td>
<td>% of Total</td>
<td>JD Million</td>
<td>% of Total</td>
<td>Yoy</td>
<td></td>
</tr>
<tr>
<td>Shrinking Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vegetables</td>
<td>28,827</td>
<td>9.1%</td>
<td>26,830</td>
<td>7.3%</td>
<td>-6.9%</td>
<td></td>
</tr>
<tr>
<td>Phosphates</td>
<td>22,898</td>
<td>7.2%</td>
<td>22,262</td>
<td>6.1%</td>
<td>-2.8%</td>
<td></td>
</tr>
<tr>
<td>Phosphoric Acid</td>
<td>12,936</td>
<td>4.1%</td>
<td>10,853</td>
<td>3.0%</td>
<td>-16.1%</td>
<td></td>
</tr>
<tr>
<td>Paper and Cardboard</td>
<td>9,786</td>
<td>3.1%</td>
<td>7,526</td>
<td>2.1%</td>
<td>-23.1%</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>74,447</td>
<td>23.5%</td>
<td>67,471</td>
<td>18.5%</td>
<td>-9.4%</td>
<td></td>
</tr>
<tr>
<td>Expanding Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothes</td>
<td>56,034</td>
<td>17.7%</td>
<td>96,195</td>
<td>26.3%</td>
<td>71.7%</td>
<td></td>
</tr>
<tr>
<td>Medical and Pharmacy Products</td>
<td>36,031</td>
<td>11.4%</td>
<td>37,120</td>
<td>10.1%</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>Potash</td>
<td>27,391</td>
<td>8.6%</td>
<td>35,849</td>
<td>9.8%</td>
<td>31.0%</td>
<td></td>
</tr>
<tr>
<td>Fertilizers</td>
<td>8,088</td>
<td>2.6%</td>
<td>12,489</td>
<td>3.4%</td>
<td>54.4%</td>
<td></td>
</tr>
<tr>
<td>Vegetable Fats or Oils</td>
<td>6,599</td>
<td>2.1%</td>
<td>10,625</td>
<td>2.9%</td>
<td>61.0%</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>134,143</td>
<td>42.4%</td>
<td>192,278</td>
<td>52.5%</td>
<td>43.4%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>262,609</td>
<td>100.0%</td>
<td>262,609</td>
<td>100.0%</td>
<td>8.97%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Jordanian Authorities and World Bank Staff estimates.

### External Sector

Jordan’s economic resilience is starkly expressed by the Government’s ability to maintain their large level of foreign reserves—which stayed at US$3.6 billion throughout the First Quarter and to the end of April 2003. Net Foreign Assets of the Central Bank peaked to US$4.71 billion in April 2003 from US$4.62 billion in December 2002 and US$4.06 billion in April 2002.

The loss of Iraqi oil grants/subsidy, affecting the Balance of Payments, will need to be replaced. A three-month subsidized supply agreement with the Gulf States, ending in June 2003, is likely to be extended for another three months. This oil import agreement contemplated the provision of 120,000 barrels per day, of which 60 percent is supplied by Saudi Arabia and 40 percent by the United Arab Emirates. Japan decided to provide US$100 million of emergency aid to compensate the loss of price advantages on Iraqi oil. Additional external help from the United States amounting to US$500 million in 2003 would allow for compensation of most of the Balance of Payments shock from the war, mainly linked to an estimated US$400 million loss on Iraqi oil.

The Trade Deficit jumped from US$660 million in the First Quarter of 2002 to US$750 million in the First Quarter of 2003. This 13.7 percent increase is the result of a 14.5 percent increase in imports, which offsets the 15.7 percent growth in exports. The rise in imports stems from the increase in oil imports (35 percent), yarn (16
percent), and chemicals (13 percent). These increases reflect both the increase in the oil bill—a consequence of the war in Iraq—and the impact of the appreciation of the Euro, since imports from the EU account for 28 percent of Jordan’s imports. The value of imports from the EU increased by 18.2 percent, but their volume seems to have decreased by 3.4 percent, as the Euro rate to JD increased by 22.3 percent between the First Quarter of 2002 and the First Quarter of 2003.

Facing the economic slowdown, the Central Bank continued to loosen its interest rate policy. Therefore, the Central Bank cut its re-discount rate by 125 basis points between end-2002 and April 2003 and reduced its three months Certificates of Deposit rate by 20 basis points (see Table 4).

The increase in money supply translated into a 3.3 percent growth of deposits in private banks with the Central Bank in Jordanian Dinar. Remunerated deposits doubled since end 2002 and reached JD393 million in April, while Certificates of Deposit portfolio decreased by 1.8 percent and foreign currencies deposits dropped by 7.6 percent. Credits to the resident and non-resident private sector (33.6 percent of the consolidated balance sheet) increased by only 8 percent, while claims on the public sector (9 percent of the balance sheet) increased by 1.3 percent.

