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ECONOMIC ADVANCEMENT OF WOMEN IN JORDAN:
A COUNTRY GENDER ASSESSMENT

In 2004, a team of World Bank staff, in collaboration with Jordanian partners in Government, civil society, the donor community and academia undertook a review of the gender dimensions of development in Jordan, resulting in the May 2005 launch of a Country Gender Assessment (CGA) in Amman, Jordan.

Background

The objective of the review was to assess the status of women in terms of human, social and economic development and their participation in the public sphere in order to: (1) identify gender disparities in and impediments to women’s economic advancement; (2) highlight the implications for Jordan’s prospects for economic growth and poverty reduction; and (3) suggest some priority policies and actions to address these implications. The CGA examined specific constraints and enabling factors, such as labor force policies and practices in both the public and private sectors, and the policy and legal framework for women’s overall participation in the public and private spheres. This article presents the key findings of that review.

Key Findings

For the past three decades, as part of an extensive reform initiative, the Government of Jordan invested in its human resources to promote private sector-led growth and to become a knowledge-based economy. The Government spends more than five percent of GDP on education, and about nine percent on health. These investments in human development are higher than those made by other lower middle-income countries, and have been instrumental in improving literacy and health indicator rates in Jordan. Women have also benefited significantly from these policies. The CGA documents a number of factors that affect women’s economic advancement in Jordan:

- **Fertility rate remains relatively high among women.** Typically, the higher educational attainment of women results in a lower fertility rate, leading to greater participation of women in the public sphere. Although the total fertility rate between 1980 and 2002 decreased from 6.8 to 3.7 births per woman, Jordan’s total fertility rate is still higher than the average fertility rate in comparable countries, as well as the average fertility rate in the Middle East and North African (MENA) region.

- **Women’s participation in the labor force is relatively low.** Estimates of the proportion of women in the total Jordanian labor force vary significantly, ranging from 12 to 25 percent. At either end of the scale, these estimates are relatively low. At the highest end, Jordan ranks both below other comparable lower middle-income countries, and the MENA region’s estimate, which at 28 percent ranks lowest among all regions in the world (Figure 1).

Figure 1. Percentage of Women in Total Labor Force, 2002

1 This gender assessment defines women’s economic advancement as follows: (i) female participation in the labor force as employees in the public and private sectors—including their actual and potential labor force participation rates, unemployment and underemployment, gender gaps in wages and benefits and horizontal and vertical job segregation; (ii) women’s capability for employment and wealth creation through their effective participation in the private sector as entrepreneurs, producers and investors; and (iii) women’s participation in the political sphere to contribute to gender-responsive decision making in economic and social development.

Source: World Development Indicators (WDI).
• **Further, married Jordanian women are less likely to participate in the labor force than their counterparts in other countries.** While in most parts of the world women increase their participation in economic activity during their peak working age (years 24-44), the trend appears to be the opposite in the MENA region. In Jordan, women in this age group exit the labor market at a significantly higher rate that the MENA region norm (Figure 2).

**Figure 2. Women’s Economic Activity Rates by Age: Jordan, MENA, and World, 2000**

![Economic Activity Chart](chart.png)

*Source: World Bank, Statistical Information and Management Analyses (SIMA).*

• **Gender-based wage differentials exist.** Wage discrimination alone does not explain the low level of women’s participation in formal employment in Jordan. However, when combined with other factors, such as differentials in non-wage benefits, wage discrimination may play a role in raising the reservation wage\(^2\) that women set for themselves. The Assessment notes that if women were paid at a level commensurate with their education, their wages would increase by as much as 45 percent in the private sector and 13 percent in the public sector.

• **Gender-based non-wage differentials also exist.** Labor, pension and social security rules do not provide the same benefit structure for working women as for men in Jordan. For example, male employees are eligible for family tax allowances regardless of whether their wives work, whereas female employees, despite contributing at the same rate, must demonstrate that their husbands are deceased, old or incapacitated in order to qualify for government benefit schemes. By failing to recognize the dependence of other individuals on women’s employment remuneration and benefits, such non-wage benefit policies diminish the value of women’s work, affect the welfare of many families and may further reduce women’s participation in the labor force.

• **Both unemployment and underemployment are high among women.** Unemployment is a serious problem in Jordan for both men and women – but, while unemployment is at 15 percent for the population as a whole, unemployment is 25 percent for women. Also, women with higher levels of education have higher unemployment rates (Figure 3). Underemployment is also high among women in Jordan, partially due to the significant mismatch between available skills and available jobs. The average female wage earner in Jordan is likely to have 12.3 years of education, compared to 9.3 years of education for a male counterpart holding a similar type job. Lower expected remuneration may discourage educated and qualified women from entering the labor force altogether.

**Figure 3. Percentage of Unemployment Rates by Gender and Educational Attainment, 2002**

![Unemployment Chart](chart.png)


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\(^2\) The reservation wage is the minimum wage at which a worker will accept work.
• The Government is the largest employer of women. The civil service is the largest employer of women due to the relatively attractive public sector work conditions (such as job security, shorter work days), as well as the benefits (retirement, health, etc.). As shown in Figure 4, men make up the majority of public servants in the highest-ranking positions, whereas women are concentrated in the middle ranks.

Figure 4. Gender Distribution of Civil Servants, by Employment Category, 2002

<table>
<thead>
<tr>
<th>Category</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Category</td>
<td>40%</td>
<td>10%</td>
</tr>
<tr>
<td>First Category</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Second Category</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td>Third Category</td>
<td>10%</td>
<td>50%</td>
</tr>
<tr>
<td>Fourth Category</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Comprehensive</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>


• Women’s capability for involvement in the private sector remains untapped. Generally, the unequal treatment of women in the private sector is more prevalent than in the public sector (Table 1). Private sector employers say they are dissuaded from hiring women partly due to regulations that require employers to assume additional costs specific to women employees. These disincentives lead women to prefer public sector jobs. As Jordan continues its program of fiscal discipline, the private sector will increasingly be relied upon to create growth and employment opportunities. Currently, the small and medium-size enterprise sector is estimated to comprise 90 percent of all businesses in Jordan, yet, women comprise only 3.9 percent of the total enterprise sector, an extremely low percentage. Globally, female entrepreneurs average 25 to 33 percent of the enterprise sector.

