

JORDAN ECONOMIC MONITOR

THE CHALLENGE AHEAD

Spring 2016



**Global Practice for Macroeconomics & Fiscal Management
MIDDLE EAST AND NORTH AFRICA REGION**

The World Bank

PREFACE

The *Jordan Economic Monitor* provides an update on key economic developments and policies over the past six months. It also presents findings from recent World Bank work on Jordan. It places them in a longer-term and global context, and assesses the implications of these developments and other changes in policy for the outlook for the country. Its coverage ranges from the macro-economy to financial markets to indicators of human welfare and development. It is intended for a wide audience, including policy makers, business leaders, financial market participants, and the community of analysts and professionals engaged in Jordan.

The *Jordan Economic Monitor* is a product of the World Bank's Global Practice for Macroeconomics & Fiscal Management, (GMFDR) team. It was prepared by Léa Hakim (Economist), Samer Matta (Economic Analyst) and Zeina Hasna (Economic Analyst), under the general guidance of Eric Le Borgne (Lead Economist) and Auguste Tano Kouame (Global Practice Manager). The Special Focus was prepared by Sima Kanaan, Lead Social Development Specialist. May Ibrahim (Senior Executive Assistant) provided Arabic translation and Zeina El Khalil (Communications Officer) print-produced the report.

Macroeconomic projections are as of 1 March 2016.
Data is as of 15 April 2016.

The findings, interpretations, and conclusions expressed in this Monitor are those of World Bank staff and do not necessarily reflect the views of the Executive Board of The World Bank or the governments they represent.

For information about the World Bank and its activities in Jordan, including e-copies of this publication, please visit www.worldbank.org.jo

To be included on an email distribution list for this *Jordan Economic Monitor* series and related publications, please contact Nada Abou Rizk (nabourizk@worldbank.org). For questions and comments on the content of this publication, please contact Léa Hakim (lhakim1@worldbank.org) or Eric Le Borgne (eleborgne@worldbank.org). Questions from the media can be addressed to Mona Ziade (mziade@worldbank.org).

TABLE OF CONTENTS

PREFACE.....	1
EXECUTIVE SUMMARY	4
الملخص التنفيذي	7
RECENT ECONOMIC AND POLICY DEVELOPMENTS	8
Output and Demand	8
Labor and Employment	11
Fiscal Policy.....	12
External Sector	13
Monetary Policy and Finance	14
PROSPECTS	18
SPECIAL FOCUS: Enhancing Municipal Service Delivery Amidst Urban Displacement in Jordan	20
I. Context	20
II. The Emergency Services and Social Resilience Program (ESSRP) – An Innovative Approach for Dealing with Urban Displacement	24
III. Results to Date.....	24
IV. Lessons Learned.....	26
V. Project Adjustments and Potential for Generating Employment Opportunities	28
VI. Addressing Urban Displacement – the Opportunities and Challenges of Working Through Local Authorities	29
DATA APPENDIX.....	31
SELECTED SPECIAL FOCUS FROM RECENT LEBANON ECONOMIC MONITORS.....	32
SELECTED RECENT WORLD BANK PUBLICATIONS ON JORDAN	34

LIST OF FIGURES

FIGURE 1. GDP growth slows for the first time since 2010	9
FIGURE 2. Jordan's 2015 growth rate broadly in line with MENA average	9
FIGURE 3. Services and industry are main drivers of growth	9
FIGURE 4. ... despite a weaker tourism sector	9
FIGURE 5. Lower housing demand slows down the construction sector.	10
FIGURE 6. ... while mining and quarrying production improves	10
FIGURE 7. Net exports and private demand fuel growth on the demand side	11
FIGURE 8.with steady increases in credit growth	11
FIGURE 9. High and worsening unemployment rate	12
FIGURE 10. Fiscal deficit narrower in 2015 despite revenue contraction	13
FIGURE 11. Debt-to-GDP ratio exceeds 93 percent.....	13
FIGURE 12. Lower energy imports narrow the goods trade balance	14
FIGURE 13. Wider current account due to lower public transfers and service exports	14
FIGURE 14. Deflationary pressures throughout 2015	15
FIGURE 15. ... with core at lowest since May 2013	15
FIGURE 16. Central Bank of Jordan continues loose monetary stance in 2015	15
FIGURE 17. ASEI weaker than 2014	15
FIGURE 18. Most municipalities targeted incurring fiscal deficits (2010-2012 average).....	21
FIGURE 19. Salaries and wages account for 60 percent of average municipal expenditures compared to 16 percent for service provision capital expenditures	21
FIGURE 20. Per capita municipal expenditure decreases by average of 29 percent with refugees	21
FIGURE 21. Pre-existing structural vulnerabilities in Jordan, exacerbated by Syrian crisis, main fault lines for	

social cohesion and community resilience	22
FIGURE 22. Project Rationale	22
FIGURE 23. Most indicators achieved / surpassed target	25
FIGURE 24. Proportion of households agreeing that the municipality responds to their priority needs	27
FIGURE 25. Methodology of the first monitoring round.....	27
FIGURE 26. Reported levels of household satisfaction with ESSRP Solid Waste Management Intervention .	28