Some concerns about the financial sector—mainly about the high level of Iraqi public deposits in Jordanian banks—prompted the Jordanian Government to freeze Iraqi deposits of about US$1 billion. This amount is equivalent to 21.8 percent of foreign liabilities and 6.7 percent of total deposits at end April 2003. Iraqis seem to have withdrawn part of their deposits before and during the war as shown by the US$200 million

<table>
<thead>
<tr>
<th>Table 4. Banking Sector Interest Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Central Bank Re-Discount Rate</strong></td>
</tr>
<tr>
<td>December 2001</td>
</tr>
<tr>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Certificates of Deposit - 3 Month</strong></td>
</tr>
<tr>
<td>3.9%</td>
</tr>
<tr>
<td><strong>Average Interest Rates on Deposits</strong></td>
</tr>
<tr>
<td>Demand</td>
</tr>
<tr>
<td>Saving</td>
</tr>
<tr>
<td>Time</td>
</tr>
<tr>
<td><strong>Average Interest Rates on Lending</strong></td>
</tr>
<tr>
<td>Overdrafts</td>
</tr>
<tr>
<td>Loans and Advances</td>
</tr>
<tr>
<td>Discounted Bills and Bonds</td>
</tr>
</tbody>
</table>

*Source: Jordanian Authorities and World Bank Staff estimates.*
decrease in foreign liabilities of the Commercial Banks between December 2002 and March 2003.

**Fiscal Situation**

Public deficit rose sharply as a result of both the relative stagnation in economic activity and the increase in expenditures induced by the war in Iraq. Cumulative deficit at the end April 2003, reached JD274 million against JD126 million for the first four months of 2002. Expenditures rose by 12.3 percent, of which 37 percent were in defense and security expenditures. The increase in capital expenditures accounts for 24.4 percent of the total increase and may help compensate the growth slowdown. Several other items of current expenditures increased, to compensate the social effects of the slowdown in activity and as a consequence of the increase in the price of oil during the war.

**Table 5. Fiscal Balance for the First Four Months**

<table>
<thead>
<tr>
<th>JD million</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Revenues</td>
<td>504</td>
<td>567</td>
<td>503</td>
</tr>
<tr>
<td>Tax Revenues</td>
<td>330</td>
<td>321</td>
<td>337</td>
</tr>
<tr>
<td>Income &amp; Profits</td>
<td>88</td>
<td>91</td>
<td>83</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>146</td>
<td>142</td>
<td>169</td>
</tr>
<tr>
<td>Customs</td>
<td>74</td>
<td>66</td>
<td>63</td>
</tr>
<tr>
<td>Other</td>
<td>23</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Non-Tax Revenues</td>
<td>159</td>
<td>234</td>
<td>154</td>
</tr>
<tr>
<td>Repayment</td>
<td>15</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>658</td>
<td>693</td>
<td>779</td>
</tr>
<tr>
<td>Current Expenditures</td>
<td>570</td>
<td>591</td>
<td>656</td>
</tr>
<tr>
<td>Excl. Debt Service</td>
<td>491</td>
<td>527</td>
<td>585</td>
</tr>
<tr>
<td>o/w Defense &amp; Security</td>
<td>174</td>
<td>176</td>
<td>207</td>
</tr>
<tr>
<td>Debt Service</td>
<td>79</td>
<td>64</td>
<td>70</td>
</tr>
<tr>
<td>External</td>
<td>58</td>
<td>46</td>
<td>53</td>
</tr>
<tr>
<td>Internal</td>
<td>20</td>
<td>19</td>
<td>17</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>88</td>
<td>102</td>
<td>123</td>
</tr>
<tr>
<td>Surplus/Deficit</td>
<td>-154</td>
<td>-126</td>
<td>-275</td>
</tr>
<tr>
<td>Balance to Expenditures</td>
<td>-23.4%</td>
<td>-18.2%</td>
<td>-35.4%</td>
</tr>
<tr>
<td>Primary Balance</td>
<td>-75</td>
<td>-62</td>
<td>-205</td>
</tr>
</tbody>
</table>

Including Grants and Rescheduled Interests

<table>
<thead>
<tr>
<th>JD million</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus/Deficit</td>
<td>-63</td>
<td>-52</td>
<td>-204</td>
</tr>
<tr>
<td>Balance to Expenditures</td>
<td>-9.7%</td>
<td>-7.6%</td>
<td>-27.0%</td>
</tr>
<tr>
<td>Primary Balance</td>
<td>5</td>
<td>6</td>
<td>-156</td>
</tr>
</tbody>
</table>

**Source:** Jordanian Authorities and World Bank Staff estimates.

Jordan financed its increasing deficit with internal debt. The net outstanding internal debt increased by 18.2 percent since April 2002 on a yearly basis from JD1.37 billion to JD1.62. Total debt rose by 10.2 percent, from JD6.4 billion to JD7 billion, over the same period. As for debt management, Jordan benefited from two rescheduling operations, over 7 percent of its external debt so far this year, one with the United Kingdom for JD221 million and one with Japan for JD141 million. Moreover, rescheduling and grants allowed Jordan to cut its budget deficit by more than 25 percent.
Children in the Middle East and North Africa (MENA) represent about 50 percent of the total population, and many live in poverty. Those children are also vulnerable to politically motivated conflict, violence, rapid urbanization, as well as economic downturns—large numbers have become full time child laborers, refugees, street children, orphans, and disabled.