Table 1. Comparison of Public and Private Sector Conditions of Employment for Women

<table>
<thead>
<tr>
<th>Labor Requirement</th>
<th>Public Sector</th>
<th>Private Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum Wage Per Month</td>
<td>120JD</td>
<td>85JD</td>
</tr>
<tr>
<td>Working Hours</td>
<td>7 Hours</td>
<td>8 Hours</td>
</tr>
<tr>
<td>Tenure</td>
<td>Security of Tenure</td>
<td>Contractual</td>
</tr>
<tr>
<td>Paid Maternity Leave</td>
<td>90 Days</td>
<td>70 Days</td>
</tr>
<tr>
<td>Costs Covered By</td>
<td>Government</td>
<td>Private Sector</td>
</tr>
<tr>
<td>Lactation Leave</td>
<td>1 Hour Per Day</td>
<td>None/Prescribed</td>
</tr>
<tr>
<td>Nursery Care</td>
<td>None/Prescribed</td>
<td>Fully Funded On-Site Once</td>
</tr>
<tr>
<td></td>
<td></td>
<td>20 Married Women Are Employed</td>
</tr>
</tbody>
</table>

Source: World Bank staff review of labor laws and working conditions.

• There is significant underutilization of capacity. Based on estimates for all MENA countries and other regions, the actual level of female labor force participation in Jordan is only about half of its potential—among the lowest in the region, as shown in Figure 5. The underutilization of capacity implies that Jordan could potentially increase its productive capacity, with implications for family welfare and GDP growth. One of the most evident consequences of women’s low labor force participation in Jordan is the large number of nonworking people that the working population supports—the economic dependency ratio. In Jordan, this ratio is 2.6, one of the highest in the developing world, and higher than the MENA regional average of 2.

• Legal protections are increasing, but there is room for improvement. Prior to recent legislative amendments, some “protective” labor laws have acted as impediments to the participation of women in the work force. Well-intentioned labor laws designed to protect women’s health, safety or modesty actually constrained their ability to participate effectively in the labor force. Such laws can effectively make women less attractive as flexible and reliable employees when they restrict mobility and daily working hours, times and types of work and establish certain social requirements targeting only women and
mothers. Between 2001 and 2003, many labor laws were amended to reduce discrimination, including those that sanctioned differentiated social security and pension benefits. The amended laws are provisionally now in force, but it is too early to assess their enforcement or impact on women’s economic advancement and inclusion.

- **Social attitudes define women’s roles in society and the family.** As in most countries, barriers to women’s access to economic advancement may also lie in social attitudes that emphasize differential roles within the family, including: the male role as sole breadwinner, the importance of women’s honor and modesty and unequal power in the private sphere. These attitudes result in well-defined gender roles and relations, which in large part are rooted in Jordan’s rich traditions. Socially-imposed barriers become problematic when they are counter to laws and regulations that ensure women’s equal opportunities and rights.

- **Despite Government policies, decision making among women is low.** An important indicator of women’s economic advancement is their access to the decision-making sphere, which is measured by their participation in public life and in professional associations. A quota system is in force, but despite Government efforts to increase the number of women appointed to higher public office, and the rapid increases in women’s representation in Parliament, as shown in Figure 6, Jordanian women remain relatively under-represented.

**Figure 6. Percentage of Parliamentary Seats Occupied by Women, 1989-2003**


**The Jordanian Paradox**

These findings confirm that despite impressive attainment in education, Jordanian women’s economic advancement and political representation do not fit the pattern seen in similar lower middle-income countries or even that in MENA countries generally (Figure 7). Women’s
participation in the economy and their economic advancement are important indicators of equality of opportunity, improvement of human capability and access to and control over resources. The low rate of female representation in elective bodies has implications for how and if gender issues are discussed and considered in public debates, as well as how awareness of gender issues is raised among leaders and decision makers. However, it is insufficient to focus solely on the number of women in elective bodies. An examination of the electorate’s attitude vis-à-vis women candidates is far more important, as is the ability of female voters to advocate for their own rights by electing the male or female candidate who will best represent female voters’ interests.

![Figure 7: Select Gender Indicators: Jordan and Lower Middle-Income Countries, 1999-2002](image)


**The Strategic Approach To Strengthening The Policy Framework For Women’s Advancement**

The National Strategy for Women has focused its efforts on women, as has the Jordanian National Commission for Women (JNCW). Currently, however, only female gender issues are being addressed. A greater emphasis needs to be placed on male gender roles to integrate males more fully into a national agenda of gender equality and women’s economic advancement. Even though the infrastructure to promote women’s advancement has been established, and many ministries are working on women’s development issues, gender issues have not been included systematically in the policy, planning and implementation process. A systematic approach to incorporating male and female gender issues will ensure that the national strategy will become a collectively-owned agenda that enjoys widespread male and female support for women’s advancement.

**Policy Implications And Imperatives for Jordan**

To promote women’s economic advancement in Jordan a new approach is required, which better analyzes and effectively addresses potential gender barriers to advancement. In considering possible actions to promote women’s participation, the preeminent importance of the family unit to Jordanian women and the society as a whole must be considered paramount. Any policy targeted at increasing women’s economic participation must ensure that the needs of the families are met to be fully effective. To implement this new approach, the following are recommended priority actions to promote gender equality:

- Evaluate and modify school curricula to improve education quality and to eliminate stereotyping in school texts;
- Develop long and medium-term strategies to strengthen legal protections afforded to women in the work force, emphasizing the revision and enforcement of laws that directly differentiate between male and female employees;
- Enforce or revise existing laws to protect women from sex-based discrimination and improve the public’s knowledge and awareness of men and women’s rights and legal protections in the labor market;
- Adopt and implement a gender mainstreaming approach in Government ministries and agencies, by clarifying the roles and responsibilities of individual ministries and agencies to address gender-relevant disparities in their mandates and portfolios;
- Train ministry and agency staff to analyze and integrate male and female perspectives, roles and responsibilities (including male roles as
husbands and fathers) into their policies, strategies, operations, and results monitoring;

• Promote a gender-sensitive private sector development agenda that will ensure that business, financial and regulatory reforms provide equal opportunities for women’s participation as employees, entrepreneurs and employers.

The Way Forward For Jordan And The World Bank

Jordan’s human capital and labor force will be the engine behind the creation of a knowledge economy. However, the lower rate of Jordanian women’s participation in the labor force than their peers in comparable countries could have broader economic implications for realizing that vision. Even though causal factors for the differences in male and female economic participation are not fully known, barriers that prevent women’s equal economic advancement, political participation and the development process need to be fully understood.

The World Bank is working with Jordan to identify and address impediments to its economic growth strategy. In the context of the Jordanian Government’s development goals, the main policy levers to address gender issues include the Millennium Development Goals and the National Strategy for Women. Through its policy dialogues and the projects it finances, the World Bank can contribute to the success of the Jordanian National Agenda from a gender perspective. The following priority areas are recommended as activities linked to the Bank’s country assistance to Jordan that could begin the process of eliminating gender barriers to economic growth:

• Education reform to eliminate gender biases and to complement the Education Reform for the Knowledge Economy (ERfKE) program;

• Pension and social security reform to identify policies to mitigate negative gender-differentiated impacts;

• Public sector and service delivery reform to better integrate gender issues in national polices and programs for civil service reform, public expenditures and legal reform initiatives;

• Additional gender-relevant research and studies to highlight the information and data gaps identified by this gender assessment; and

• Monitoring and evaluating the progress, results and the impacts of national development goals and the national strategy for women.
Overview

In 2004, Jordan witnessed its highest economic growth in more than a decade, with ripple effects throughout its economy. Real GDP growth is estimated to have reached 7.5 percent in 2004, following the mild recession of 2003. High growth helped reduce unemployment, and boosted public revenues, but the economy also showed signs of overheating, with the Trade Deficit soaring by 57 percent, inflation reaching over 3 percent, booming land prices and a 17 percent increase in credit to the private sector. The higher Trade Deficit was partially compensated by larger remittances and by public transfers from abroad.

