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Mr. David Malpass
President of the World Bank Group
The World Bank
Washington D.C., USA

Subject: Letter of Development Policy for the Second Equitable Growth and Job Creation
Programmatic Development Policy Financing

Dear Mr. Malpass,

1. Since taking office in June 2018, the Government of Jordan has expedited the economic revival process with the aim to stimulate growth and create jobs. In November 2018, we launched our two-year Work Plan for 2019-2020 '*Road to Renaissance*' that is citizen-centric responding to their needs and concerns. The two-year Work Plan is guided by three main pillars; State of Law; State of Solidarity and State of Productivity.
2. In close collaboration with the World Bank and our development partners, we strengthened and deepened the Five-Year Growth Matrix that started in early 2018. In the matrix, we prioritized and sequenced a set of important horizontal and vertical policy reforms critical to inclusive and sustainable growth as well as job creation. Several critical reforms were already completed while others are under implementation. In parallel, we are continuing with fiscal consolidation supported by our ongoing program with the IMF, Extended Fund Facility (EFF), which comes to an end in early 2020.
3. Moving forward, we are committed to fiscal and macroeconomic stability by continuing a gradual and sustainable deficit reduction strategy and controlling fiscal risks, including those posed by the energy and other public utility sectors. We are also committed to continue policy reforms that will stimulate demand growth, primarily through attracting foreign investment and promoting exports. To aid local businesses, we commit ourselves to continued investment and doing business reforms that will yield efficiency and lower costs to doing business. Most importantly, our aim is to continue reforms that will improve the jobs outcomes of Jordan's increasingly better educated female and youthful labor force. We also reinforce our commitment to low-carbon and climate resilient growth.
4. Moreover, for those that cannot yet fully benefit from the economic prosperity we aim to further improve and expand our social protection system. We are also in the process of launching a new Social Protection Strategy (2019-2025) focusing on three main pillars: better work; social assistance; and welfare and social protection services.



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Implementation Arrangements

5. To build on what has been achieved to date and to keep the reform commitments the Government has already strengthened the implementation arrangements in place to deliver and monitor progress made on its reform agenda. This was done by prioritizing and focusing on reforms that will have a transformational impact on economic growth and job creation; maintaining tight management; and explaining the purpose of proposed reforms to ensure their broad acceptance. On the latter, we are strengthening outreach and communication of reforms and those that they are being rolled out and as the next phase of reforms is being designed. In this context, we will also need to sustain our collaboration with donors to pace adjustment reforms with the needed adjustment support.
6. The Second Equitable Growth and Job Creation DPF-2 supports the reform agenda initiated under DPF-1 and adds key strategic reforms (such as FDI liberalization, public procurement reform, and further strengthening earlier PPP reforms). The DPF-2 aims to support: (i) reducing business costs and improving market accessibility; (ii) creating more flexible and integrated labor markets and providing better and more efficient social assistance; and (iii) improving fiscal sustainability and taking critical actions in the energy sector.
7. Regarding the implementation of the reforms and policy measures tied to the second tranche conditions of this loan, the Council of Ministers' decisions were already obtained committing the Government to their implementation, technical assistance is on the ground, and consultations with stakeholders have already started. The Council of Ministers decisions include:
 - *Energy*: Cabinet adopted a bold Roadmap for Financial Sustainability of the Electricity Sector early April 2019. The Roadmap aims to optimize the legacy debt burden of the National Electric Power Company (NEPCO), strengthen operational performance, minimize working capital needs, as well as address the increasing cost structure of electricity generation. It also includes quarterly performance milestones in each of the policy reform area as well as other decision areas.
 - *Targeting of energy support benefits to help protect poor consumers*: As part of the Roadmap, the Government will improve and expand targeting of energy support benefits to help protect poor and vulnerable consumers.
 - *Public Private Partnership*: Introducing key amendments to the PPP Law, as well as to adopt a PIM-PPP Framework Policy Paper currently being prepared with support of the World Bank that outlines the rationale, policy changes and implementation arrangements of the revised law. The Government has committed to a timely preparation and submission of a new PPP Law to Parliament as conditions for the second tranche release. The Policy paper is complemented by a first year PIM-PPP Implementation Plan that sets out the milestone actions required to operationalize the PIM-PPP



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Governance Framework and the amended PPP Law. The Implementation Plan includes the preparation and approval of the regulations, key institution-building steps, establishment of a Project Pipeline Development Fund, and activation of pipeline activities.

- *Investor Grievance Management Mechanism:* The grievance management system would help ensure that the Government responds to investor's complaints in a suitable and timely manner and in accordance with the country's international investment agreements and domestic laws and regulations. The Government will enable a set of policy, regulatory instruments (bylaws and/or instructions) procedures and systems for an investor grievance management mechanism to operate and empower the Jordan Investment Commission to identify, track, manage and solve grievances arising between investors and public agencies within specified time periods.