The World Bank, in close collaboration with government agencies, NGOs and UN agencies, is supporting MENA countries in addressing the issues faced by children through a multi-pronged approach that includes: (i) assessing the status and determinants of the well-being of vulnerable children; (ii) piloting innovative programs and helping implement effective community-based projects; (iii) sensitizing and building partnerships to tackle these issues at the country and regional levels; and (iv) enhancing the capacity of individuals and institutions in client countries. As part of this process, there is a need to increase the understanding of the issues faced by children, help influence policy changes, and increase resources to tackle vulnerable children’s problems, and develop effective and responsive services that are both preventive and protective to move towards attainment of international goals for the well-being of children.

The workshop provided a unique opportunity for practitioners and policy makers from government and non-governmental organizations, and bilateral and multilateral agencies to engage in important dialogues on these issues in the MENA region. Participants of the workshop included Government representatives from: the Arab Republic of Egypt; the Republic of Yemen; the Hashemite Kingdom of Jordan; the Kingdom of Morocco; and development partners, including UNICEF, USAID, and ILO. National country teams presented their assessment of the situation and concerns in their countries, recognizing not only achievements, but also the significant gaps and barriers that continue to hinder initiatives to meet the needs of these children. These national presentations also reflected on how cooperation and coordination amongst bilateral and multilateral agencies is critical to achieving real impact. Sessions such as the “Listening to Our Partners” enhanced the exchange of perspectives and insights of these issues amongst the workshop participants.

The outcome of these two days was an enhanced understanding of: (i) client’s expectations; and (ii) options for the World Bank. The knowledge generated at this workshop will: (1) help the policy makers and practitioners situate the needs of the disadvantaged and vulnerable children within the overall national agenda for children; (2) help influence policy changes to promote protection of children; (3) build the capacity of national and local institutions to take a more active role; (4) promote effective resource allocation to tackle vulnerable children’s problems, and (5) design preventive and protective measures that are comprehensive and holistic, and enable MENA countries to advance towards the attainment of international goals for the well-being of children.

For more information on MENA’s initiatives, please contact: Iqbal Kaur at ikaur@worldbank.org
IBRD Projects In The Pipeline

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

- **Third Public Sector Reform Loan (PSRL-III). (US$80 million.)** The foundation of Bank support for Jordan’s Program of Public Administration Reform is a series of three one-tranche Public Sector Reform Loans. This third prior action loan would support the Government's program to strengthen public sector management generally, on the basis of a program of actions that aim to improve the Government’s institutional capacity and incentives to deliver quality public services, and on the basis of continued sound, overall macroeconomic management.

- **Cultural Heritage, Tourism, and Urban Development (US$45 million).** The Project will build on the ongoing tourism project (TDP-II) and will have two key development objectives: (i) create conditions for sustainable urban revival and increased cultural and tourism offerings in the historic centers of selected secondary cities; and (ii) improve the national tourism and cultural heritage management framework.

IBRD Ongoing Projects

The current portfolio in Jordan consists of seven projects for a total commitment amount of US$311.7 million, of which US$115 million has been disbursed to date.

- **Second Tourism Development Project (TDP-II). (US$32 million.)** The Project aims at: (a) creating the conditions for an increase in sustainable and environmentally sound tourism in Petra, Wadi Rum, Jerash, and Karak; and (b) realizing tourism-related employment and income-generation potential at Project sites.

- **Community Infrastructure Development Project (CIDP). (US$30 million.)** The Community Infrastructure Development Project represents the first (pilot) phase of a longer-term program of small-scale infrastructure improvements to poor communities in Jordan.

- **Amman Water and Sanitation Management Project (AWSMP). (US$55 million.)** The Project aims at: (a) improving the efficiency, management, operation, and delivery of water and wastewater services for the Amman Service Area; and (b) laying the groundwork for the sustainable involvement of the private sector in the overall management of these services.

- **Health Sector Reform Project (HSRP). (US$35 million.)** The Project is based on the findings of the Health Sector Study, prepared jointly by the World Bank and the Government of Jordan (April 1997).

- **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 would initiate the process of establishing Jordan as a reliable supplier of non-traditional, high-value export crops for which it has competitive advantage to niche markets in the European Union and the 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. It will contribute to the development of human capital with the skills and competencies required by the Knowledge Economy.
Ongoing Grants

- **Institutional Development Fund (IDF) Grant for Enhancing Women’s Health (US$140,000).** Under the Grant, research/studies will be undertaken to: (a) cover the gaps identified; (b) develop a detailed plan for a National Women’s Center; (c) carry out a Needs Assessment Survey on females in the southern part of Jordan where access to services are limited; and (d) with the findings, develop a detailed package of curative and curative services.