On the fiscal side, higher revenues were offset by rising expenditures—mainly the rising cost of oil subsidies, which the Government is phasing out. The deficit decreased from 10.5 percent of GDP in 2003 to 9.1 percent in 2004, while the public debt, notwithstanding the negative valuation effect of the weaker US Dollar, also decreased from 102 percent of GDP to 94 percent—still far from the 80 percent target set for end-2006 by the National Debt Law.

Real Sector Evolution

Economic growth almost doubled in 2004 compared to 2003. Preliminary figures show a 7.5 percent growth rate in 2004, against 4 percent in 2003. These good results reflect both the rebound after the slowdown following the war in Iraq, the performance of the manufacturing export sector, including the Qualified Industrial Zones (QIZs), the effects of Iraqi immigration and the rise in oil prices on the construction sector. The manufacturing sector grew by 14 percent in 2004 against 4.4 percent in 2003. The manufacturing sector benefited from the recovery of exports to Iraq, the increase in QIZs’ exports to the United States and from the rise in the demand for Jordan’s products from oil exporting countries. The recovery in the activity with Iraq translated into a large increase in the transport and communications sector which grew by 12.5 percent in 2004 compared to a 7.1 percent growth in 2003. Indeed, the port of Aqaba is one of the main entrance points for merchandise transiting to Iraq. The construction sector benefited from the demand of both the oil producing countries and the Jordanian expatriates, whose demand is linked to the oil price cycle. The construction sector might have also benefited from the investment of large numbers of Iraqis who relocated to Jordan for security reasons1. As a result, the construction sector grew by 16 percent in 2004 against 5.5 percent a year earlier.

The manufacturing sector was the main engine of growth in Jordan for the year 2004. The growth in the manufacturing sector represented 28 percent of the total growth in 2004. The dynamic of the construction sector contributed to 11 percent of GDP growth. All together, the share of the manufacturing, construction, electricity and water sectors in total GDP reached 23.5 percent against 22 percent in 2003 and 2002.

1 No evidence is available to support the growing Iraqi immigration. Data on arrivals of Iraqis in 2004 actually show a decrease by 60 percent compared to 2003. Net arrivals were of 10,000 only compared to 36,000 a year earlier and to 7,000 in 2002.
growth in the transport and communication sectors accounted for 26 percent of total growth and brought part of these sectors to 16.4 percent of GDP against 15.7 percent of GDP in 2003.

The rise in exports mirrored the dynamic of the manufacturing sector, with the QIZs remaining the main exporter of manufactured goods in Jordan. QIZs’ exports to the United States accounted for 87 percent of total exports to the United States in 2004 and for 29 percent of total exports. QIZs’ exports to the United States increased by 66 percent in 2004. All in all, real growth of exports contributed to 84 percent of GDP growth in 2004 against 45 percent in 2003.

Unemployment reacted positively to higher growth. Jordan’s labor force growth rates, together with the average labor demand elasticity, imply that a GDP growth rate above 6 percent per year is necessary to reduce unemployment in Jordan. Jordan had last witnessed a growth rate above 6 percent in 1995. It is, therefore, comforting that mid-year figures for 2004 show a decrease of the unemployment rate to 12.5 percent, down from 14.5 percent a year earlier. This result is particularly positive because it reflects actual job creations, as opposed to a decrease in the active population, which remained stable at 37.4 percent of the total population. Males seem to have benefited more than females from new job opportunities, as both their activity and employment rates increased.

External Sector

The Trade Deficit worsened in 2004 and reached 37 percent of GDP, up from 27 percent a year ago. This evolution is linked to a 42 percent increase in imports partially offset by a 28 percent increase in exports, which increased to 35 percent of GDP from 30 percent in 2003 (29 percent against 24 percent for domestic exports only).

By year-end 2003, Jordan had recovered its pre-war export level to Iraq. However, the unstable security induced high volatility into the evolution of exports to Iraq with a decrease during the year 2004. Exports and re-exports to Iraq increased by 60 percent in 2004 and accounted for 15 percent of Jordan’s overall figure, against 13 percent in 2003. This is, however, still below the 20 percent share in exports (and re-exports) observed in 2002. The share of exports to the United States jumped to 31 percent in 2004, from 28 percent in 2003. Exports to the United States increased by 54 percent. The increase is consistent with the 48 percent increase in clothing exports,
the principal item produced by the QIZs, the main Jordanian exporters to the United States.

**Figure 3. Domestic Exports by Destination in 2004**

Source: Jordanian Authorities and World Bank Staff Estimates.

The breakdown of the increase in the value of imports shows that the rise in the oil imports (68 percent) represents 26.5 percent of the total increase in imports. The rise in oil prices accounts for 17.5 percent of the total increase, while the increase in oil imports volume represents 9 percent of the change in total imports value. The rise by 44 percent in the imports of manufactured goods—mainly inputs such as textile and yarns for QIZs, iron and steel for construction—accounts for 21 percent of the total increase in imports. Interestingly, 17.5 percent of this increase is due to volume increase, while prices increased moderately. This underlines both the dynamic of the sectors and the high dependence of Jordan’s economy on imported intermediary goods. Another indicator of the link between increasing activity and rising imports is the increase in the imports of machinery and equipment (42 percent), which accounts for 23 percent of the total increase. Of this share, 15 percent is linked to the rise in volume.

Seventy percent of the 42 percent rise in total imports is linked to inputs, intermediary goods, equipment and machinery.

The geographical breakdown indicates that the increase in the value of the Euro is responsible for at least 5.7 percent of the increase in the value of imports, which matches the rise in the prices of machinery and equipment, Jordan’s main imports from the European Union.

**The Current Account deficit reached US$180 million in 2004 against a surplus of US$1.1 billion a year earlier.** Net Public Transfers (US$1.3 billion) and Net Workers’ Remittances and Compensations (US$2.2 billion) almost totally compensated the large increase in the trade deficit. Workers’ Remittances and Compensations had, indeed, covered 66 percent of the Trade Deficit in 2004 against 104 percent in 2003. The decrease in the Current Account surplus was compensated by a Capital Account surplus of US$250 million, against US$136 million in 2003. This surplus allowed an increase of Foreign Reserves at the Central Bank by US$72 million.