Policy Priorities

I. Fiscal Consolidation, Debt Management, Management of PPPs and Fiscal Risks

Fiscal Consolidation

8. The Government remains committed to a gradual and steady fiscal consolidation path. The fiscal program for 2019 is envisaging an annual fiscal adjustment of 1.5 percent of GDP and reflects Jordan's commitment to resume deficit reduction and a path toward stabilizing and reducing Jordan's public debt. Despite the challenging social conditions, the Government passed the new Income Tax Law in December 2018 with a view to broaden the tax base and support fiscal adjustment goals. Overall, Jordan has shown its commitment to the goals of IMF-EFF Program and met all end-December 2018 performance criteria on fiscal areas. The Government intends to stay the course on the IMF-EFF program and has obtained a seven-month extension from the current closing date of August 2019. The Government also plans to start discussing soon a new follow-up program with the IMF.
9. Looking forward, we will not only strengthen implementation of government budget to meet our projected revenue and expenditure targets but will also monitor it tightly to reduce the fiscal deficit and arrears of key public agencies. We will also tightly manage fiscal risks. In particular, the energy sector poses fiscal risks which we are committed to contain. The risks emanate from the higher interest costs and the rising costs of the energy mix.
10. To this end, we recognize the critical need to restore NEPCO's operational balance and stabilize state-owned water sector companies' overall deficit. Moreover, the Government is keen to halt the accumulation of fuel, health, and water-sector arrears and to clear the legacy stock of energy arrears by end-2021. Claims will be monitored while further accumulation of arrears will be prevented by enforcing that Government Units will pay for their arrears from their own budgets, in line with the



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Budget Law. These measures will help to reduce the combined public sector deficit to 2.6 percent of GDP in 2019 and turn it into a surplus by 2022.

11. On the expenditure side, further rationalization efforts are planned while strengthening the targeting for social assistance. In the medium term and building on measures undertaken in previous years, expenditure control includes the rationalization of non-priority current spending and a containment of the public sector size, including a limitation of the public-sector wage bill growth at around 1.5 percent. Expenditure policy priorities will utilize freed up fiscal space to focus on social assistance. The Government is planning to strengthen the social safety net in Jordan by doubling the coverage of the National Aid Fund (NAF)'s cash transfer program starting in 2019. Additional reforms are designed to enhance the cost-effectiveness of social safety net programs through the digitization of NAF payments and the improved targeting of existing programs.
12. Public finances in the coming years will be supported by the 2018 income tax reforms. The new Income Tax Law reduced the effective exemption thresholds of personal income taxes and introduced more progressive tax rates. Corporate income tax collection will benefit from the introduction of surtax on corporate profits for the non-manufacturing sector and the removal of arbitrage opportunities, by unifying the statutory tax rate for the manufacturing and commercial sector. Moreover, the Law is expanding the corporate tax base by taxing large agricultural companies and corporate income generated on activities within free zones. Further the tax bill is implementing various additional revenue initiatives, among others the introduction of an annual minimum corporate tax of JD500 for registered partnerships and limited partnerships.
13. The Income Tax Law will be supported by tax administration measures, which will enforce compliance and combat tax evasion. We are taking a series of measures to safeguard domestic tax revenue mobilization in 2019, further to the decline in 2018, and the need for robust and timely implementation of the revised income tax law. The Pay as You Earn (PAYE) compliance system for large taxpayers will be strengthened, by enhanced reporting requirements and with access to third party information. Taxpayer registration will be improved by linking the issuance of a business license to the issuance of a taxpayer identification number. The tax compliance among self-employed persons will be underpinned, by matching in an online system the Government records of licensed professionals and businesses against the tax authorities' registrations. Penalties for delays in compliance and tax evasion were strengthened across tax sources.

Debt Management

14. The Government endorsed an updated Debt Management Strategy for 2019-2023 for public and publicly guaranteed debt, both domestic and external, in preparation for DPF-2. The Strategy includes



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quantitative targets for interest rate risk, refinancing risk, and foreign exchange risk. A risk assessment framework for government guarantees has been developed and implemented. While fiscal policies will be the main driver of debt reduction, the Debt Management Strategy sets the goals to manage and contain the debt: (i) increase external share of debt to a maximum of 51.8 percent of GDP; (ii) extend the average maturity of domestic debt by issuing debt instrument with long term maturity (3, 5, 7, 10 and 15 years) taking market conditions into consideration; (iii) decrease the share of debt maturing within one year; (iv) issue Islamic Sukuk to diversify the financing sources and expand the investor base in government debt securities; and (v) develop new policies for issuing guarantees.

15. To implement this Strategy, following the renewed momentum gained by the London Initiative 2019, we worked with our development partners, including the IMF and the World Bank, to increase the degree of concessionality—and grant shares—of future financing and to stretch the maturity. This approach will help us better manage the repayment of US\$3.25 billion in Eurobonds due in the years 2019, 2020, and 2022.
16. As part of the talks with our development partners, we are paying attention to the energy sector debt, which reached US\$7.46 billion or about 18 percent of GDP in 2018. About US\$3 billion of this debt is serviced by NEPCO with guarantees from the Central Government and the rest is serviced by the Central Government.
17. We made concentrated outreach to the donor community in preparation and following the London Conference seeking support for implementation of a comprehensive Debt Optimization Plan for managing NEPCO legacy debt. The plan is in line with the Roadmap on Financial Sustainability of the Electricity Sector approved in April 2019. We plan to leverage commercial as well as developmental funds to replace expensive commercial debt with long-term blended finance to ensure a smooth debt service profile, in exchange for critical reform efforts that will assure the financial sustainability of the energy sector.

Public Investment Management

18. Given Jordan's limited fiscal space, we are committed to continue ensuring that our public investment spending is well assessed and efficient to promote growth, while minimizing future risks to the budget. Measures to strengthen public financial management will improve the management of fiscal risks and the monitoring of the Government's underlying fiscal position. We adopted in June 2016 a decision establishing a central Public Investment Management (PIM) Unit at the Ministry of Planning and International Cooperation (MOPIC) along with an action plan. As part of DPL-1, we adopted a Governance Framework for PIM/PPP decision making, recognizing that but PIM and PPP use scarce public resources to deliver public goods. As next steps and in close cooperation with the World Bank,



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IFC, USAID and IMF, we are: (i) establishing a Central PIM Unit at MOPIC; (ii) staffing it with selected PIM-PPP-trained government officials; and (iii) plan to begin managing all investments according to standards set by the new PIM/PPP framework by end 2019. We also plan to develop a National Register of Investment Projects (NRIP) for PIP and PPP projects and make it fully operational for all new projects to be selected through appropriate methodologies and selection criteria for the 2021 Budget Law. This Governance Framework is similarly complemented by the PIM-PPP implementation plan referenced previously.