- **Institutional Development Fund Grant for Strengthening the Capacity of the National Council for Family Affairs (US$114,000).** The Grant will assist the National Council for Family Affairs to play an important role in developing policies and national strategies for (and in monitoring their implementation), and advocating on behalf of, children and families, in close collaboration with relevant public agencies.

- **Japanese Social Development Fund Grant – Integrating “At Risk” Children/Youth in Mainstream Society (US$994,860).** The objective of the Grant is to build capacity of community-based referral and partner organizations, including NGOs, to help reintegrate “at risk” children/youth into mainstream society.

- **Japanese Social Development Fund Grant – Legal Aid for Poor Women (US$191,000).** The objective of this Grant is to provide legal services to poor women in Jordan as a means to improve their daily lives.

- **Conservation of Medicinal/Herbal Plants (US$5 million Global Environment Facility).** 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: (a) institutional strengthening; (b) pilot sites conservation; (c) public awareness and education; and (d) income generation activities.

Further information on the ongoing and pipeline projects can be found at: [http://www4.worldbank.org/sprojects/](http://www4.worldbank.org/sprojects/)

### IFC Ongoing Projects

- **Rubicon.** The Project consists in providing a Jordanian animation and e-education company with US$1 million of equity to finance its animation outsourcing activities after the signing of a Partnership Agreement with Fat Rock Entertainment, a U.S.-based movie producer. The financing will help the company ramp up its operations and provide its employees with the necessary training to be able to meet Fat Rock Entertainment's outsourcing needs and quality requirements.

- **Industry and Information Technology Park Development Company (IITPDC).** The Project is
to develop an integrated Industry and Information Technology Park. The Industrial Park has been granted the status of a "Qualified Industrial Zone" (QIZ), which provides companies located there with the competitive advantage of quota-free and duty-free access to the U.S. market. In addition to the QIZ, the proposed Park has been given a "Free Zone" status by the Jordanian Government, which provides a 12-year tax holiday, and other incentives for tenant companies.

- **Al-Hikma Pharmaceuticals Limited.** The Project is designed to help Al-Hikma Pharmaceuticals upgrade and expand its existing pharmaceutical and chemical plants, and build a new plant. A new project involves the extension of a corporate loan to finance the company's modernization and expansion plans. This program of investments is being planned to help prepare the company for a future U.S. initial public offering, and will include an IFC corporate governance component to help the company satisfy the recent corporate governance and securities law reform in the United States (the Sarbanes-Oxley Act of 2002), which institutes new rules regarding the corporate governance of publicly held corporations listed in the United States, including American Depository Receipts. The IFC loan will help the company expand its operations, enhance its research and development facilities, and refinance short-term loans in the MENA region, Europe, and Asia.

- **Zara Investment Holding Company.** The investment Project consists of the construction and operation of an international standard 312-room hotel and complex comprising 44 apartments, partially serviced by the hotel; well-equipped exhibition/conference facilities; an auditorium; a health club, managed by Hyatt International; and a Wellness Center and 231-room hotel complex on the Dead Sea, combining medical and recreational facilities, to be managed by Mövenpick. Economic benefits accruing to Jordan include foreign exchange generation and the creation of about 600 direct jobs. IFC's main role in this Project is to provide long-term funding on terms and maturities not otherwise available in Jordan, and help the Zara Company mobilize local loans. IFC has approved a rescheduling of its loan to Zara Company.

- **Business Tourism Company.** The Project consists of building and operating a resort of international standards, which will include: (i) a 230-key hotel; and (ii) a health/medical spa and beauty care facility. The Dead Sea, due to its unique therapeutic characteristics and climate, has established itself as a world-class center for the treatment of various skin and muscular-joint ailments, such as psoriasis and rheumatism. The proposed complex will be managed by Marriott International and will target both health and leisure tourists.

- **El-Zay (Textile).** El-Zay specializes in the manufacture of high quality men's suits. The Project consists of: (i) an expansion program to diversify El-Zay's product line by manufacturing men's outerwear; and (ii) a financial restructuring designed to strengthen El-Zay's balance sheet by replacing most of its short- and medium-term debt with long-term debt. IFC's investment is to help the company complete the Project's financial plan and improve its financial structure by providing funding on terms and maturities not otherwise available in Jordan.

- **Arab International Hotels Company (AIHC).** The Project consists of the renovation and expansion of the Amman Marriott, a leading hotel located in the Shmeisani area of Amman. The work comprises: (i) the complete refurbishment of all the hotel's 294 rooms; and (ii) the addition of conference and banqueting facilities, a health club, retail space, movie theaters, and an underground parking facility. The proposed expansion and modernization of the Marriott will boost the hotel to a 5-star international level, allowing it to match the quality level provided by its competitors.