**Figure 4. Current Account, Public Transfers and Workers’ Remittances**

Source: Jordanian Authorities and World Bank Staff Estimates.

Foreign exchange reserves increased from US$5.2 billion in December 2003 to US$5.27 billion in December 2004. The evolution was contrasted over the year. First, between end-2003 and May 2004, reserves decreased by US$450 million. Then, with the flow of grants and foreign capital, reserves rose by US$520 million between May and end-2004.

2 BoP data for 2004 is available for the first three Quarters only. The figures for the whole year are based on the extrapolation of the available data.

3 Out of which US$597 million in public grants received almost totally in the second half of the year.

4 This includes UN compensations to Jordanian nationals for their losses during the 1990 Gulf war.
Fiscal Situation

Government revenues surpassed the budgeted figures by 17.2 percent. Revenues increased by 26 percent compared to the actual figures of 2003. The rise in revenues is due for more than 52 percent to a 38.7 percent soar in the general sales tax collections. The Sales Tax benefited in 2004 from the full effect of the tax reforms and the rate increases that occurred around mid-year 2003. The renewed economic dynamic had also a substantial impact on revenues, with the tax on income and profits increasing by 11.5 percent, and fees, which include land registration fees and other transactions fees, rising by 30.2 percent. The rise in imports helped boost the customs revenues by 13.2 percent, despite the cuts on customs rates applied during the year.

The increase in oil prices triggered an important increase in expenditures. Actual expenditures were 13.6 percent higher than budgeted expenditures and 17.3 percent larger than 2003 total expenditures. Oil subsidies increased three-fold and represented 41 percent of the total increase in expenditures. Capital expenditures also rose substantially by 30 percent and accounted for 29 percent of the total increase.

The rise in expenditures almost totally offset the value of the revenues increase. Both budget and primary deficits kept almost the same value between 2003 and 2004. However, due to the strong GDP dynamic, the budget deficit-to-GDP ratio fell to 9.1 percent in 2004 from 10.5 percent a year earlier. The primary deficit to GDP ratio decreased from 8.1 percent to 7.1 percent. These deficits were largely compensated by the substantial amount of grants received for the second consecutive year by Jordan. These grants reached 6.2 percent of GDP compared with 9.7 percent of GDP a year earlier, during the war in Iraq. With these grants, Jordan managed to reduce the after-grant cash deficit to 2.9 percent of GDP and the after-grant primary deficit to 0.9 percent of GDP.
The Grants and the GDP dynamic helped Jordan reduce its debt-to-GDP ratio. Despite the re-evaluation of the debt stock driven by the weakening of the US Dollar, the high growth rate and reduced deficit allowed a significant reduction in the Government debt-to-GDP ratio—from 102 percent in 2003 to 94 percent of GDP in 2004. The fiscal outlook, however, remains very tight, as external grants are expected to lessen in the coming years, and Jordan has committed itself to reach a target of 80 percent of its debt-to-GDP ratio by year-end 2006. High oil prices and a weak US Dollar, in the context of the fixed peg to the US Dollar, imply a very sharp fiscal tightening in the year to come to reach the legal debt ceiling.

**Figure 6. Fiscal Balance**

*JD Million*

![Figure 6. Fiscal Balance](image)

Source: Jordanian Authorities and World Bank Staff Estimates.

The structure of the public debt continued to change with the share of the debt held domestically rising to 30 percent from 25 percent a year earlier. Moreover, the outstanding external debt decreased by 0.8 percent between 2003 and 2004, despite the re-evaluation of the Euro, the British Pound and the Japanese Yen-denominated debt with the depreciation of the US Dollar, the currency to which the Jordanian Dinar is pegged.

**Prices, Money And Banking**

Price inflation accelerated in 2004. The CPI rose by 3.4 percent compared to 2.3 percent a year earlier. The “food” items and “other goods and services”, which weigh respectively 44.3 percent and 21.3 percent of the total index, have both increased by 4.6 percent, evidence that the strong economy is creating price tensions in the non-tradable sector. In 2003, the food index rose by 3.6 percent and the services index increased by 2.3 percent. The increase in oil prices does not impact the index significantly, since it has been absorbed mainly by the rise in oil subsidies.

Substantial immigration from Iraq motivated by security concerns, and the inflow of oil money have led to a 30 to 40 percent increase in land prices over the last year. According to professional sources, the price of a square meter available for construction in residential areas of Amman increased from JD100 (US$140) to JD200 (US$280) over the past three years, including a 30 percent increase between end-2004 and the First Quarter of 2005.

The broad money supply (M2), increased by 13 percent in 2004, compared to 11 percent in 2003. The deposits in foreign currencies increased by 28 percent in 2004, against 8 percent a year earlier. The most dynamic aggregates of the money supply were demand deposits, which increased by 21 percent for deposits in Jordanian Dinars and by 75 percent for deposits in foreign

<table>
<thead>
<tr>
<th>Table 3. Money Supply (JD Million)</th>
<th>Dec-02</th>
<th>Dec-03</th>
<th>3/20</th>
<th>Dec-04</th>
<th>4/03</th>
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<tbody>
<tr>
<td><strong>Money Supply (M1)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Currency in Circulation</td>
<td>1,253</td>
<td>1,444</td>
<td>15%</td>
<td>1,414</td>
<td>-2%</td>
</tr>
<tr>
<td>Demand Deposits in JD</td>
<td>1,064</td>
<td>1,473</td>
<td>39%</td>
<td>1,779</td>
<td>21%</td>
</tr>
<tr>
<td><strong>Quasi-Money (M2-M1)</strong></td>
<td>6,103</td>
<td>6,428</td>
<td>5%</td>
<td>7,379</td>
<td>15%</td>
</tr>
<tr>
<td>Demand Deposits in FX</td>
<td>335</td>
<td>364</td>
<td>9%</td>
<td>637</td>
<td>75%</td>
</tr>
<tr>
<td>Time and Saving Deposits in JD</td>
<td>4,154</td>
<td>4,323</td>
<td>4%</td>
<td>4,677</td>
<td>8%</td>
</tr>
<tr>
<td>Time and Saving Deposits in FX</td>
<td>1,614</td>
<td>1,741</td>
<td>8%</td>
<td>2,065</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Broad Money Supply (M2)</strong></td>
<td>8,419</td>
<td>9,345</td>
<td>11%</td>
<td>10,571</td>
<td>13%</td>
</tr>
</tbody>
</table>

Source: Jordanian Authorities and World Bank Staff Estimates.
The currency in circulation in Jordanian Dinars slightly decreased by 2 percent.