Public Private Partnerships

19. Following assistance from the IMF Fiscal Affairs Department (May 2017), an IMF conducted Public Investment Management Assessment (PIMA, February 2018) and continuous World Bank technical assistance on PIM and PPPs, the Government is taking accelerated legislative action which we view as a critical step to ensuring large and small contracts that involve the public sector are contracted transparently and based on objective criteria, with no exceptions. The Council of Ministers recently approved submitting a revised PPP Law to Parliament, with key provisions including: (i) a PPP decision-making process embedded in public investment; (ii) a PPP Unit linked to the Prime Minister; (iii) eliminating exemptions under law (previously provided to projects in the water and energy sectors); (iv) functional fiscal commitments and contingent liabilities control; and (v) creation of a Project Pipeline Development Fund.
20. Furthermore, the Council of Ministers adopted a decision in January 2019 authorizing the Ministry of Information and Communications Technology to enter into agreements with private sector to lease excess capacity of the national broadband network, based on a PPP model. Moving forward, we are taking necessary steps to further strengthen the PPP infrastructure and culture as well as eliminating any bottlenecks to increase investment in public infrastructure.
21. In terms of next steps, the Government commits to a timely preparation and submission of the PPP Law to Parliament as conditions for the second tranche release. To this end, we took a Cabinet Decision on April 18, 2019, committing to the following: (i) preparation of a PPP Policy Framework to be finalized by end-June; (ii) preparation of amendments to the PPP Law no. 31 of 2014 to be submitted to Parliament in September; (iii) implementation of a robust Government PPP communications strategy to ensure full understanding and ownership across stakeholders of the importance of the legislative amendments.

II. Electricity Reform and Climate Change

22. Despite a critical dependence on imported fuels for power generation, Jordan provides reliable and good-quality electricity supply to all its citizens. After achieving a zero-operational loss during 2016,



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NEPCO witnessed a small loss of JD0.7 million in 2017. Despite adopting a monthly Tariff Adjustment Mechanism since end of 2017 and securing additional revenue of JD237 million through monthly tariff adjustments, NEPCO witnessed an operational loss of about JD77 million in 2018 (about 0.3 per cent of GDP) according to the Company's audited financial statement. This fall in sector financial performance raised a red flag that the Government takes urgent actions to avoid slipping into deeper losses. We are committed to maintain the financial viability of NEPCO by ensuring that operational balances are zero or positive in 2019 and in subsequent years.

23. The losses in 2018 were caused by wide fluctuations in LNG import costs (benchmark Brent oil price rose from US\$55 per barrel to US\$85 per barrel) and a fall in grid-electricity demand (high cross-subsidy burden and low solar photo-voltaic prices encourage large consumers to self-generate). Furthermore, the sector is projected to have a surplus generation capacity going forward with significant take-or-pay contractual obligations. We anticipate an increasing interest cost from rolling-over of legacy debt burden of US\$7.46 billion accumulated from disruption of Egyptian gas supply between 2011 and 2015. Meanwhile, a large quantum of electricity bill-receivables from Government agencies (over JD 200 million added during 2018) also contribute to the sector's financial difficulties.
24. With the objective of addressing these challenges and putting the sector back on the road to financial sustainability and maintaining zero or positive operating balances in 2019 and beyond, the Government together with the World Bank team developed and adopted a Roadmap for Financial sustainability in the Electricity sector.
25. The Roadmap comprises of the following key measures, which we are committed to implement as planned:
 - We initiated important steps to reduce sector costs and to ensure adequate tariff revenues. Jordan started receiving piped gas from Egypt since January 2019, which is not only cheaper than the LNG, but also has a much lower indexation to the Brent oil prices. Along with some other cost reduction measures at NEPCO, and increased revenues from higher bulk tariffs charged by NEPCO to the distribution companies. The Government took the decision to eliminate cross-subsidies to households with three-phase connections or those with more than one meter. We are committed to ensure that there is no operational loss in the sector at the end of 2019 and will undertake quarterly review of the sector financial performance and implement timely measures to mitigate any revenue-gap, including adjustment of consumer tariffs if needed.
 - We imposed a moratorium on new generation contracts outside of the latest electricity master plan. Moreover, with an aim to address the excess generation capacity and high-cost take-or-pay contracts, we hired legal and financial advisors to help us optimize the risk and cost allocations under our portfolio of Power Purchase Agreements (PPAs) and related agreements. We are keen on



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reviewing these agreements and to take action to ensure that the prices paid by NEPCO are consistent with international experience and least cost electricity generation principles.

