



The World Bank

JORDAN FIRST EQUITABLE GROWTH AND JOB CREATION PROGRAMMATIC DEVELOPMENT POLICY FINANCING
(P166360)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-May-2018 | Report No: PIDA24962

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Jordan	P166360	Jordan First Equitable Growth & Job Creation Programmatic Development Policy Financing (P166360)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	27-Jun-2018	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
HASHEMITE KINGDOM OF JORDAN	Ministry of Planning and International Cooperation		

Proposed Development Objective(s)

The program development objective of the First Equitable Growth and Job Creation Programmatic DPF is to support Jordan to set the foundations for higher growth. The DPF is structured around three pillars: (i) reducing business costs and improving market accessibility, (ii) creating flexible and integrated labor markets and better, more efficient social assistance, and (iii) fiscal management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	500.00
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DETAILS

Total World Bank Group Financing	500.00
World Bank Lending	500.00

Decision

**/ The Global Concessional Financing Facility may contribute to a part of the total amount.*



The review did authorize the team to appraise and hold technical discussions.

B. Introduction and Context

Country Context

Jordan's economy continues to endure a prolonged period of low economic growth due to a succession of external shocks and domestic inefficiencies. Since 2009, adverse external shocks, a dissipating fiscal stimulus, and reform challenges have combined to hold back economic growth, which averaged just 2.5 percent per annum over the period. Progress in reducing unemployment and in increasing labor force participation has also stalled – the latter is among the lowest in the world – exacerbating the urgency posed by the presence of 1.3 million Syrian refugees which started arriving in 2011. Since 2010 real per capita GDP growth has been negative, while unemployment has been increasing, as has public debt.

Jordan's response to the fiscal, growth and refugee challenges is to attract investment into sectors capable of generating productive jobs in a labor-abundant economy. It is putting together a 5-year priority reform program for equitable growth and job creation whose objective is to set the foundations for higher growth. The program responds to the challenges of prioritizing and implementing reforms that Jordan has included in its strategic documents in the past. Jordan's Vision 2025 was developed in 2014 and has been under implementation since then. The vision promotes a balanced approach to development and sets out goals for improving social outcomes, the business environment and the functions of government. The Vision includes about 200 reform areas, with specific actions for each area defined. In 2017, Jordan developed the Jordan Economic Growth Plan (JEGP) 2018-2022. It comprises economic, fiscal and sectoral strategies, and identifies policy interventions, public projects and private investments that must be undertaken to realize these sectoral visions. The 5-year priority reform program (i) singles out the priority reform goals in the Vision and the JEGP, (ii) identifies the reform elements and capacity needs, (iii) mitigates implementation challenges, and (iv) ensures alignment of donor support and financing, conditional on implementation progress.

Relationship to CPF

The Country Partnership Framework 2017–2022 focuses on mitigating the immediate impact of the regional crisis while at the same time supporting long-term development objectives and structural reforms, to improve the equity and quality of public service delivery including for water and energy services. The CPF remains relevant to the current challenge of setting the foundations for equitable growth and job creation in Jordan. The DPF contributes to the objectives of improving economic opportunities for Jordanians and non-Jordanians, improving the institutional and regulatory environment for private sector activity and public investments, and improving access to finance and export development. This DPF launches a series of DPFs that is larger than that anticipated by the CPF primarily because the external environment is worse than anticipated.

C. Proposed Development Objective(s)

The program development objective of the First Equitable Growth and Job Creation Programmatic DPF is to support Jordan to set the foundations for higher growth. The DPF is structured around three pillars: (i) reducing business costs and improving market accessibility, (ii) creating flexible and integrated labor markets and better, more efficient social assistance, and (iii) improving fiscal sustainability through revenue mobilization, more efficient public investment spending and tracking of risks.



This DPF is the first in a series of two programmatic DPFs. The two DPFs will share the same three pillars and results framework.

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Funding from Global Concessional Financing Facility may support this program.