- **Jordan Hotels and Tourism Company (JHTC).** The Project comprises an extensive refurbishment of most of the InterContinental Hotel's existing 366 rooms and the addition of 125 new rooms and facilities. The hotel will also replace 15 of its elevators, its boilers, and the kitchen, safety and telecom equipment. The Management Agreement between InterContinental Hotels Corporation and JHTC has recently been extended to 2007. IFC has approved a rescheduling of its loan to JHTC.
o **Jordan Investment Trust (Jordinvest).** The Project involves the establishment of one of the first investment banks in Jordan. Jordinvest is expected to carry out a broad range of investment banking activities, including: (i) providing long-term private equity; (ii) investing in quoted investments; (iii) underwriting and private placement of debt and equity issues; and (iv) corporate finance activities, especially restructurings, privatization, and mergers and acquisitions.

o **Modern Agricultural Investment Company (MAICO).** The overall objective of the Company's operations is to act as a market and technology beacon to help diversify and upgrade the range and combination of crops and irrigation methods, which would develop a modern export sector, thereby maximizing the economic return on irrigation water, and ultimately rationalize its overall consumption.

o **Middle East Investment Bank (MEIB) Recapitalization.** The Project involves both MEIB’s (the smallest commercial bank in Jordan) recapitalization to meet the Central Bank of Jordan's minimum capital requirements, and its restructuring, managed by Société Générale Libano-Européenne de Banque. IFC investment is part of this larger recapitalization and restructuring program for MEIB. It complements the Technical Assistance Program in Jordan, provided by both IFC and the World Bank.

o **Boscan Jordan-I.** The Project is to expand the operations of Boscan Jordan Group, a Jordanian manufacturer of soft-side luggage products selling primarily to the United States market.

o **Jordan Gateway Project.** The Project is to develop, construct, and operate an industrial estate covering about 65 ha (of which about 50 ha would be in Jordan) at the Jordan-Israel border.

o **Al Tajamouat Industrial City (ATIC).** The Project will expand the existing integrated industrial estate, ATIC. The expansion commenced in late 2000 to keep up with the high demand for QIZ space in Jordan.

o **Indo Jordan Chemical Company.** The Company owns and operates a 244,000 mt/year (as of 100 percent P205) phosphoric acid plant and ancillary facilities adjacent to a phosphate rock mine in the south of Jordan, as well as storage facilities at the Red Sea Port of Aqaba. P205 is used to produce DAP, a widely used fertilizer.

o **Middle East Regional Development Enterprise (MEREN) Silica Sand.** The US$15.5 million Greenfield Project is to establish the MEREN Silica Sand Plant, which will manufacture high quality silica sand to be mainly exported to European glass manufacturers.

o **Middle East Complex for Engineering, Electronics, and Heavy Industries, Ltd. (MEC).** MEC, established in 1994 as a public shareholding company, is the leader in Jordan for electronics and household appliances. It is the premier appliance assembler in the country and is the sole distributor of products for the Korean companies LG Electronics, Inc. and Daewoo. The Project is primarily to: (i) relocate MEC’s existing production facilities for the purpose of modernizing its assembly lines and increasing efficiencies; and (ii) expand by establishing a joint venture with the Haier Group of China. The expansion project will broaden MEC’s product line while maintaining the focus on household goods to be sold primarily in regional markets.

Further information on the IFC ongoing and pipeline projects can be found at: http://www.ifc.org/projects
Bank Lending to Jordan – Fact Sheet

Jordan joined the World Bank in 1952, and received its first IDA credit in 1961. Over the past 42 years, a total of 79 credits and loans have been granted to Jordan for a total amount of US$2,183 million. Jordan is also a member of IFC, ICSID, and MIGA.

**IDA**
- US$86 million (15 Credits)

**IBRD:**
- US$2,097 million (64 Loans)
  - Of which:
    - Investments: US$1,227 million
    - Adjustments: US$870 million (8 Projects)
  - Disbursements: US$1,980 million
  - Repaid: US$876 million
  - Obligation: US$1,072 million

**Sectoral Distribution by Value**
- Agriculture: 4%
- Electric Power & Energy: 13%
- Healthcare, Nutrition & Population: 3%
- Transportation: 4%
- Water Supply & Sanitation: 9%
- Other: 9%
- Finance: 2%
- Urban Development: 6%
- Adjustment: 31%

### Net Flows and Net Transfers

![Graph showing net flows and net transfers from 1999 to 2003.]

### Disbursements

![Graph showing disbursements from 1999 to 2003.]

### Projects Approved by Fiscal Year

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th># of Projects</th>
<th>US$ mil.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>2</td>
<td>55.0</td>
</tr>
<tr>
<td>1994</td>
<td>2</td>
<td>100.0</td>
</tr>
<tr>
<td>1995</td>
<td>3</td>
<td>146.6</td>
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<td>1996</td>
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<td>5.0</td>
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<tr>
<td>2003</td>
<td>2</td>
<td>240.0</td>
</tr>
<tr>
<td>Total</td>
<td>22</td>
<td>1238.3</td>
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News, Recent And Upcoming Activities

Small Grants Program

The Small Grants Program was created in 1983 to provide a way for the World Bank to promote dialogue and disseminate information about development in fora outside its own operations. Grants are provided to civil society organizations through participating World Bank Country Offices. For Jordan, the World Bank Country Office in Lebanon is in charge of the Program.