- We are also exploring options to export electricity to neighboring countries. We will continue to diversify our fuel sources towards cheaper, less volatile and domestic sources. Additionally, we committed to expanding domestic renewable energy capacity with suitable measures to address variability in generation.
- We will further adopt fair economic chargers applicable to self-generation consumers to reflect costs of capacity support, network support, network losses, and electricity banking, among others.
- The Ministry of Energy and Mineral Resources and the Ministry of Social Development will develop and implement a medium-term framework for improved targeting of tariff subsidies, as well as energy-saving schemes to reduce the need for cross-subsidies, and on-bill payment assistance to cap the amount of subsidy support. We anticipate that these measures will progressively decrease the cross-subsidy burden, allowing us to reduce the prevailing high tariffs for productive sectors.
- We adopted measures that will allow us, by the third quarter of 2019, to address the stock of electricity bill receivables from public agencies, as well as to ensure timely payment by all agencies going forward. These measures will include a one-time settlement of the stock of bill receivables by the Ministry of Finance against the advances provided to NEPCO earlier.
- We are in process of developing and adopting an Electricity Bill Recovery Mechanism, which would include a number of measures, including but not limited to: (i) ensure adequate budgetary allocation to public agencies for payment of electricity bills; and (ii) mechanism to ensure bill recovery in case of non-payment by due date. The design of the bill recovery mechanism will also capture schemes for public agencies to adopt energy efficiency and conservation measures.
- We reached out to the donor community in course of the London Conference in end February 2019 requesting their support for implementation of a comprehensive Debt Optimization Plan for managing NEPCO legacy debt. The Plan will be closely linked to the Financial Sustainability Roadmap of the Electricity Sector and will leverage commercial as well as developmental funds to replace expensive commercial debt with long-term blended finance to ensure a smooth debt service profile and reduce the interest burden.
- We remain committed to institutional and governance reforms in the sector. In 2018, we started implementing governance reforms at NEPCO with assistance from EBRD. We will strengthen the regulatory set-up according to global best practices on transparency, accountability and stakeholder participation in the processes.



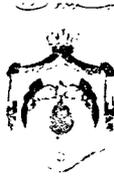
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26. Moreover, and as part of our transformation towards a low-carbon economy, the Government passed a new Climate Change Bylaw. This is important progress toward achieving Jordan's nationally determined contribution under the Paris Agreement of the United Nations Framework Convention on Climate Change, which proposes to reduce Jordan's greenhouse gas emissions by 14 percent by 2030. Over 80 percent of Jordan's greenhouse gas emissions come from the energy sector, including transport. Reducing the carbon intensity of the electricity sector requires increasing the share of natural gas and renewable energy, while reducing in the electricity generation mix. Reducing that of the transport sector involves a faster transition to electric vehicles. Jordan has one of the most advanced regulatory and policy frameworks for renewable energy investment in the MENA region. This policy framework has shown impressive results with the share of RE-based electricity generation rising from none in 2012 to more than 10 percent in 2018.
27. Initial assessment indicates that total carbon emissions from the electricity sector in Jordan has decreased by 31 percent by a quarter since 2014 (a carbon intensity decline of 35 percent) without adversely impacting NEPCO finances and despite the country absorbing a large influx of refugees. The new Climate Change Bylaw establishes the institutional framework for continuing this low carbon, while mainstreaming climate change across all sectors, enabling development of new mechanisms to facilitate climate action and attracting climate and green finance from public and private sources. This is important progress toward achieving Jordan's nationally determined contribution under the Paris Agreement of the United Nations Framework Convention on Climate Change, which proposes to reduce Jordan's greenhouse gas emissions by 14 percent by 2030.
28. This national commitment to climate action translates to sectoral actions across the transport, energy, industry, waste management, water and agriculture, and food security sectors, with the energy sector underpinning the bulk of emissions across other sectors.

III. Encouraging Private Investment and Entrepreneurship

Foreign Direct Investment

29. The Government of Jordan amended the Investment Regulation for Non-Jordanian Investors (Regulation No. 77-2016) removing equity restrictions on FDI in 22 additional activities (mainly in services) to unlock growth, create jobs, and support export diversification. The Government also adopted a gradual approach to liberalization, recognizing that it may disadvantage specific groups, and to allow for enough time to strengthen the competent authorities to ensure a level playing field and a fair and full implementation of the amended regulation.
30. Moving forward, the Government plans to institutionalize a strengthened investor grievance management mechanism that enables the Jordan Investment Commission (JIC) to identify, track,



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manage, and solve grievances arising between investors and public agencies within specified time periods. This would require adopting a policy, designing the investor grievance management implementation arrangements and adopting appropriate regulatory instruments (regulations/bylaws and/or instructions) to strengthen three critical elements of the investor grievance management mechanism, namely: (i) empowerment of JIC as the lead agency to establish and exercise an investor grievance management mechanism (including scope, escalation stages, etc.); (ii) details on the applicable procedural rules (requirements, eligibility, timelines, tracking device, portal, details on escalation, etc.); and (iii) scope, functions and obligations of JIC as the lead agency vis-à-vis other authorities and other review mechanisms, to institutionalize the filtering, referral, and problem-solving approach of grievance cases.

31. In terms of additional course adjustments, JIC will continue to strengthen governance and sharpen focus upon its investment promotion and investor-servicing mandate. As part of an inter-agency effort, the Government will continue to work on revising the incentives framework to achieve cost-effectiveness, improve transparency and administration, and better targeting to increase positive public spillovers and impact.

Exports

32. We intend to continue taking measures to improve competitiveness and bolster export diversification and growth. The Government's plan is aimed at intensifying export promotion and services to support Jordanian exporters; improving access to the EU, US, African and new and unconventional markets; improving National Quality Infrastructure; increasing export finance; and reducing the high cost of trade.
33. To this end, the Government established a national export promotion agency '*Enterprise Jordan*' following a partnership model between the public and private sectors, which will set in place an institutional framework to assist Jordanian businesses develop and promote their products in global markets. This is an essential step towards creating a sustainable framework for export promotion, which goes in line with the Government actions in facilitating export growth. Next steps include developing a strategy, action plans, and procedures and a sustainability model to ensure the effectiveness of this agency.
34. The relaxation of Rules of Origin (ROO) for exports to the EU in July 2016 provides a significant opportunity to diversify our markets and broaden our product mix. We took several active steps to accelerate the potential benefits of this opening and agreed in December 2018 to loosen the requirements for businesses to benefit from this arrangement. The ROO Decision, which was extended to 2030, is no longer restricted to pre-specified industrial and development zones and the minimum



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proportion of Syrian workers involved in production will now remain flat at 15 percent. Moreover, if the number of active work permits issued to Syrian refugees reaches 60 thousand, the minimum employment requirement will be lifted entirely.