LIST OF TABLES

TABLE 1. Financial Soundness Indicators	16
TABLE 2. Selected Economic Indicators	31

LIST OF BOXES

BOX 1. The Jordan Compact	16
BOX 2. The Emergency Services and Social Resilience Program – Fact Sheet	23
BOX 3. Women’s Sewing Workshop in Sarhan	24
BOX 4. ESSRP Independent Monitoring Methodology	27
BOX 5. Good Practice Case Study: Gharb Irbid	28

LIST OF KEY ABBREVIATIONS USED

bps:	Basis points
H1, H2:	First half of the year, second half of the year.
3mma:	Three-months moving average
pp:	Percentage points
Q1 (Q2, Q3, Q4):	First (second, third, fourth) quarter of the year
qoq:	Quarter-on-quarter
sa:	Seasonally adjusted
saar:	Seasonally adjusted, annual rate
yoy:	Year-on-year
lhs, rhs:	Left hand side, right hand side (for axis of figures)
ESSRP:	The Emergency Services and Socail Resilience Program

EXECUTIVE SUMMARY

i. Amidst a turbulent regional political and security environment, Jordan wrestles with sluggish growth and high unemployment. A number of risks materialized in 2015, particularly related to security spillovers and their negative impact on tourism, construction, investment and exports. As such, the economy slowed down for the first time since 2010, further widening Jordan's output gap, with growth declining from 3.1 percent in 2014 to 2.4 percent for 2015. However, growth remained otherwise broad-based. The largest contributions to growth came from 'finance and insurance services', 'transport, storage and communications', 'producers of government services', 'electricity and water' and manufacturing sectors although it was 'mining and quarrying' and 'electricity and water' that saw the highest growth rates in 2015. Unemployment reached an average of 13.0 percent in 2015, 1.1 percentage points wider compared to 2014.

ii. Deflationary pressures persisted for most of 2015 due to continued lower oil prices, a weakened Euro, a negative output gap, and the disappearance of previous years' supply side constraints (such as those on housing, due to the large refugee influx in 2012-13). While the central bank continued its expansionary monetary policy, reducing the policy lending rate by 125 bps over 2015, its US\$14.2 billion (7.5 months of imports) gross foreign exchange reserves were 0.5 percent higher by end-2015 compared to end-2014.

iii. The fiscal deficit was narrower in 2015 thanks to lower transfers to the National Electric Power Company (NEPCO) and Water Authority of Jordan (WAJ) and other expenditures amid reduced domestic revenues and grants. The fiscal deficit tightened to 3.6 percent of GDP in 2015 from 9.3 percent. In 2015, NEPCO and WAJ mostly resorted to borrowing from commercial banks (with

a sovereign guarantee) instead of the government. This provided a 6.9 percent of GDP relief to the fiscal balance, without which the fiscal deficit would have widened. NEPCO's debt, the fiscal deficit and slowing GDP growth contributed to pushing the gross debt-to-GDP ratio to 93.4 percent at end-2015. Jordan is working towards an Extended Fund Facility (EFF) with the IMF, anticipated to support further fiscal consolidation efforts in parallel to spurring growth-enhancing structural reforms.

iv. The current account deficit widened despite the impact of depressed oil prices on imports. Lower public transfers and 7.1 percent reduced travel receipts pushed the current account deficit wider by 1.6 percent of GDP to 8.9 percent despite a tighter merchandize trade balance and growing, yet decelerating, remittances. The merchandize trade balance narrowed by 14.7 percent on account of 40.6 percent tighter energy imports which outweighed a 7.1 percent contraction of domestic exports. While domestic exports were buttressed by 10.9 percent growth in phosphate exports, they were affected by land trade route closures with Syria and Iraq, Jordan's traditionally largest export partner, overtaken by the Gulf Cooperation Countries (GCC) and U.S.