To reinforce the empowerment dimension of poverty reduction, the Small Grants Program has developed a new focus on civic engagement for the empowerment of marginalized and vulnerable groups. The new purpose of the Small Grants Program is to support the empowerment of citizens to have greater ownership of development processes, thereby making these processes more inclusive and equitable.

Crucial ingredients for empowerment of vulnerable groups include: access to information; access to organizational links outside the local domain; capacity to influence the public arena and to negotiate with local and national authorities; the existence of trustful national and local institutions; and the presence of enabling policy and legal frameworks for civic engagement. Civil society organizations perform a valuable role in engaging their fellow citizens in the fight against poverty and exclusion. Thus, the intended beneficiaries of the Small Grants Program are civil society organizations engaged in initiatives aiming at empowering groups and individuals that are marginalized and excluded from the public realm.

For more information, please visit: www.worldbank.org.lb/

Jumpstarting Foreign Direct Investment:
Generating A 'Peace Dividend' In Conflict-Affected Countries

As policymakers and practitioners become more aware of the links between peace and development and the direct correlation between conflict and poverty, it seems relevant to ask how important is the role of the private sector in post-conflict reconstruction? The answer: it’s crucial.

The private sector’s role in rebuilding conflict-affected countries is crucial not only in attracting Foreign Direct Investment (FDI) back into a country after the war’s end, but also in generating a "peace dividend," an incentive for sustaining peace, as it can reintegrate ex-fighters and refugees socially and economically, and bring a sense of hope to those who have experienced so much fear and desperation.

Foreign investment also has a powerful demonstration effect, encouraging private investors to return, and sending a signal to international investors that the country is suitable as an investment destination, which is key for economic recovery and long-term development. It also serves to reestablish valuable links to international markets and provides an impetus for improving the rules, regulations, and procedures to help improve investment climates in post-conflict countries.

With few exceptions, conflict-affected countries are among the least developed. Of the 39 countries that are currently considered to be...
conflict-affected, 30 are among the world’s poorest. In Africa, Southeastern Europe, and elsewhere, conflict has become a major constraint to poverty reduction, halting social progress, and preventing economic growth.

The needs of post-conflict countries are many. Basic infrastructure—such as homes, schools, factories, communications networks, roads, and trade links—has been destroyed. Currency is weakened. Death, displacement, and lack of training result in seriously diminished human resources. Institutions are weak, with dysfunctional financial, government, and legal structures further complicating the recovery effort.

Foreign direct investment can have a strong, positive impact on rebuilding conflict-affected countries, bringing much-needed private capital, technology, and new skills, and stimulating local spin-off industries. The presence of new foreign investment is a visible manifestation of hope for a better tomorrow for local citizens.

But years of conflict color investors’ perceptions of risks, particularly those of a noncommercial nature. The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 as a member of the World Bank Group to mitigate some of these risks and encourage FDI through its investment guarantee and technical assistance programs.

MIGA can play a critical role in encouraging FDI back into a country after the war’s end, as shown in several countries, including Bosnia-Herzegovina and Mozambique. Since its inception, MIGA has supported 56 projects with guarantees worth nearly US$1.5 billion in 16 conflict-affected countries—representing 13 percent of the agency’s overall portfolio.

The development benefits are far-reaching, helping to restore cash flows, getting financial sectors back on their feet, allowing governments to allocate precious funds to critical social programs, and perhaps more importantly, restoring private sector confidence to invest in the reconstruction.

MIGA is able to increase its capacity to guarantee projects in conflict-affected countries by partnering with public and private counterparts on co- and reinsurance. The agency is also able to leverage its assistance by offsetting risks through special trust funds.

For more on MIGA’s work in conflict-affected countries, please visit: www.miga.org/screens/pubs/brochure/postconflict/pc_brochure.htm

World Bank Scholarship and Fellowship Programs

The objective of the Scholarship and Fellowship Programs is to help create an international community of highly trained professionals working in the field of economic and social development. The community will actively participate in the capacity building efforts in the developing countries.

The Scholarship Program and the Fellowships Program are vehicles for knowledge sharing and capacity building in the developing world. The Programs provide opportunities for graduate studies leading to a Master’s Degree in development-related fields for mid-career professionals from the World Bank member countries, eligible to borrow.

- The Robert S. McNamara Fellowships Program (RSM Fellowships) is co-sponsored by the World Bank and Princeton University.
- The Joint Japan/World Bank Graduate Scholarship Program (JJ/WBGSP) is solely sponsored by the Government of Japan.

To review your eligibility for the programs or find more information, please consult: www.worldbank.org/wbi/scholarships/index.html
World Bank Rapid Response – Doing Business Website

The World Bank Rapid Response is a knowledge resource specializing in policy advice on investment climate and privatization for developing countries.