35. Domestically, several workshops were conducted to raise awareness among Jordanian firms of the benefits and requirements of the revised initiative, while also simplifying application procedures, continuing with waiving fees associated with work-permit applications, and supporting Jordanian firms on marketing and certification for entry into the EU market. The Government also conducted trade missions to (and began free trade negotiations with) fast-growing East African countries, and to the U.S. (with which Jordan has a free trade agreement) to diversify the mix of products currently dominated by garments.
36. More broadly, for Jordan to expand its footprint in global markets, it must have the capacity to meet the standards that those markets require, which will in turn require an appropriate “National Quality Infrastructure” (NQI). In this regard, we will adopt a National Quality Policy and associated action plan in 2019 to eliminate internal conflicts of interest, increase the transparency and predictability of the process for adopting mandatory requirements, and provide a full range of NQI services to Jordanian customers—including conformity assessment, metrology, and surveillance.
37. On export finance, as part of DPF-1, the Government created an Export Guarantee Fund (managed by Jordan Loan Guarantee Corporation-JLGC) and provided capital in the form of a JD100 million loan from the Central Bank of Jordan to help support exporters. On the latter initiative, the Government adopted a strategic plan that will allow JLGC to increase its underwriting capacity on foreign buyers.
38. On trade facilitation, the Government approved new Customs Law and Bylaws permitting the implementation of a Customs Silver List (preferred merchant scheme); establishing single window procedures; addressing export controls and customs procedures (including integration and simplification of inspection work in export and import control institutions); and automating a number of key services.

Licensing and Inspections

39. A key Government priority is to further streamline the business environment through facilitating and integrating procedures and improving the investors’ journey. For this purpose, the Council of Ministers submitted to the Parliament for its consideration a bill abolishing the Crafts and Industries Law (1953), as a first step towards eliminating duplicative licensing requirements.
40. In the medium-term, the Government will streamline municipal licenses by enacting the amended Vocational Licensing Law for Greater Amman Municipality (GAM) and develop secondary legislation for it. We will also amend the Vocational Licensing Law for Municipalities to follow the revised model



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which is characterized by a streamlined vocational license that uses risk-based approaches and extended license validity, abolished health license, allowing virtual and home-based businesses and new types of businesses that could emerge, more transparent and predictable licensing regime by introducing governance principles, in addition to the inclusion of professional offices by merging the Law of Professional Offices Fees to streamline licensing and ensure a uniform vocational licensing regime for all businesses.

41. The Government will further streamline sectoral licenses. We started implementing the Licensing Reform Policy Paper (adopted by Council of Ministers in January 2019) and assigned a qualified and empowered core team with clear mandate and responsibilities. We also started to carry out capacity building and awareness raising activities on the Licensing Reform Policy Paper to ministries and agencies that issue licenses, as part of the consultations with the sectoral regulators on the findings of the Licensing Assessment report, on which we will reach decisions on final recommendations.
42. As part of this effort, the Government plans to revise the Cities and Villages Law to streamline zoning and construction permitting regimes, and to revise the environmental licensing regime as well as to undertake the required amendments to the Environmental Law and Environmental Licensing Bylaw.
43. The Government is also expediting inspections reform. The bylaws for the new Inspections Law were enacted October 2018. The Inspection Law, which was endorsed by Parliament in September 2017, streamlines the inspection mandates and processes of several inspectorates in Jordan, and will improve the business environment by reducing the burden on the private sector resulting from overlapping inspection mandates and unplanned inspection visits, and by reducing uncertainty by introducing risk-based targeting while raising business awareness on compliance requirements. The Law also emphasizes the role of the Higher Committee for Inspection Reform as the national umbrella for business inspections.
44. Subsequently, rationalizing and streamlining Jordan's inspections and licensing regimes will reduce the time and cost burden on businesses resulting from unnecessary inspections and improve the transparency and predictability of the licenses and inspections that are necessary. We started designing a fully integrated service delivery approach that integrates registration with licensing and inspection.
45. In the coming months, the Government will streamline and launch an online portal for business registration. Building on the approved policy for licensing reform, the Government will abolish unnecessary or excessive licensing, streamline remaining licenses that are necessary and extend license durations, and will put in place a moratorium on issuing new types of licenses that are not aligned with the principles of the Policy Paper. The Government of Jordan plans to implement the abolishment of the Crafts and Industries Law over the next six months. In this context, the Government will request adding



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it to the agenda of the extraordinary session of Parliament this summer. The Government will also take necessary steps to map all secondary regulations that are affected by abolishing this Law in order to come up with a more realistic timeline for abolishing or re-issuing these regulations.