v. Growth is projected to rebound slightly, to an average of 3.3 percent over 2016-2018, provided no further spillovers from the Syrian crisis occur. This, however, reflects a downward level shift from the previous medium-term projections given the protracted low oil prices' impact—through the GCC—on reducing investment, and potentially grants and remittances to Jordan. Growth is projected at 3.0 percent in 2016 on account of a growing 'mining and quarrying' sector, some energy investments and base effect of tourism and construction sectors. The

baseline forecast also assumes (i) agreement on an IMF EFF leading to fiscal adjustment and lower debt-to-GDP levels, and (ii) some trickling in of grants and concessional financing pledged at the February 2016 London donor conference. Jordan's announced plan to create jobs for Jordanians and Syrian refugees, attract new investment, rebuild host communities, and mobilize sufficient financing to support its macroeconomic framework is ambitious and contingent on timely reform implementation.

vi. The balance of risks is on the downside. Chiefly, Jordan will need to continue managing repercussions from the regional security and political situation, and the challenges of hosting 1.37 million Syrians (of which 639,704 registered refugees).¹ Additionally, since Jordan benefits from the GCC for remittances, exports, FDI and grants – large sources of foreign exchange - persistently low oil prices are a risk for Jordan this year and in the medium term. Weak global demand may impact demand for Jordan's mining exports. Furthermore, the willingness and speed of reform implementation particularly to improve the business climate will be crucial to attract Jordan's investment aspirations.

¹ Total Syrian population as per 2015 Census. Registered Syrian refugees figure as per UNCHR 3 March 2016.

vi. ميزان المخاطر يتجه نحو الانحدار. بشكل عام، على الأردن أن يستمر في معالجة تداعيات الأوضاع الأمنية والسياسية، والتحديات الناجمة عن وجود ١,٣ مليون سوري على أرضه (٦٣٩,٧٠٤ منهم لاجئين مسجلين)^٢. وبما أن الأردن يستفيد من التحويلات القادمة من بلدان مجلس التعاون الخليجي، وال الصادرات، والاستثمارات الأجنبية المباشرة، والهبات - وهي من أهم مصادر النقد الأجنبي - يشكل هبوط أسعار النفط المستمر خطراً على الأردن هذا العام وعلى المدى المتوسط. كما أن الطلب العالمي الضعيف قد يؤثر على الطلب في قطاع التعدين وبالتالي على التصدير. يبقى استعداد الأردن على تنفيذ الإصلاحات وبشكل سريع، خصوصاً في مجال تعزيز مناخ أنشطة الأعمال، العنصر الأساسي في جذب الاستثمارات التي يطمح إليها البلد.

^٢ العدد الإجمالي للسوريين المقيمين في الأردن بحسب المسح السكاني عام ٢٠١٥. اللاجئون السوريون المسجلون بحسب المفوضية السامية لشؤون اللاجئين (٣ آذار/مارس ٢٠١٦).

الملخص التنفيذي

ويعمل الأردن على تبني برنامج تسهيل الصندوق الممدد مع صندوق النقد الدولي، حيث من المتوقع أن يدعم المزيد من جهود ضبط أوضاع المالية العامة بالتزامن مع تحفيز الإصلاحات الهيكلية لدعم النمو.

iv. توسيع العجز في الحساب الجاري على الرغم من تأثير هبوط أسعار النفط على الواردات. أدى انخفاض التحويلات العامة، والتقليل الحاصل بنسبة ١,٧ بالمائة في المبالغ المستلمة المتعلقة بالسفر، إلى المزيد من توسيع عجز الحساب الجاري بنسبة ١,٦ بالمائة من الناتج المحلي الإجمالي ليبلغ ٨,٩ بالمائة، وذلك بالرغم من التسديد في ميزان البضائع ونمو التحويلات وإن على نحو بطيء. وضاق ميزان تجارة البضائع بنسبة ٧,٧ بالمائة بسبب انخفاض الواردات النفطية بنسبة ٤٠,٦ بالمائة، والتي فاق أثرها على انكماش الصادرات المحلية بنسبة ٧,١ بالمائة. وفيما كانت الصادرات المحلية مدفوعة بنمو في صادرات مادة الفوسفات بنسبة ١٠,٩ بالمائة، تأثرت بإغلاق الممرات التجارية الحدودية مع سوريا والعراق، الذي كان يعتبر شريك الأردن الأكبر في مجال الصادرات. مما أدى إلى تصدر مجلس التعاون الخليجي والولايات المتحدة الأمريكية لائحة البلدان التي يصدر إليه الأردن.