The increase in money supply reflects the dynamic of deposits in the banking system. The Capital Account surplus triggered by the soar of oil prices has translated into a large increase of deposits in commercial banks: resident deposits increased by 16.7 percent over the year, compared to 9.3 percent a year earlier; foreign liabilities increased by 7.5 percent; and the dollarization of deposits increased to 25.6 percent from 22.5 percent in 2003. The increase in dollar deposits might be a result of the decrease in the spread between the US Dollar-denominated deposits and the JD-denominated deposits. The three-month Libor has indeed risen by 129 basis points (bpt) to 2.46 percent at end-2004, against 1.17 percent at end-2003. Over the same period, nominal interest rates on time deposits in JD decreased by 25 bpt to 2.5 percent from 2.75 percent at end-2003. The spread between the time deposits in JD and the Libor has decreased to 4 bpt at end-2004, from 158 bpt a year earlier, making deposits in JD much less attractive.

The rise in banks’ resources partially translated into increased lending to the private sector, in line with strong GDP growth. The claims on the private sector (resident) increased by 17.3 percent and their share in the commercial banks’ assets rose to 32.9 percent in 2004 from 31.8 percent in 2003. The breakdown of lending by sector shows that lending to the agriculture, industry, construction and trade sectors increased by 13.3 percent. However, the share of these sectors in total lending decreased to 60 percent in 2004 from 61 percent in 2003. The lending to the tourism sector decreased by 10.4 percent and reflects the difficulties encountered by the sector since the Palestinian uprising. With the lack of lending opportunities in the productive sector, resources were massively directed to other sectors, including consumption and Stock Market. The lending to share buyers has been multiplied by three in 2004.

The year 2004 witnessed further decreases in real interest rates on both deposits and, to a larger extent, loans to the private sector. The substantial decrease of real interest rates on private lending boosted the loans to the productive sector and favored inflation. The Central Bank reacted by increasing the re-discount rate. However, the slight increase by 22 bpt of the real re-discount rate fell short of exerting an upward pressure on the banks’ lending interest rates to the private sector. Moreover, the Central Bank did not operate any substantial decrease on the interest rates of the Certificate of Deposits, a move that could contain the drop in lending interest rates to the private sector.

Figure 7. Dollarization of M2

in percent

Source: Jordanian Authorities and World Bank Staff Estimates.
IBRD Projects In The Pipeline

- **Regional and Municipal Development Project** (US$35 million). The objective of the Project is 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 underserved areas.

IBRD Ongoing Projects

The current portfolio in Jordan consists of seven projects for a total commitment amount of US$300 million, of which US$124 million has been disbursed to-date.

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

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

- **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.

### Active Portfolio

<table>
<thead>
<tr>
<th>Active Portfolio</th>
<th>Approval Date</th>
<th>Loan Amount US$ M</th>
<th>Undisbursed Amount US$ M</th>
<th>Primary Sector</th>
<th>Closing Date</th>
</tr>
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<tbody>
<tr>
<td>Second Tourism Development</td>
<td>Jul-97</td>
<td>32.0</td>
<td>5.7</td>
<td>Urban Development</td>
<td>Jun-05</td>
</tr>
<tr>
<td>Amman Water and Sanitation Management</td>
<td>Mar-99</td>
<td>55.0</td>
<td>4.6</td>
<td>Water Supply/Sanitation</td>
<td>Jan-06</td>
</tr>
<tr>
<td>Higher Education Development</td>
<td>Feb-00</td>
<td>34.7</td>
<td>16.5</td>
<td>Education</td>
<td>Dec-05</td>
</tr>
<tr>
<td>Horticultural Exports Promotion Learning and Innovation</td>
<td>Jun-02</td>
<td>5.0</td>
<td>3.7</td>
<td>Agriculture Markets and Trade</td>
<td>Dec-06</td>
</tr>
<tr>
<td>Education Reform for Knowledge Economy</td>
<td>May-03</td>
<td>120.0</td>
<td>92.8</td>
<td>Education</td>
<td>Dec-08</td>
</tr>
<tr>
<td>Amman Development Corridor</td>
<td>Jun-04</td>
<td>38.0</td>
<td>37.8</td>
<td>Transport</td>
<td>Jun-09</td>
</tr>
<tr>
<td>Public Sector Capacity Building Project</td>
<td>Mar-05</td>
<td>15.0</td>
<td>15.0</td>
<td>Public Sector</td>
<td>Mar-09</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>299.7</strong></td>
<td><strong>176.1</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
o **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.

o **Public Sector Capacity Building Project** (US$15 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.

### Ongoing Grants

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

o **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 in playing an important role in developing policies and national strategies (and monitoring their implementation), and advocating on behalf of, children and families, in close collaboration with relevant public agencies.

o **Institutional Development Fund Grant to Support the Development of a Monitoring and Evaluation System** (US$395,000). The Grant will contribute to the design and implementation of a sound monitoring and evaluation framework for the Government to: (i) adequately monitor input requirements of large scale reform projects, and (ii) follow implementation of large scale, multi-sectoral reform projects through various activities.

o **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.

o **Integrated Ecosystems/Rift Valley Grant** (US$350,000). The objective of the Grant is to assist in the preparation of the Integrated Ecosystem Management in the Jordan Rift Valley Project, whose main objective is to secure the ecological integrity of the Jordan Rift Valley as a globally important ecological corridor and migrator flyway, through a combination of site protection and management, nature-based socio-economic development, and land use planning.

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.

o **Conservation of Medicinal/Herbal Plants Project** (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: (i) institutional strengthening; (ii) pilot sites conservation; (iii) public awareness and education; and (iv) income generation activities.

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

- **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 United States' 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 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, 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 available in Jordan, and help the Zara Company mobilize local loans. IFC has approved a rescheduling of its loan to Zara Company and Zara has prepaid IFC.

- **Business Tourism Company.** The Project consists of building and operating the Jordan Valley Marriott and Spa, a resort of international standards which includes: (i) a 216-room 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 complex is managed by Marriott International and targets both health and leisure tourists.

- **El-Zay.** 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 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 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 and JHTC has prepaid IFC.

- **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.

- **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 the larger recapitalization and restructuring program for MEIB. It complements the Technical Assistance Program in Jordan, provided by both IFC and the World Bank.

- **Boscan Jordan (International Luggage Manufacturing Company).** The Project is to expand operations of Boscan Jordan Group, a Jordanian manufacturer of soft-side luggage products selling primarily to the United States market. The company has since switched its operations to textiles.

- **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.

- **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.

- **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. The company has prepaid IFC.

- **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.

- **Middle East Complex for Engineering, Electronics, and Heavy Industries (MEC).** MEC 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 to: (i) relocate MEC’s existing production facilities for 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 IFC ongoing and pipeline projects can be found at: [http://www.ifc.org/projects](http://www.ifc.org/projects)

**MIGA Ongoing Projects**

Jordan has been a member of MIGA since MIGA’s inception in 1988. While MIGA does not have any current exposure for guarantees in Jordan, the agency was, until early 2005, covering an important fertilizer project in the Aqaba Special Economic Zone. MIGA issued $39.1 million in coverage to Kemira Agro Oy of Finland in fiscal 2001 for this project. This Project is significant in many ways: it involves international collaboration between the European Investment Bank and the Islamic Development Bank, the Project’s financiers; as MIGA’s first project in Jordan, it underscored the agency’s intent to play a larger role in the region; and the Project is the first reinsurance of a MIGA contract by Finnvera, Finland’s investment insurance agency, resulting from an October 2000 agreement between the two agencies to work together to coinsure and reinsure projects, with the goal of increasing Finnish investment into emerging economies.