Credit Infrastructure (Insolvency and Secured Transactions)

46. Modern Insolvency and Secured Transaction laws are the cornerstones of an enabling financial system. Jordan has made great progress on enacting and implementing both laws. Following the approval of the Insolvency Law in May 2018, we enacted the associated bylaws in January 2019. As next steps, the Government plans for efficient implementation of the reform through:
- *Legal drafting*: Draft the instructions foreseen in the regulation.
 - *Insolvency Practitioners (IPs) training and oversight*: (i) form the insolvency practitioners committee foreseen in the law and the regulation, (ii) develop training material for IPs & code of Ethic, (iii) Hold the first training round for IPs, (iv) certify first generation of IPs under the new regime.
 - *Capacity Building and Awareness Raising*: (i) Build capacity of judges in collaboration with the Judiciary Institute, and (ii) Raise awareness with lawyers, bankers, accountants and business community.
 - *Set-up the Insolvency E-Registry*: (i) fundraise for a customized IT solution, and (ii) appoint a registrar and train ministry officials.
47. Moreover, Parliament approved the new Secured Transactions Law (Law of Movable Asset Rights No. 20 of 2018) in April 2018, and the Council of Ministers approved the related Bylaw in October of the same year. Based on which, an online Collateral Registry was launched in March 2019. The Collateral Registry System was established under the Ministry of Industry, Trade and Supply as a fully functional, electronic registry in accordance with provisions of the new law. It is pertinent to note that the Collateral Registry had been launched as a pilot for registration of interests held by leasing companies, which by the provisions of the law, their registered interests will be categorized as prior notices.
48. By end of April 2019, 20 accounts had been setup and 325 transactions were registered. However, as this type of reform changes existing commercial practice and procedures, results are expected to become substantial within twelve months from the launch of the Registry. In the coming year, we plan to continue stakeholder engagement and capacity building that will focus on providing technical support to the Ministry of industry, Trade and Supply; and training on the scope of the legal framework to relevant stakeholder groups, associations and beneficiaries.



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Public Procurement

49. The Government recognizes that a well-functioning public procurement system can improve governance and service delivery, and advance sustainable development, through more efficient, transparent and accountable public spending. The recently enacted new Unified Public Procurement Bylaw no. 28 for 2019 provides for the establishment of a central policy and oversight unit and an independent complaints-handling unit. In addition, it contains provisions on framework agreements, electronic Government Procurement (e-GP), and alignment of SOE procurement practices with the provisions of the Bylaw.
50. The Government will allocate appropriate financial and human resources for its successful implementation by: (i) operationalizing the central policy and oversight unit and the procurement complaints handling unit by end of 2019; (ii) Issuance of regulations and standard bidding documents to support implementation of the new bylaw by December 2019; (iii) conduct an awareness campaign by October 2019; and (iv) develop and deliver a continuous capacity building program to all stakeholders including the private sector.
51. In line with the e-transformation program adopted by the Government, the development of the e-Government Procurement (e-GP) system, JONEPS, will ensure the highest levels of integrity, transparency of the procedures and fair competition between the bidders and wider, more equitable access to the procurement market for the private sector, including SMEs, women & youth, while also facilitating access to information and inclusion of stakeholders, including civil society.
52. Following the endorsement of the JONEPS enhancement strategy and action plan in March 2019, the Government made a commitment to allocate the needed financial and human resources in order to (i) set-up of the institutional framework by November 2019; (ii) develop and implement the enhanced system functionalities including measurement of procurement performance indicators by February 2020; (iii) support the Project Management Unit in implementation of JONEPS full roll-out and deployment; and (iv) develop and implement sustainable training of buyers and sellers.

Digital Economy - Broadband

53. Over the past decade, the digital economy has transcended the boundaries of physical borders, and it now provides a transformative opportunity for the world's economies to optimize growth and create platforms for the youth of today. The Government set a goal of broadening the base of digital economy in Jordan in its action plan (Reach 2025). Completion of the National Broadband Network (NBN), a key element of Reach 2025, is expected by 2021. Through the PPP setup, the NBN will obtain an important commercial value, increase the national penetration rates of broadband internet, reduce connectivity costs, and enhance the competitiveness of local businesses, and provide high-speed internet access in



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second tier cities. Entering into agreements with the private sector to lease the excess capacity of the NBN, based on a PPP model, will extend the broadband fiber access to additional 170,000 households as a direct result of NBN expansion.

54. In the coming months, the Government will select a company, following a competitive process, to manage and expand the NBN (by March 2020). As complementary measures to support the digital economy development, the Government will establish procedures mandating the use of digital signatures (e-signatures) by businesses for statutory filings with Government agencies. We will also negotiate current agreements with mobile operators to incentivize additional investments in the sector, including extending the duration of current spectrum licenses, creating a fund for digital skills development, and reviewing the current revenue-sharing model.

Transport and Gender

55. Related to reducing business cost and accessing newer markets is also the issue of transportation. The transport and logistics sectors contribute 9 percent to GDP in Jordan, and are recognized as an important driver of competitiveness, growth, job creation and social development. Government will focus on two areas in the transport sector, which are urban transport and freight transport.
56. First, in urban transport, and the current state of the subsector add enormous direct and indirect cost to commuting workers and poses an exceptional burden on women that want to enter the labor force. In urban transport, the Government initiated the reform process through the 2017 Public Transport Law, focused on consolidating the individual ownership of buses (80 percent) into companies, as a first step towards enhancing the quality and service reliability of Public Transport. The Ministry of Transport is piloting the reform in the city of Jerash, including the consolidation, the contracts with the new operators and the ITS system (GPS tracking and e-payments).
57. The Ministry of Transport is also revising the Public Transport Strategy for the cities of Irbid, Madaba, Zarqa and Salt, and consultations with the operators have started. The General Amman Municipality is developing the first Bus Rapid Transit in Jordan, which will have an integrated fare with its feeder buses, by 2021. The government also committed adopting e-payments for all public transport systems following the consolidation.
58. Recent studies show that about 47 percent of women reported that they turned down or gave up job opportunities because of the current state of public transportation with harassment being one of their main concerns. To respond to this, the Government developed the Code of Ethics and Professional Conduct for the transport sector, which will regulate the passenger, the driver and the operator conduct in public transport and which will address harassment in the public transport system.