v. من المتوقع أن ينتعش النمو بشكل ضئيل، ليبلغ ٣,٣ بالمائة كمعدل خلال الفترة ٢٠١٦-٢٠١٨، شرط أن لا تتفاقم تداعيات الأزمة السورية. ولكن يعكس ذلك تحوّل انحداري مقارنة بالتوقعات السابقة على المدى المتوسط، في ضوء تأثير هبوط أسعار النفط (عبر مجلس التعاون الخليجي) على تقليل الاستثمارات واحتمالية التأثير على الهبات والتحويلات إلى الأردن. من المتوقع أن تبلغ نسبة النمو ٣ بالمائة في العام ٢٠١٦ نتيجة لنمو قطاع التعدين والمحاجر، وبعض الاستثمارات في قطاع الطاقة وتتأثر كل من قطاعي السياحة والبناء، نسبة لأدائهما في العام ٢٠١٥. كما أن توقعات الخط الأساس تفترض التالي: (١) التوافق على برنامج تسهيل الصندوق الممدد الخاص بصندوق النقد الدولي مما يؤدي وبالتالي إلى ضبط أوضاع المالية العامة وخفض نسبة الدين إلى الناتج المحلي الإجمالي، و(٢) بعض التدفق في الهبات والقروض الميسرة بحسب تعهدات الدول المانحة في مؤتمر لندن الذي انعقد في شباط/فبراير ٢٠١٦. وتُعتبر الخطة التي أعلنها الأردن طموحة في ما يخص خلق فرص عمل للأردنيين واللاجئين السوريين، وجذب استثمارات جديدة ومساهمة في بناء المجتمعات المضيفة، وتبئية التمويل اللازم لدعم إطار الاقتصاد الكلي، وتشترط تنفيذ الإصلاحات في أقرب وقت.

.i. يعني الأردن من تباطؤ واضح في معدلات النمو وارتفاع نسبه البطالة وسط اوضاع إقليمية سياسية وأمنية يسودها الاضطراب. تبلورت المخاطر في العام ٢٠١٥ وبالخصوص تلك المتعلقة بالتداعيات الأمنية وأثارها السلبية على كل من قطاع السياحة، والبناء، والاستثمار، والصادرات. وقد أدى ذلك إلى تباطؤ في النمو للمرة الأولى منذ العام ٢٠١٠، مما زاد من توسيع فجوة الناتج، بحيث انخفض معدل النمو من ١,١ بالمائة في عام ٢٠١٤ إلى ٢,٤ بالمائة عام ٢٠١٥. وبالرغم من ذلك، حافظ النمو على قاعدته الواسعة. وأدت أكبر المساهمات المحركة للنمو من خلال قطاعات الخدمات المالية والتأمين، والنقل والتغذية والاتصالات، ومنتجي الخدمات الحكومية، والكهرباء والمياه، والصناعة، على الرغم من أن القطاعات التي شهدت أعلى معدلات للنمو في العام ٢٠١٥ اختصرت على التعدين والمحاجر، والكهرباء والمياه. وبلغت نسبة البطالة ١٢ بالمائة في العام ٢٠١٥، أي ارتفعت بنسبة ١,١ نقطة مئوية مقارنة بالعام ٢٠١٤.

.ii. استمرت الضغوط الانكمashية خلال الجزء الأكبر من العام ٢٠١٥ بسبب استمرار انخفاض أسعار النفط، وضعف عملة اليورو، وفجوة الناتج السلبية، وتلاشى القيود السابقة المتعلقة بالعرض (كالقيود على القطاع السكني على سبيل المثال بسبب التدفق الكبير لللاجئين السوريين في الفترة ٢٠١٣-٢٠١٢). وبينما استمر المصرف المركزي بتنفيذ سياسة التضييق بنسبة ١٢٥ نقطة أساس خالل العام ٢٠١٥، ارتفع احتياطي النقد الأجنبي الإجمالي الذي بلغ ١٤,٢ مليار دولار أمريكي (ما يعادل ٧,٥ أشهر من الواردات) بنسبة ٥,٥ بالمائة بحلول نهاية العام ٢٠١٥، مقارنة بنهاية العام ٢٠١٤.

.iii. كما ضاق العجز المالي في العام ٢٠١٥ بفضل انخفاض التحويلات إلى الشركة الوطنية للكهرباء وسلطة المياه الأردنية ونفقات أخرى في غضون انخفاض الإيرادات الداخلية والهبات. وقد تقلص العجز المالي إلى ٣,٦ بالمائة من الناتج الإجمالي المحلي في عام ٢٠١٥، مقارنة بـ ٩,٣ بالمائة في العام ٢٠١٤. وفي العام ٢٠١٥، لجأت كل من الشركة الوطنية للكهرباء وسلطة المياه عموماً إلى الاقتراض من المصارف التجارية (مع ضمانات سيادية) بدل من اللجوء إلى الحكومة. وقد أدى ذلك إلى تقليل الضغوط على التوازن المالي بنسبة ٦,٩ بالمائة من الناتج المحلي الإجمالي، بحيث منعت تلك الخطوة من توسيع العجز المالي. وقد ساهمت ديون الشركة الوطنية للكهرباء والعجز المالي وتباطؤ النمو في الناتج المحلي الإجمالي في دفع نسبة الدين العام الإجمالي إلى ٩٣,٤ بالمائة في نهاية العام ٢٠١٥.