MIGA has also received a request for its technical assistance services in the areas of institutional capacity building for investment promotion from the Aqaba Special Economic Zone Authority (ASEZA); a needs assessment mission is scheduled for July 2005 to initiate this assistance. The agency is also meeting in June 2005 with the new head of Jordan Investment Board (JIB) and the new Minister of Industry to gauge interest in MIGA technical assistance for JIB.

MIGA’s online investment promotion services ([www.fdxchange.com](http://www.fdxchange.com) and [www.ipanet.net](http://www.ipanet.net)) feature 161 documents on investment opportunities and the related legal and regulatory environment in Jordan.
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 86 credits, loans, and grants have been granted to Jordan for a total amount of US$2,229 million. Jordan is also a member of IFC, ICSID, and MIGA.

IDA US$86 million (15 Credits)
IBRD: US$2,144 million (66 Loans)
Of Which:
  Investments: US$1,369 million
  Adjustments: US$870 million (8 Projects)
Disbursements: US$2,050 million
Repaid: US$1,033 million
Obligation: US$1,007 million

Sectoral Distribution by Value

- Agriculture 5%
- Finance 2%
- Education 22%
- Public Sector Governance 18%
- Other 11%
- Transportation 7%
- Water Supply & Sanitation 10%
- Electric Pwr & Energy 13%
- Hlth, Nutn & Popultn 4%
- Urban Development 7%
- Other 7%

Net Flows and Net Transfers

Disbursements

Projects Approved by Fiscal Year

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th># of Projects</th>
<th>US$ M.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>2</td>
<td>100.0</td>
</tr>
<tr>
<td>1995</td>
<td>3</td>
<td>146.6</td>
</tr>
<tr>
<td>1996</td>
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<td>15.0</td>
</tr>
<tr>
<td>Total</td>
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<td>1236.3</td>
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News, Recent And Upcoming Activities

World Bank Recommends Israel’s Disengagement Be Accompanied By Lifting Of Closures, Further Palestinian Reforms – Report Warns Increased Donor Aid Alone Cannot Lead To Palestinian Economic Recovery

A Disengagement Plan that is accompanied by a rolling back of Israel’s closure policy and a stronger Palestinian commitment to reform will bring the Palestinian economy out of its present stagnation, according to a World Bank Report released in December 2004.

The Report, *Stagnation or Revival? Israeli Disengagement and Palestinian Economic Prospects*, further asserts that only significant new efforts by both parties—the Palestinian Authority and the Government of Israel—can justify a major increase in donor aid beyond existing levels.

The Report states for an economic recovery to be possible, the Government of Israel (GOI) will need to roll back the security-related system of restrictions on the movement of people and goods imposed since the beginning of the intifada. The Palestinian Authority (PA), for its part, must demonstrate a much stronger commitment to security reform and to curbing attacks on Israelis.

The Report urges the PA to renew its legitimacy through parliamentary elections, and to reinvigorate its program of internal governance and economic reforms in order to create a legal and regulatory framework that can attract investors back to the Palestinian economy.

Report Warns Increased Donor Aid Alone Cannot Lead To Palestinian Economic Recovery

The Report was discussed at meeting of international donors for the West Bank and Gaza, also known as the Ad Hoc Liaison Committee, on December 8, 2004. The Report recommends that the donor community assess progress over the coming few months in order to help judge if the preconditions for a major additional aid effort are in place. If and when significant progress is made, the Report argues, that it would make sense to convene a donor pledging conference. It concludes by stating that calling such a conference in the absence of adequate progress would be counterproductive.

While economic growth and prosperity do not of themselves guarantee peace, it is clear that steep economic decline helps foster an environment in which violent doctrines can resonate. Too often in the course of this conflict, economic considerations have been dealt with as a residual element in diplomacy. Given the depth of the economic crisis in the West Bank and Gaza, securing work and a future for one’s family features very high on the agenda of the ordinary Palestinian, and needs to be catered to as a top priority.

To download this Report or for more information on the World Bank’s work in the West Bank and Gaza, please visit:

www.worldbank.org/ps
The Middle East and North Africa (MENA) region is experiencing an economic boom driven largely by soaring oil revenues, but this growth remains insufficient for addressing the region's daunting development challenge of creating jobs. The first in a series of Annual Reports that monitor major economic developments in the region, *Middle East and North Africa Economic Developments and Prospects 2005* says that close to 100 million new jobs will be needed over the next 20 years to absorb new entrants into the labor force and today's unemployed workers.

Over the last two years, economic growth averaged 5.6 percent in MENA, up from the 3.6 percent growth over the 1990s. This exceptional growth was steered by external factors—escalation in oil prices and a subsequent rise in oil production, which significantly boosted government consumption and investment. Moreover, this growth was concentrated in oil-producing countries that account for most of the regional growth acceleration. The Report points out, however, that in per capita terms, the growth upturn in MENA continues to lag behind most other regions of the world.

**Structural Reforms Essential For Long Term Growth**

The Report argues that, in order to meet the challenge of job creation, the region's economies need to be realigned along three fronts: (1) from closed to more open economies; (2) from a public sector-dominated to private sector-led economy; and (3) from an oil-dominated to a more diversified economy. However, the Report reveals that the MENA region has, by and large, not kept pace with worldwide progress in embracing structural reforms, as shown by its measurement of progress in reforms in the areas of trade, business environment and governance.

According to the Report, the MENA region has made great strides in trade reforms, motivated in part by regional and bilateral trade agreements. Two-thirds of MENA countries ranked above half of all countries in the world in terms of reducing tariff and dismantling non-tariff barriers to trade. Progress was particularly strong in a few countries, including: Egypt, Jordan, Lebanon and Saudi Arabia. MENA's progress in improving the business environment, on the other hand, has been the weakest in the world. On average, MENA countries rank in the bottom-third of the world in terms of advancing a range of business regulatory and financial sector reforms. The pace of reform in politically difficult areas, such as judiciary, to improve enforcement of contracts has been particularly weak.

The Report also points to a lack of progress in improving governance, based on the twin criteria of quality of public administration and public sector accountability.

**Iraq's Reconstruction Brings Economic Dividend To Region**

The Report states that apart from the oil price shock, the war in Iraq and its reconstruction and reintegration represent the largest economic shock to the region in the past three to four years. From a regional standpoint, the initial economic impact of the war was limited, largely because Iraq was in many ways economically isolated from the rest of the region. In terms of Iraq's reconstruction, however, many countries in the MENA region are poised to reap numerous potential economic dividends, as a result of trade and business-related activities related to the reconstruction. Clearly, an improved security situation will need to occur to pave the way for greater progress on the reconstruction front.