Areas of expertise covered by this service include:

- Economy-wide interventions shaping the investment climate, including foreign investment and corporate governance.
- Private participation in sectors with complex market design and regulatory issues (for example, water, energy, transport, telecommunications, health, and education).
- Privatization transactions and policy.
- Output-based aid—delivering public services through contracts with the private sector.

The Doing Business database provides indicators on the cost of doing business in a specific country by identifying specific regulations that enhance or constrain business investment, productivity, and growth.

The principal data collection for the indicators is done through the study of the existing laws and regulations in each economy; targeted interviews with regulators or private sector professionals in each topic; and cooperative arrangements with other departments of the World Bank, other donor agencies, private consulting firms, business and law associations. The World Bank Rapid Response prepared a set of templates or questionnaires for use by staff of the World Bank Group, or other agencies, in their work on business environment issues.

The initial topics covered include:

- Credit Markets
- Entry Regulations
- Bankruptcy
- Contract Enforcement
- Labor Regulations

For example, the database shows it takes 89 business days and costs 48 percent of an average annual income to legally start a business in Jordan. Informality restricts access to credit and safeguards on working conditions. The website allows users to benchmark indicators across all economies in the database and across all regions. Indicators are available for credit markets, entry regulations, bankruptcy, contract enforcement, and labor regulations.

For more information and to access the website, please visit:

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1 The sample includes 22 high-income OECD economies as benchmarks, 24 economies from Europe and Central Asia, 20 from Africa, 5 from South Asia, 17 from Latin America, 12 from the Middle East and North Africa, and 10 from the East Asia and the Pacific region.
World Bank And IMF Annual Meetings

The 2003 Annual Meetings of the Boards of Governors of the World Bank Group and International Monetary Fund, along with related events, will be held in the Dubai International Convention Centre, Dubai, United Arab Emirates, on September 18-24, 2003. This is the 58th Annual Meetings of the World Bank Group and IMF.

Accreditation and Registration

The World Bank Group and IMF welcome journalists at their meetings. To obtain press accreditation, journalists must file a request via the online registration system at https://www.imf.org/external/am/2003/pressreg/reg.asp. The deadline for filing accreditation requests is September 1, 2003. If you are unable to submit the form electronically, please print a paper copy and fax the completed form to [1] 202-623-4100.

Non-governmental organizations will be allowed at the discretion of the World Bank Group and IMF to secure one, non-transferable NGO Press credential per organization. NGOs can apply for press credentials via the online press registration system at: https://www.imf.org/external/am/2003/pressreg/reg.asp

For more information, please visit: https://www.imf.org/external/am/2003/

Water and Energy - Meeting in Lebanon Examined Financing and Reform Needs for the Middle East and North Africa

A recent two-day roundtable in Lebanon looked at the critical financing and policy needs for the water and power sectors in the Middle East and North Africa—the driest region in the world. The event gathered 150 participants from governments, the private sector, and the donor community for discussion, the presentation of case studies, and workshop debate.

While home to five percent of the world’s population, the region has only one percent of the planet’s accessible fresh water. Available water resources per capita in the region are one-sixth of the world average. That leaves 45 million people with no access to safe drinking water; more than 80 million lack access to safe sanitation. The region’s high population growth rate is compounding the problem—annual per capita availability has fallen by 60 percent since 1960.

Against that backdrop—and as the cost of supplying clean water increases sharply in many places—private sector investment in water infrastructure is on the decline.

Access to electricity is very high—on average 90 percent—but 28 million people still lack access. Because of the region’s high population growth, energy investment needs are also high, estimated at about US$300 billion between 2000 and 2010.

Aside from more financing, reforms and structural changes in each sector, such as tariff rebalancing and taking into account social considerations, will be critical for improving the quality of water supply, sanitation and electricity.

Participants at the roundtable discussed several critical areas for improving water and power infrastructure, such as private sector participation and regulation. It is clear that the private sector will play a significant role in meeting the financing needs of both sectors. But to attract the private sector, proper regulatory frameworks based on transparent procedures need to be in place. Private sector participants at the roundtable called for more streamlined procedures for transactions and enhanced upstream involvement of the Bank in risk sharing.
Recent World Bank Publications

**Bank Publications**

**Engaging with the World: Trade, Investment and Development in MENA.** The countries in the Middle East and North Africa could ward off a major unemployment crisis in the coming years by expanding trade and private investment and generating millions of new jobs. The report warns that the status quo – public sector-driven and protected economies supported by oil, aid and workers remittances – can no longer generate sufficient growth or jobs, as the experience of the past two years suggest. Instead, it calls on countries to embrace trade and investment reforms, which promise much faster growth and much needed employment opportunities in the region.

**Poverty and Economic Growth in Egypt, 1995–2000** (Working Paper 3068). After a decade of slow economic growth Egypt’s rate of growth recovered in the late 1990s, averaging more than five percent a year. But the effect of this growth on poverty patterns has not been systematically examined using consistent, comparable household datasets. The paper uses the rich set of unit-level data from the most recent Egyptian household surveys (1995–1996 and 1999–2000) to assess changes in poverty and inequality between 1995 and 2000. The analysis is based on household-specific poverty lines that account for the differences in regional prices, as well as differences in the consumption preferences and size and age composition of poor households.