RECENT ECONOMIC AND POLICY DEVELOPMENTS

1. Jordan remains a secure country in a volatile region yet vulnerabilities have surfaced.

Security incidents in the last year have served as reminders of underlying threats to and in the Kingdom. Such incidents have negatively impacted the economy with land route closures a blow to exports. The Jaber/Nassib crossing land route with Syria closed by Jordan in April 2015 and that of Terbil with Jordan closed by Iraq in July 2015 due to security concerns. While these routes remain closed, there are efforts to re-open the road between Baghdad and Amman.

2. Population pressures, quantified by the recent census, and economic shocks are likely to have raised poverty in Jordan. Data and analysis from previous decades reveal that growth has been the main driver of poverty reduction in Jordan. However, many Jordanians are still vulnerable to fall into poverty given the uncertainty the country is facing on many fronts including the influx of forced displaced populations, prices and delicate labor market dynamics. The 2015 population census highlights a large growth rate in Jordan's population. At 9.5 million, Jordan's population surged by 70 percent compared to 2004 (5.6 million), or a 10-fold increase in 55 years. The census reveals that 30 percent of the population is non-Jordanian, of which 1.3 million Syrians, followed by 0.6 million Egyptians and Palestinians each. Officially, 639,704 Syrians are registered with UNHCR (3 March 2016) and managing the refugee crisis remains one of Jordan's utmost challenges.

3. While some political reforms emerge, the population is feeling the impact of sluggish growth.

The 2016 Elections Law was ratified on March 10th after extensive discussions within and outside Parliament setting the ground for Parliamentary elections due by January 2017. The law decreases

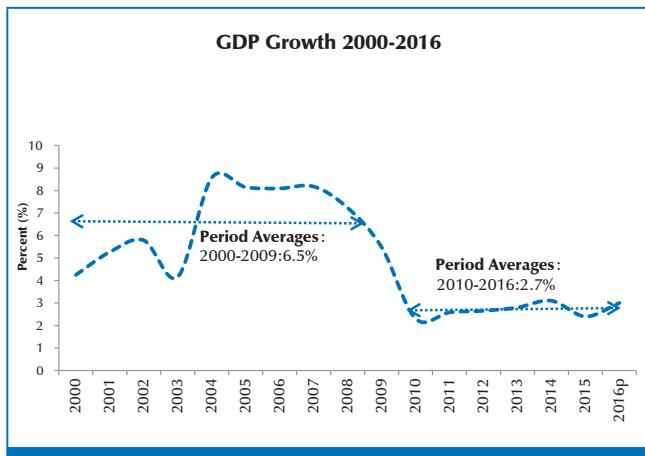
the number of seats in the Lower House from 150 to 130, allows those who turn 18 ninety days before election day to vote, divides electoral districts and allocates a 15-seat quota for women.

Output and Demand

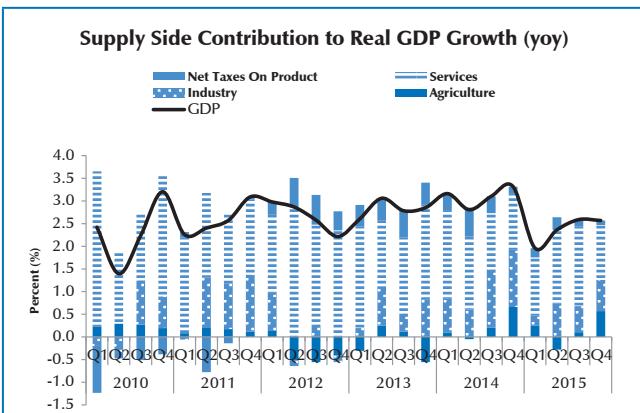
4. A number of risks manifested in 2015 dragging down growth for the first time since 2010. While previous shocks to the economy such as the main influx of Syrian refugees and Egyptian gas supply interruptions were "priced in", new vulnerabilities emerged.³ The total closure of land trade routes with Syria and Iraq in April and July 2015 respectively, and other security-related challenges within and around Jordan adversely impacted trade, tourism, investment and construction. Headwind possibly also stemmed from lower government expenditures related to the fiscal consolidation program embarked on with the International Monetary Fund (IMF) 2012-2015 Stand-by-Arrangement (SBA) though these may have also improved confidence in the macro framework. Progressive pick-up in subsequent quarters of 2015 was insufficient to offset the break-in-growth momentum observed in the first quarter (Q1-2015) of the year.⁴ Growth thus slowed to 2.4 percent from 3.1 percent in 2014 further widening Jordan's output gap (Figure 1). While Jordan's 2015 economic growth performance is broadly in line with the Middle East and North Africa (MENA)

³ The main influx of Syrian refugees occurred in 2012 and 2013 such that end-2013, 90 percent of the currently registered refugees had already been relocated to Jordan. As of 3 March 2016, 639,704 Syrians are registered with UNHCR. The 2015 census reveals a total of 1.3 million Syrians.