Key Results

Structured around the DPF's three pillars, first pillar is expected to reduce business costs and improve market accessibility through: reducing business compliance costs for inspections and licensing; supporting export diversification through a strengthened export credit guarantee capability and a stronger National Quality Infrastructure system; enhancing transport competitiveness through the reduction of cargo transportation costs along the Amman-Aqaba corridor; strengthening Jordan's financial sector's credit infrastructure by building out its legal framework for insolvency and secured transactions; and reflecting electricity costs of services in tariff structures to lower the cost of electricity to businesses. The second pillar is expected to create flexible and integrated labor markets and better, more efficient social assistance through: promoting growth of formal, private employment, especially for women, youth and non-Jordanians; increasing economic opportunities for non-Jordanians through the provision of work permits in the construction, manufacturing and services sectors; and increase effectiveness of social safety nets by expanding coverage of the National Aid Fund cash transfer program to increase coverage for poor families, improve poverty-targeting accuracy, and increased poverty impact. Lastly, third pillar is expected to fiscal management through initiatives to improve revenue mobilization and improve efficiency of public spending and improved risk monitoring of government liabilities, including contingent liabilities.

D. Project Description

The programmatic DPF is directly in line with and supports the Government's development goals and objectives, and is the first operation to support the Government's draft 5-year matrix of priority reforms. The Bank assessment is that for the government to achieve its development objectives of a more diversified and more resilient economy, it needs to achieve productivity gains by introducing costs reductions across the board and by reducing inefficiencies.

The DPF will support Jordan to set the foundations for higher growth, and is structured under three pillars: (1) reducing business costs and improving market accessibility; (2) creating flexible and integrated labor markets and better, more efficient social assistance; and (3) improving fiscal sustainability through revenue mobilization, more efficient public investment spending and tracking of fiscal risks.

Pillar 1 supports measures that improve the competitiveness and 'ability to export' of Jordanian businesses. The prior actions will reduce the cost base (improvements in the efficiency and transparency of the business inspection and monitoring framework; reducing the cross-subsidy in electricity; reducing the cost of cargo transport) and ease access to finance (introducing business insolvency procedures) for Jordanian businesses, as well as improve the ability of those



businesses to access markets (expanding the resources available for reinsurance and strengthening the Jordan Loan Guarantee Corporation's capacity; improving the National Quality Infrastructure institutions). Beyond the direct effects, an important by-product of the reforms will also be a positive signaling effect to both domestic and foreign investors on Government's commitment to strengthening the investment climate.

Pillar 2 supports the Government's efforts to foster a more flexible and inclusive labor market and develop a more effective social safety net. The prior actions are a set of many that are designed to reduce labor market segmentation (male/female, formal/informal, Jordanian/non-Jordanian), stimulate demand for part-time and temporary employment, increase labor force participation, and strengthen social safety nets, particularly for the most vulnerable.

Pillar 3 supports fiscal sustainability through revenue mobilization, more efficient public investments and tracking of fiscal risks. This includes support to the Government's fiscal consolidation efforts through enhanced domestic revenue mobilization by reducing exemptions and preferential rates. Prior actions also include those to improve public investment efficiency and tracking of fiscal risks by supporting private sector participation in the economy through a cascade approach and an update to the approach of managing debt and contingent liabilities.

E. Implementation

Institutional and Implementation Arrangements

The overall responsibility for monitoring implementation of the DPF program rests with the Ministry of Planning and International Cooperation. The ministry will be responsible for coordinating, and reporting to the World Bank on the progress of implementing the DPF policy programs with the Government authorities responsible for the program implementation, including the Ministry of Trade, Industry and Supply, Ministries and Municipalities issuing vocational and sectoral licenses, the Central Bank of Jordan, the Jordan Loan Guarantee Corporation, the Jordan Standards and Metrology Organization, the Ministry of Transport, the Ministry of Energy and Mineral Resources, the Ministry of Labor, the Ministry of Social Development, the Ministry of Justice, the Ministry of Finance.