Looking forward, the Report predicts that shifts in external factors will continue to shape the profile of the region's growth in the short run. Moderately easing oil prices, partially counterbalanced with European growth conditions, suggest growth will continue, particularly in the labor abundant diverse economies. Overall, regional growth is expected to average 4.9 percent in 2005, moderating to 4.3 percent in 2006.

The Report can be downloaded from: www.worldbank.org/mna
The Report analyzes housing sector policies and their effects on macroeconomic and sectoral performance in a number of Middle East and North African (MENA) countries. Some of these countries are confronting very rapid growth in their labor forces, while others are now experiencing the world’s highest rates of urbanization. In such countries, the spill-over effect of housing policy on labor markets, savings behavior, factor productivity, and ultimately, the quality of economic growth are important. Similarly, policies that cause housing costs to rise for the entire population can have a greater effect on the poor than do direct housing subsidy programs. In short, untangling the effects of the housing policy requires a broad sector perspective. Accordingly, the analysis examines these broader issues, even though the focus remains on how policies could improve the situation of the poor. The analysis is a comparative indicator analysis of housing sector performance and policy in eight MENA countries, Algeria, Egypt, Iran, Jordan, Lebanon, Morocco, Tunisia, and Yemen.

Findings

In most of the countries, housing affordability—rather than availability—is the central problem. In none of the countries examined is the housing problem one of a shortage of supply of housing as a whole, although shortage may exist for certain categories of housing products (e.g., low income housing). With the exception of Yemen, and the lingering effects of the war destruction in Lebanon, a composite indicator of housing conditions suggests that the region’s housing stock is about what would be expected for countries at their respective development levels. In contrast, the price of housing is extremely high in five of the countries—Algeria, Iran, Lebanon, Morocco, and Yemen. Indicators suggest that the affordability problem is largely the result of housing and land supply policies. In addition, inadequate housing supply relative to increasing demand (e.g., Algeria) and constrained flexibility with which the housing stock is used contribute to high housing prices and low levels of affordability. Thus, these policies constrain the functioning of the housing market so that the inexorable demographic demands for housing already in process are reflected largely in house price increases rather than increased production. In short, the main problem, by and large, is not the quantity of housing production, but by whom, and for whom housing is produced and how it is distributed.

Demand by low-income groups is left to the informal sector. The high cost of housing is not the only housing problem for the countries analyzed. Another consequence of the affordability issue is informal settlements. In several countries, demand by lower income groups is reflected in squatter settlements and unserviced peripheral neighborhoods. This measure of exclusion from formal housing services appears to be a growing concern in countries like Algeria, Morocco, Iran, and Yemen, where there are strong signals that informal settlement ratios are increasing.

The benefits from addressing the housing affordability problem go well beyond improving the functioning of the housing market. Housing market constraints not only affect housing conditions, they also have implications for unemployment rates, as well as the efficiency with which capital is used. It is not a question of a shortage of housing capital, but it is, rather, that the capital is quite expensive. The Report examines a number of ways in which improvements in the functioning of the housing market can improve capital efficiency, and correspondingly, the economy. For example, the deadweight efficiency losses of regulatory/land policies in Morocco may cost as much as 1 percent of GDP.

The key affordability problem stems from poorly defined public and private roles in housing and land markets. This problem is particularly acute in countries with secondary cities experiencing extraordinary population growth rates, and it represents an important constraint on both the housing sector and the...
economy. The issue is how this growth can be better accommodated by both the public and private sectors. Nevertheless, international experience indicates that three aspects of a more delimited public role are clear.

**Housing finance reforms are important and could bring broader economic gains, notably by encouraging savings. However, they must be properly sequenced in an overall housing reform agenda.** Some of the countries in the sample have already developed the institutional setting for effective development of housing finance. In Jordan, housing finance has developed extensively, beyond 10 percent of GDP. In Tunisia, Lebanon, and Morocco, housing finance has developed beyond the initial stages, but still has a long way to go. Efforts in housing finance in those countries can be sequenced parallel with developments in other components of the housing sector, such as subsidies and land development.

**Policy Recommendations**

Many governments in the region are under pressure to make up for a perceived housing shortfall. However, the Report concludes that the provision of subsidized housing and/or subsidized financing and production will not effectively address this problem. Rather, increased attention to broader policy reforms are essential if the sector is to address the housing problems of the poor, as well as the deleterious effects that the sector now has on the economy. The main policy areas suggested for improvement are as follows:

- **Extensive public ownership of land** and public sector dominance on land development often ends up in untargeted subsidies, scarcity of serviced land, and increases in land prices.

- **Reliance on government housing agencies to develop land and housing** for lower income groups had led to inefficiencies and a drain on resources from the governments’ overall development efforts, and undermined the potential role of the private sector. Responsibilities and tasks of such housing agencies need to be re-aligned with the countries’ objectives of promoting public/private partnership to increase the efficiency of use of public resources.

- **Property rights** need to be made clear and **titling systems** should be revised to make them simple and operational. Establishing clear property rights and a titling system are among the primary steps to facilitate functioning of land markets, and to involve the private sector in land development and its finance. Furthermore, clear property rights would provide people with a sense of security, and thus, help to mobilize private savings.

- **Subsidies need to be enshrined in broader sectoral reforms.** The two most prevalent forms of subsidies in our sample countries are interest rate subsidies and land subsidies. In general, and particularly at the level of income of most of the countries in our sample, neither is an effective way to deliver resources to the poor. Interest subsidies lack transparency, often do not reach the target groups, and have adverse side effects on the economy by comprising significant burdens on public resources. Similarly, subsidies to public developers through free access to land, or at below market prices, and subsidies embedded in below market price of lots for households and cooperatives, are common throughout the sample, and they are rarely effective, and generally regressive. Interest rate subsidies need to be eliminated, and replaced with targeted, upfront subsidies—such as housing allowances. By the same token, land subsidies to public developers need to be removed, and only if necessary, land subsidies should be provided to households in a transparent and targeted manner.

- **Housing finance is an important part of both financial and real estate sector development.** Importantly, however, in order to have an effective impact on access to housing by the middle and lower-income populations, reforms in this area must be accompanied by policy reforms in the real sector, in particular, land and subsidy reforms.