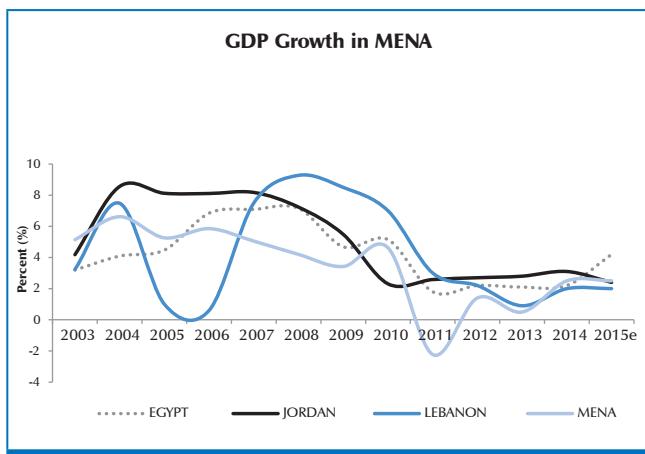
⁴ On a year on year basis, growth for Q1-2015, Q2-2015 and Q3-2015 registered 2.0, 2.4, and 2.6 percent respectively.

**FIGURE 1. GDP growth slows for the first time since 2010**

Source: Department of Statistics and World Bank staff calculations

**FIGURE 3. Services and industry are main drivers of growth...**

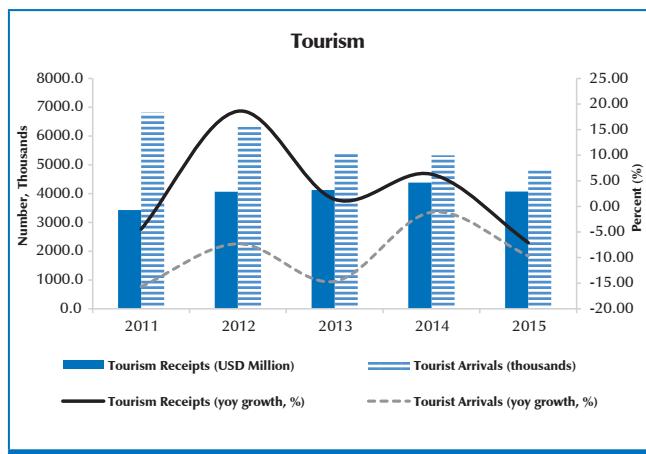
Source: Department of Statistics and World Bank calculations

**FIGURE 2. Jordan's 2015 growth rate broadly in line with MENA average**

Source: World Bank Economic Prospects, January 2016

average of 2.5 percent, it lags behind estimated average growth of developing countries at 4.3 percent (Figure 2).⁵

5. Despite the main drags on growth from tourism and construction sectors, a range of sectors contributed to growth. Throughout 2015, the economy grew by an average of 2.4 percent overcoming setbacks in ‘restaurants and hotels’ and construction sectors which retracted by 3.3 percent and 1.3 percent respectively compared to 2014 (Figure 3). Such results reflect a subdued tourist season with 4.8 million tourists visiting the Kingdom in 2015, 9.7 percent lower than in 2014 (Figure 4). Tourist reluctance to visit Jordan amidst conflict in neighboring countries also impacted travel receipts, 7.1 percent lower in 2015. The construction sector

**FIGURE 4. ... despite a weaker tourism sector**

Source: Ministry of Tourism, Central Bank of Jordan and World Bank

which saw 9.6 percent less permits granted in 2015 was impacted, in part, by lower housing demand due to the population abatement resulting from a significantly slower Syrian refugee influx and from a hesitant market averse to investment (Figure 5). A number of sectors however pushed up growth. Of all sectors, ‘mining and quarrying’ witnessed the largest surge growing by 11 percent following by ‘electricity and water’ at 10.9 percent. The mining and quarrying production index grew by 11.4 percent in 2015 compared to 2014 driven by another strong year for phosphate and potash production (each growing by 10.9 percent and 12.9 percent respectively) (Figure 6). Despite its impressive performance, the contribution of ‘mining and quarrying’ to GDP growth retracted to 0.17 percentage points in 2015 compared to its contribution of 0.34 percentage points of GDP in 2014. ‘Finance and insurance

⁵ World Bank. Global Economic Prospects. January 2016.