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59. The code of conduct will be part of all the agreements to be signed with the new operators. It is very important to support the Ministry of Transport in implementing the code of conduct to ensure it has an impact on the ridership of women in public transport, and this includes communication, training of all key entities and personnel, particularly those in customer front-facing roles, and creation of a Grievance Redress Mechanism to ensure that complaints including on sexual harassment are addressed promptly and effectively.
60. Here, it is worth noting that user-oriented and gender-responsive public transportation is a public good - it can score environmental gains in terms of reducing traffic congestion, enhancing road safety and improving environmental outcomes, such, as reduction in emissions - by encouraging move from private to public transport usage, which can only be achieved if transport service providers accommodate the needs of their diverse passenger base and meets both women's and men's mobility needs.
61. A second very important area of concern for us is freight transport in the Amman-Aqaba corridor. The freight market in Jordan is based on trucking, which is fragmented both in terms of firm characteristics and market structure and runs an aged fleet that is subject to a range of regulatory constraints, including access restrictions at Aqaba Port. We are keen on reforming the sector and reaping the benefits of efficiencies of scale and scope. The Government will work with relevant stakeholders to develop an action plan that will upgrade the sector through fleet renewal, professionalization, and firm consolidation, while increasing overall trucking and logistics sector efficiency and reducing market distortions.
62. The Government is working in all these areas. The primary emphasis will be on containerized cargo for international trade. The Government is undertaking a number of measures to reduce the total cost of transport on the Amman-Aqaba corridor through the establishment of an electronic platform through the electronic system project of the way bill, and the introduction of e-payments. The Government will explore updating existing incentives for fleet renewal, implement a scrapping program based on global best practice and revise related regulations.

IV. Labor Market Reforms and Protecting the Poor

63. Creating good jobs for the fast-growing population is the Government's key aim where all reforms and efforts are geared to creating an economy that produces good-paying jobs. That said, we are working on addressing remaining challenges in the structure, performance and results of the labor market, including issues related to labor market segmentation. To address labor market segmentation, the Government is taking necessary steps to revise existing structures as well as legal and regulatory framework wherever needed.



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64. In parallel, to promote a more inclusive growth process and help households manage the risks from some necessary fiscal reforms, including price increases in certain sectors such as electricity and water and the removal of subsidies, the Government will continue to expand and improve targeting of social safety nets for the poor and vulnerable.

Labor Market Segmentation - Gender

65. The Government prioritizes the creation and facilitating employment opportunities especially for women noting that Jordan's women economic participation is among the lowest globally and regionally at 14 percent. In this respect, the Government is committed to continued revisions of laws and regulations that may affect the opportunities and outcomes of women in the labor force. In line with DPF-2, we have undertaken a number of actions to further improve and promote women economic participation, including amendments to the Labor Law.
66. While good childcare is a family issue, not women's issue, in Jordan, access to good childcare does affect women more than men. For this reason, reforms providing childcare and facilitating licensing for establishing childcare establishments is an initiative to help women enter and stay in the labor force. The new Labor Law makes it mandatory for all establishments with more than 20 parents (not just mothers) to have childcare on their premises or to provide vouchers for private childcare. In addition to the fact that access to affordable childcare is an important factor in their decision to join the labor force, nurseries are a potentially important sector of employment for women.
67. Moreover, concerns about the burden that requirements to provide childcare for employees place on business are addressed. The Government is considering a pilot voucher system that will allow flexibility both in the financing and provision of these childcare services. The gist is to show less costly, and equally effective, modes of fulfilling the mandate to have more childcare services available to working mothers and fathers. If successful, the pilot will allow the Government to exploit the flexibility the new Labor Law provided private businesses to help finance some of the cost of childcare services.
68. In addition to the Code of Conduct adopted by the Ministry of Transport, the Ministry of Labor has also recently introduced a Code of Conduct for Employers and Employees in the Workplace to be adopted by companies as part of their annual registration process. Both codes of conduct make explicit references to sexual harassment and gender-based discrimination and specify Grievance Redress Mechanisms in the instructions. The Government expects that this will allay concerns, prominent in the Jordanian streets, that women are not safe when using public transport and in the workplace. This relatively modest measure is expected to begin to turn that view around and help women enter the workforce.



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69. To address Jordan's relatively poor jobs performance, especially for young Jordanians, the Government introduced more flexibility into the labor market. New legislation was approved to promote and regulate flexible work (part-time work) with hourly minimum wage rates to encourage employment of women and youth. The Government is also considering options such as temporarily reducing the employer's contribution to the social security fund when the employer hires a new entrant to the labor market. The Government is working with the World Bank to understand how such a temporary reduction would impact the social security fund and to estimate whether there would be sufficiently added youth employment to justify the costs.
70. The Government's ongoing efforts to reduce informality will also help promote demand for young Jordanian workers. Government ongoing efforts to better manage the number of permits provided to foreign workers through the Ministry of Labor's work permit reforms would help stem the flow of guest workers entering the informal sector once their permits have expired. Informality attenuates incentives for the economy to produce better quality low-skilled jobs, disadvantaging youth. Young workers, given their relatively lean experience and comparatively low skills, compete for work that is most likely to be the type informal workers do. Because of their informal status, these workers are likely less expensive and more flexible than young workers protected by the law and expecting that worker-employer relationship will not be abusive.
71. Finally, the Government and the World Bank are engaged in a study of the Social Security Corporation regulations. This joint effort is studying equalizing, for example, the retirement age of men and women. At present, women's eligibility to retire with full social security benefits comes earlier than for men and may be encouraging women to leave their jobs when the Government may prefer them continue to be productive at work.