The full Report is available at: [www.worldbank.org/mna](http://www.worldbank.org/mna)
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MENA Publications

Four Years - Intifada, Closures and Palestinian Economic Crisis: An Assessment (full Report available on-line). The Assessment was prepared as a follow-up to an assessment published in May 2003 ("Twenty-Seven Months—Intifada, Closures and Palestinian Economic Crisis: An Assessment") and a previous assessment published in March 2002 (‘Fifteen Months—Intifada, Closures and Palestinian Economic Crisis). The main objective of this third Assessment is to paint a factual picture of economic and social developments in 2003 and to analyze how the three key parties (the Palestinians, Israelis and donor community) have responded. The goal of the Assessment is to help donors and the Palestinian Authority (PA) cope with the economic crisis in the West Bank and Gaza and to encourage and inform discussion on Palestinian economic issues among the donors, the PA and the Government of Israel (GoI).

Pensions in the Middle East and North Africa: Time for Change (ISBN: 0-8213-6185-6 SKU: 16185). This is the first comprehensive assessment of pension systems in the Middle East and North Africa. While other regions—Central Asia, Eastern Europe, and Latin America, in particular—have been actively introducing reforms to their pension systems, Middle East and North African countries have lagged behind. This is explained, in part, by the common belief that, because demographics remain favorable—the countries are young and the labor force is expanding rapidly—financial problems are far in the future; as a result, pension reform does not have to be a priority in the broader policy agenda.

However, aging is not the only factor behind a financial crisis; the problem is the generosity of the current schemes. Moreover, badly designed benefit formulas and eligibility conditions introduce unnecessary economic distortions and make the systems vulnerable to adverse distributional transfers.

Leveraging WTO Accession to Design Strategy of Economic Reform for New Iraq (Working Paper Series 31217). Despite significant progress towards establishing institutional foundations of a market-based economy made over the last year in Iraq, the transition is far from complete. The challenge remains huge: what choice of institutional structures would offer incentives to maximize microeconomic efficiency, assure the allocation of resources to their best use and prevent easy policy reversals. Ultimately, the main challenge will be the choice of policies which will assure maximization of national economic welfare, rather than that of rents for the privileged few. The Paper proposes leveraging the WTO strategy to design a strategy of structural reforms and to draw on the experience of recent entrants to the European Union to design an institutional setting for the development and implementation of the strategy.

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progress has been made toward these goals, and what should be done to accelerate it? What are the responsibilities of developing countries, developed countries, and international financial institutions? *Global Monitoring Report 2005* addresses these questions.

**Global Development Finance 2005 (Complete Print Edition): Mobilizing Finance and Managing Vulnerability** (ISBN: 0-8213-5985-1 SKU: 15985). *Global Development Finance 2005 I: Analysis and Statistical Appendix* addresses two key challenges in development finance: first, how to raise resources flowing to low-income countries, which are heavily constrained in their access to market-based finance; and second, how to manage the vulnerability inherent in developing countries’ access to finance—vulnerability stemming from changes in the global macro environment, as well as from shifting donor priorities (affecting aid and concessional finance) and changing debt dynamics in developing countries.

**Global Development Finance 2005 II: Summary and Country Tables** includes a comprehensive set of Tables of data for 136 countries which report under the World Bank Debtor Reporting System, as well as summary data for regions and income groups. It also contains data on total external debt stocks and flows, aggregates, and key debt ratios, and provides a detailed, country-by-country picture of debt. *Global Development Finance 2005* debt data are also available on CD-ROM and online, with more than 200 historical time series from 1970 to 2003, and country group estimates for 2004.

**Measuring Empowerment: Cross-Disciplinary Perspectives** (ISBN: 0-8213-6057-4 SKU: 16057). Poverty reduction on a large scale depends on empowering those who are most motivated to move out of poverty—poor people themselves. But if empowerment cannot be measured, it will not be taken seriously in development policy-making and programming.

Building on the award-winning *Empowerment and Poverty Reduction* sourcebook, this volume outlines a conceptual framework that can be used to monitor and evaluate programs centered on empowerment approaches. It presents the perspectives of 27 distinguished researchers and practitioners in economics, political science, sociology, psychology, anthropology, and demography, all of whom are grappling in different ways with the challenge of measuring empowerment. The authors draw from their research and experiences at different levels, from households to communities to nations, in various regions of the world.

**World Development Report 2005 (Arabic): A Better Investment Climate for Everyone** (ISBN: na SKU: 31892). Firms and entrepreneurs of all types—from microenterprises to multinationals—play a central role in growth and poverty reduction. Their investment decisions drive job creation, the availability and affordability of goods and services for consumers, and the tax revenues governments can draw on to fund health, education, and other services.

The *World Development Report 2005* argues that improving the investment climates of their societies should be a top priority for governments. Drawing on surveys of nearly 30,000 firms in 53 developing countries, country case studies, and other new research, the Report explores questions such as:

- What are the key features of a good investment climate, and how do they influence growth and poverty?
- What can governments do to improve their investment climates, and how can they go about tackling such a broad agenda?
- What has been learned about good practice in each of the main areas of the investment climate?
- What role might selective interventions and international arrangements play in improving the investment climate?
- What can the international community do to help developing countries improve the investment climates of their societies?

**Decentralization and Service Delivery** (Working Paper Series 3603). Dissatisfied with centralized approaches to delivering local public services, a large number of countries are decentralizing responsibility for these services to lower-level, locally elected governments. The results have been mixed. The Paper provides a framework for evaluating the benefits and costs, in terms of
service delivery, of different approaches to decentralization, based on relationships of accountability between different actors in the delivery chain. Moving from a model of central provision to that of decentralization to local governments introduces a new relationship of accountability between national and local policymakers, while altering existing relationships, such as that between citizens and elected politicians. Only by examining how these relationships change can we understand why decentralization can, and sometimes cannot, lead to better service delivery. In particular, the various instruments of decentralization, (fiscal, administrative, regulatory, market, and financial), can affect the incentives facing service providers, even though they relate only to local policymakers. Likewise, and perhaps more significantly, the incentives facing local and national politicians can have a profound effect on the provision of local services. Finally, the process of implementing decentralization can be as important as the design of the system in influencing service delivery outcomes.

The Role of Factoring for Financing Small and Medium Enterprises (Working Paper Series 3593). Around the world, factoring is a growing source of external financing for corporations and small and medium-size enterprises (SMEs). What is unique about factoring is that the credit provided by a lender is explicitly linked to the value of a supplier's accounts receivable and not the supplier's overall creditworthiness. Therefore, factoring allows high-risk suppliers to transfer their credit risk to their high-quality buyers. Factoring may be particularly useful in countries with weak judicial enforcement and imperfect records of upholding seniority claims because receivables are sold, rather than collateralized, and factored receivables are not part of the estate of a bankrupt SME. Empirical tests find that factoring is larger in countries with greater economic development and growth and developed credit information bureaus. In addition, the author finds that creditors’ rights are not related to factoring.


TradeCAN 2005 also contains a user-friendly interface that allows rapid data retrieval and easy report preparation. The "Exercises Guide" provides essential information regarding origin and coverage of the dataset, formulas, and more. The set of exercises is designed so that the reader becomes familiar with the system by using it and guides users, step by step, through the query and report options.

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