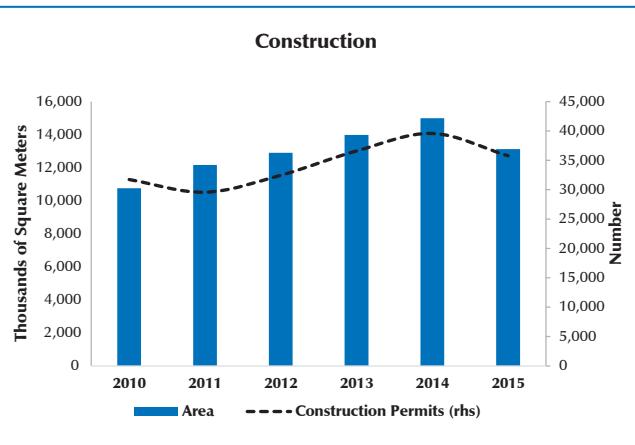


FIGURE 5. Lower housing demand slows down the construction sector...

Source: Central Bank of Jordan and World Bank staff calculations

services', 'transport, storage and communications', 'producers of government services' were the largest contributing sectors to growth from the supply side (each contributing 0.46 points, 0.45 points, 0.26 points to GDP growth in 2015, respectively) followed by 'electricity and water' and manufacturing.

6. Incentive measures introduced by the government in 2015 have been extended and expanded in an effort to boost economic activity and improve service. In addition to incentive measures adopted in tourism and real estate in the first half of 2015, the government introduced further incentives in the Information, Communication and Technology (ICT) and transportation sectors in October 2015.⁶ Aiming to support the ICT sector, the government outlined sales tax exemptions on goods and services related to ICT services, a 30 percent reduction on income tax rates for 10 years and custom duties exemptions on specific ICT services.⁷ Incentives in the transportation sector aim at improving performance of the sector and bettering experience of passengers. Sales tax and customs duty exemptions have been granted to companies operating Bus Rapid Transit services and those that have a fleet of at least 20 new and environmentally-friendly transport buses at the time of registration. In December 2015, the government

⁶ For details of tourism and real estate incentives, refer to World Bank. Jordan Economic Monitor. Spring 2015.

⁷ Services include those related to software development, mobile applications, information technology training, e-learning, website portals, digital content, outsourcing and electronic games.

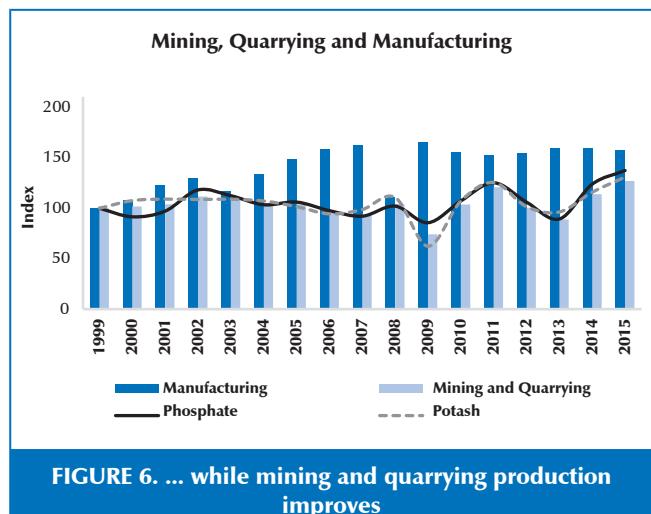


FIGURE 6. ... while mining and quarrying production improves

Source: Central Bank of Jordan and World Bank staff calculations

extended a scheme to charge Arab visitors the same rate as Jordanians at tourist sites through the end of 2016. That month, it also extended a real estate incentive until 30 November 2016 exempting first-time homebuyers from registration fees for the first 150m² for apartments 180m² or less. Cabinet is additionally contemplating a 2016 summer festival to stimulate trade and internal and external tourism. While it is too soon to estimate the impact and effectiveness of recent measures, such that the fiscal cost of the tax incentives may not compensate the impact on economic activity, there are signs of some improvement in tourism towards which incentives and marketing campaigns could have contributed. While tourist arrivals regressed by 15.4 percent in the first half of 2015 (H1-2015) compared to H1-2014, they picked up to 3.7 percent in H2-2015 (vs. H2-2014).