High skilled Labor

72. The Government will stimulate job creation by allowing talented foreign workers to make contributions to the local economy. To stimulate labor demand and increase job opportunities, the Government liberalized visa requirements for high-skilled foreign workers. By allowing high-skilled foreign labor to enter, this reform fills labor shortages for this segment of the labor market and keeps it working efficiently. This visa reform is a job creation measure because high-skilled immigrants contribute to technological adaptation that has been shown to result in jobs for less-skilled native workers.
73. The Government recognizes that high-skilled foreign workers are likely to complement less-skilled workers—not replace them. The Government expects that high-skilled foreign workers add value to the work of others and improve productivity and growth overall.



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Labor Market Segmentation - Supporting Syrian Refugees

74. One of the most pressing problems in unemployment and underemployment is found in the Syrian refugee community. Many Syrian refugees have yet to receive work permits, but they nevertheless have high employment rates. Their drive to work, regardless of their qualifications, likely means they seek and gain employment in the informal sector. To increase formal participation of Syrian men and women in the Jordanian labor market, the Government instituted a set of reforms that facilitate refugee access to the formal labor market. The Government waived work permits fees for Syrians since 2016 (over 143,000 cumulative work permits were issued since 2016), introduced flexible work permits in agriculture and construction sectors, and recently allowed home-based businesses for Syrians refugees.

Social Protection

75. The Government is committed to an ambitious social safety nets reform agenda to enhance the protection of the poor and to facilitate their transition out of poverty. First, we are expanding the coverage of NAF's cash transfers to an additional 85,000 households by 2021. The first phase of the expansion, covering 25,000 new households will start very soon. The Government is committed to ensuring adequate budget to cover 55,000 additional households in 2020 and 85,000 additional households in 2021. The expansion of cash transfers is being accompanied by improvements in the delivery system of the program, including the digitalization of payments to beneficiaries and improved targeting. Second, the Government of Jordan will also, starting in 2019, complement income support through NAF with other services, such as health insurance. Third, the Government of Jordan is also envisaging the introduction of energy support benefits to help protect poor consumers. Fourth, starting in 2020, the Government of Jordan will start providing employment support to selected NAF beneficiaries, focusing on employable youth. Fifth, this enhanced support to the poor will eventually be delivered through two interconnected platforms: the National Unified Registry (for income support and social services) and the National Electronic Employment System (for employment support services). Given the limited fiscal space, as income support and key services are expanded, programs with low cost-effectiveness will be reformed.

Implementation of the Five-Year Growth Matrix

76. The Government is keen on paving the country's path for economic revival, through inclusive and sustainable growth, and most importantly, through signaling to the world that Jordan is open for business. The Government considers the reform agenda an essential part of its 2-year Work Plan, which in turn, will reposition Jordan as a successful model in the region, as enabler and implementer of reforms, and as a catalyst for development from every angle and in every sector.



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77. With the help of its development partners, the Government worked on developing a well-defined five-year reform matrix, which identifies a sequenced set of priority reforms to be implemented as part of Jordan's economic revival plan. The Government thus commits to focusing on implementing the prior actions identified in the DPF-2 operation over the period 2019-2020, which are considered as critical milestone for the release of the second tranche as stipulated in the operation's Program Document.
78. The international community has played, and continues to play, an important role in supporting Jordan and the Jordanian people during challenging times. Jordan, in turn, has exerted every effort to establish and maintain a long standing, strong partnership with its development partners. More recently, donor support has been extended to the Government in terms of reinforcing a mechanism for delivery of support and commitment to the priority reforms identified as part of the DPF2 operation. As Jordan continues to carry the burden of large financing needs, an agreement has been reached that donor financing will be sequenced based on the enactment of reforms.
79. We, hereby, reiterate that our Government considers the reforms identified in the Five-Year Growth Matrix of highest priority, and as such, it dedicated serious efforts over the last months to mobilize the Cabinet and relevant authorities to ensure that necessary laws have been passed accordingly, and that adequate funding has been allocated to finance the implementation of prior actions.
80. Implementing these reforms as planned will also send an important signal to our partners. The Government was keen on publicly discussing the priority reforms, to ensure a consultative process and buy-in from the public. The Government of Jordan was also earnestly keen on developing a time bound action plan for each of the tranche prior actions. Moreover, while a strong and efficient governance structure for the Five-Year Reform Matrix is being established, the process has been accelerated for energy reforms.

In conclusion, the Government reaffirms its commitment to the reforms supported by DPF-2. In particular, the Government commits to implementing reforms envisioned under the second tranche of the DPF-2 to which the Government's Cabinet decisions attest.

Our Government appreciates the seriousness of the country's fiscal conditions and financing needs, and will continue to mobilize every effort towards implementing the Five-Year Growth Matrix, to benefit from the important lifeline financing resources available such as DPF-2, and to further obtain Bank support in devising projects and utilizing lending instruments that serve the reform process, and ultimately, serve the interests of the Jordanian people.



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Finally, allow me to take this opportunity to reiterate our sincere appreciation to the World Bank Group continued support to Jordan and we look forward to a stronger partnership in the future.

Please accept my highest esteem and consideration.

Sincerely,

A handwritten signature in black ink, consisting of a long horizontal stroke followed by a stylized, cursive signature.

Dr. Omar Razzaz
Prime Minister