Throughout implementation, the World Bank multi-sector team will undertake intensive implementation support missions and provide technical assistance and policy advice to support the implementation and monitor the DPF-supported program. The proposed results indicators will be monitored to evaluate the impact of the DPF policy program in supporting Jordan to set the foundations for higher growth. Monitoring and evaluation of the results indicators will be based on data that will be available with the Government implementing authorities and verified by the World Bank through the DPF implementation support.

This DPF relies on a macro framework that is consistent with the Government of Jordan - IMF Enhanced Financing Facility Program. During the implementation of the operation, the Bank will maintain close collaboration with the IMF, especially on the Extended Financing Facility (EFF) and the overall macroeconomic framework. The EFF and the DPF complement each other, with the former focusing primarily on reducing macroeconomic imbalances and the latter on productivity and efficiency gains while also contributing towards a more efficient public spending and riskmanagement. Bank staff is closely engaged with the IMF on competitiveness, labor market reforms and social assistance.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts



The reform program supported by the multi-year DPF programmatic series is expected to have positive effects on the economy and social welfare in the long term, but will likely have some negative effects in the short term, which require mitigation. The electricity price adjustments are necessary to discourage wasteful consumption, reduce pressure on the environment, and increase the competitiveness of energy-dependent sectors. Reducing exempt and preferential GST rates for a range of goods and services will increase government revenues. At the same time, potential price increases are expected to reduce households' purchasing power, but they yield important savings that can be redirected toward mitigation measures that are better targeted to low-income households and activities that enhance inclusive growth.

Mitigation and analysis. In the long term, the economy-wide effects of the reforms are expected to contribute to the increase, inclusiveness and sustainability of growth. These positive long-term effects are expected to outweigh the losses in the short run, which is the focus of the analysis below. In the short term, the adverse effects of potentially higher prices will be mitigated by an improvement and expansion of the National Assistance Fund (NAF). The targeting improvements and expanded budget will have significant benefits for poverty reduction. Improving targeting from the current categorical approach (all people within a certain category are eligible, for example, female-headed households, regardless of income level) to a poverty-targeted approach, such as Proxy Means Testing (PMT) has the potential to reduce poverty by including more poor households. While the extent of poverty reduction, and potential impact of mitigation measures, can be simulated using the 2010 HIES data, it is anticipated that the 2017 HIES will provide sounder footing for analysis.

Environmental Aspects

The reforms supported by the proposed DPF are not likely to cause significant impacts on the country's environment or natural resources. This operation aims to improve the policy and regulatory framework for enhancing fiscal sustainability, business competitiveness, labor markets and social assistance, and governance for growth. The overall emphasis on improving governance should improve environmental spending along with other categories. It is expected, however, that regular private and public investment activities which may result from improving such policy and regulatory framework could have impacts on the environment. Furthermore, the Environmental Law is comprehensive legislation that provides a legislative framework for environmental protection.

G. Risks and Mitigation

The overall risk rating of the operation is assessed to be high. The success of the DPF reform program and the achievement of the results requires continued fiscal consolidation efforts and a significant advancement in the implementation of structural reforms. The following are the key risks identified:

- **Macroeconomic risk i.** Jordan's long-term macroeconomic vulnerability stems from sizable internal and external imbalances that generate large financing needs. To meet these financing needs, Jordan relies heavily on international assistance and transfers from the region. If these financing sources are not sufficient, financial and economic stability can be compromised. The reforms supported in this DPF program aim to improve fiscal management and business competitiveness also help mitigate these macroeconomic risks.
- **Political and governance risk.** Jordan has been experiencing an implementation gap. . Broad support by the government, international community and other stakeholders for the 5-year reform matrix that anchors this DPF program would help mitigate these risks.
- **Geopolitical risks.** External risks stemming from the persistence and/or escalation of the conflicts in Syria and Iraq and from the impact on Jordan of the adjustment efforts in GCC countries are significant. It is anticipated that donor support would

continue and would be strengthened, contingent on progress on reforms.

- **Institutional capacity risk for implementation and sustainability.** In addition to the governance risks for reform, there is substantial risk at the technical level for implementation and monitoring, with a need for an effective coordination and supervision mechanism for cross-cutting reform areas.

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APPROVAL

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