**Moving People to Deliver Services** (ISBN: 0-8213-5406-X SKU: 15406). The WTO is today dealing with an issue that lies at the interface of two major challenges the world faces, trade liberalization and international migration. Greater freedom for the “temporary movement of individual service suppliers” is being negotiated under the General Agreement on Trade in Services (GATS). Conditions in many developed economies – ranging from aging populations to shortages of skilled labor – suggest that this may be a propitious time to put labor mobility squarely on the negotiating agenda. Yet, there is limited awareness of how the GATS mechanism can be used to foster liberalization in this area of services trade. At the same time there is great concern, about the possible social disruption in host countries and brain drain from poor countries.

As a first step in improving our understanding of the implications of such liberalization, this volume brings together contributions from service providers, regulators, researchers, and trade negotiators. They provide different perspectives on one central question: how is such liberalization best accomplished, in a way that benefits both home and host countries? The result, combining insights from economics, law, and politics, is bound to be a vital input into the WTO services negotiations, as well as the broader debate on the subject.

**Land Policies for Growth and Poverty Reduction** (ISBN: 0-8213-5071-4 SKU: 15071). This book looks at the historical, conceptual, and legal contexts of property rights to land. It then considers aspects of land transactions, including the key factors affecting the functioning of rural land markets. Finally, it explores the scope and role of governments and land policy formation and discusses ways in which developing countries can establish land policy frameworks that maximize social benefit.

**The Changing Financial Landscape: Opportunities and Challenges for the Middle East and North Africa** (Working Paper 3050). Economists have come to acknowledge that finance matters for development more, and in more ways, than had been recognized for a long time. Changes in the financial services industry are providing immense possibilities for economic development. The Paper presents a framework to help understand the changes occurring in the financial landscape. They also attempt to lay out the opportunities and the challenges the Middle East and North Africa region faces in light of these changes.

**The Private Sector in Development: Entrepreneurship, Regulation, and Competitive Disciplines** (ISBN 0-8213-5437-X SKU: 15437). This book attempts to reassess the experience with market-based reforms and critically evaluate the contribution that the promotion of entrepreneurship and competitive markets can make to achieve sustained growth in
real per capita incomes and poverty reduction. This objective has assumed particular importance with the adoption of the target of halving poverty by 2015 and other Multilateral Development Goals recently adopted by the international community.

**Investment Climate Around the World: Voices of the Firms from the World Business Environment Survey** (ISBN: 0-8213-5391-8 SKU: 15391). The World Business Environment Survey provides a unique look at the impact of the investment climate on enterprise performance. This Survey presents enterprise data from more than 10,000 firms in 80 countries that was carried out between late 1998 and mid 2000. In addition to the general findings, detailed explanations and the core questionnaire are provided in this Survey, as well as a presentation of key findings across regions and firm size.

The findings suggest that country conditions with regard to taxes and regulations, financing, governance, and other business constraints matter significantly in explaining a firm’s performance and behavior. Listening to firms contributes significantly to assessing the climate for business, investment, and governance in a country and warrants institutionalization of periodic worldwide enterprise survey efforts.

**Financial Dollarization and Central Bank Credibility** (Working Paper 3082). Why do firms and banks hold foreign currency denominated liabilities? The Paper argues that foreign currency debt, by altering the effect of a devaluation on output, has a disciplining effect when the Central Bank’s objectives differ from the social optimum. However, under imperfect information, bad priors about the Central Bank induce excess dollarization of liabilities, which in turn limits the ability of the Central Bank to conduct an optimal monetary policy. In addition, the economy may become stuck in a “dollarization trap” in which dollarized liabilities limit the ability of agents to learn the true type of the monetary authority. The model has clear-cut policy implications regarding the taxation of foreign currency liabilities as a way to encourage perfect information and avoid dollarization traps. Moreover, it reinforces the existing argument for Central Bank independence. Finally, the authors believe this model to be consistent with a growing empirical literature on the determinants of foreign currency liabilities and their relationships to Central Bank credibility.

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The **World Bank Research Observer** (WBRO) is intended for anyone who has a professional interest in development. Articles are reviewed by an Editorial Board drawn from the World Bank and the international community of economists. For subscription information and issues since August 2000, see Oxford Journals Online WBRO (at http://wbro.oupjournals.org/). Abstracts for issues from 1992 to 2000, and full text articles for 1998 to 2000 are available below.

The **World Bank Economic Review** (WBER) is the most widely read scholarly economic journal in the world. Readers are economists and other social scientists in government, business, international agencies, universities, and research institutions. For subscription information and issues since May 2000, see Oxford Journals Online WBER (at http://wber.oupjournals.org/). Abstracts for issues from 1992 to 2000, and full text articles from 1997 to 2000 are available below.

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