7. An improvement in net exports underpinned growth from the demand side. In real terms, net exports improved by 13 percent attributed to 11.9 percent reduced real imports which overrode underperforming exports. Net exports are estimated to have been the main driver of growth contributing to 3.4 percentage points of GDP across 2015 (Figure 7). Private demand (private consumption and private investment) was flat in 2015 despite contributing to growth in the second and fourth quarters of 2015. Lower oil prices induced an increase in disposable income affecting private consumption (personal loans and credit growth from commercial banks to the

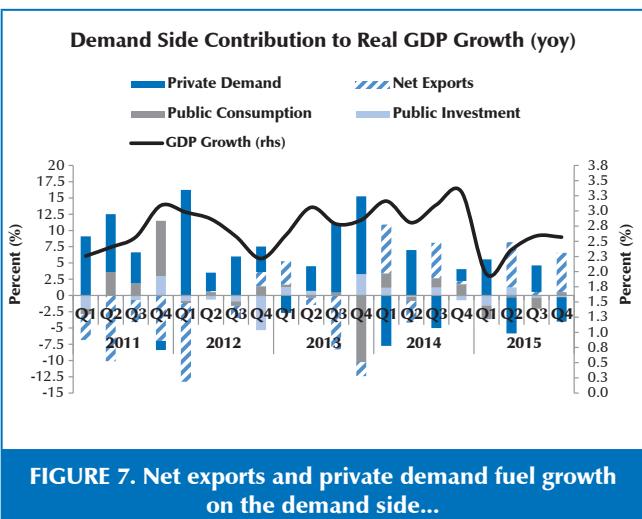


FIGURE 7. Net exports and private demand fuel growth on the demand side...

Source: World Bank staff calculations

private sector increased to 16.8 percent and 4.4 percent, respectively in 2015 (Figure 8) although private demand was weaker as evidenced by a 33.9 percent drop in net foreign direct investment and frailer real estate demand. Public investment and public consumption on the other hand were drags on growth, decreasing by an average of 4.3 and 3.8 percent in real terms between 2014 and 2015, respectively.

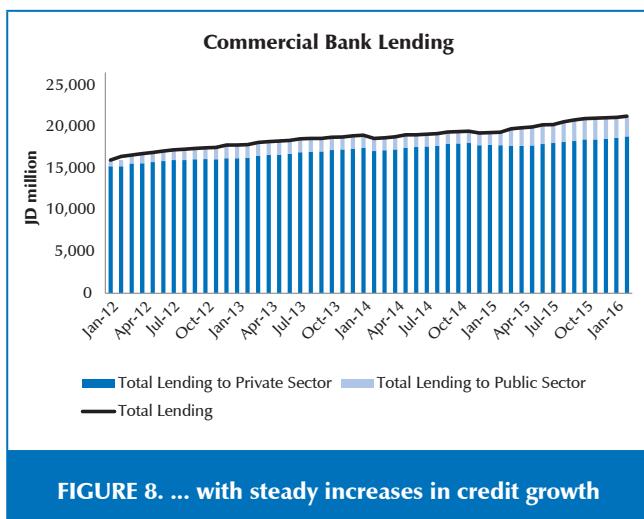


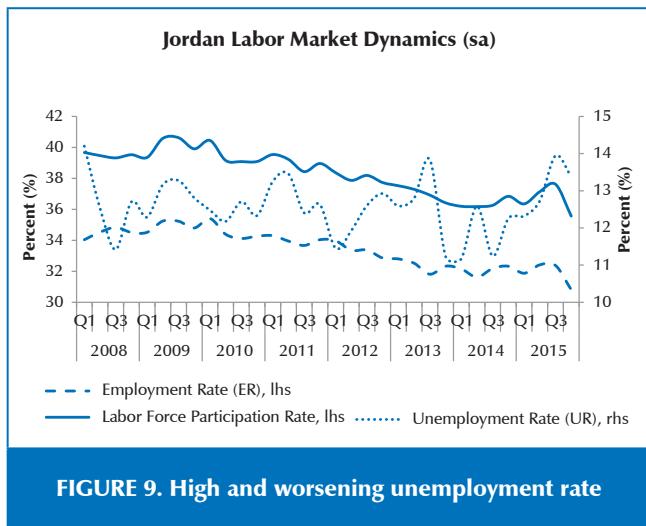
FIGURE 8. ... with steady increases in credit growth

Source: Central Bank of Jordan and World Bank staff calculations

registered the uppermost average unemployment rate for 2015 at 16.8 percent, a 5.3 percentage point differential compared to that of the capital. Madaba and Tafila recorded the next highest average unemployment rates of 15.7 percent each. Compared to other governorates throughout 2015, Madaba was hardest hit witnessing both the largest increase in average unemployment (+3.5 percentage points) and the largest reduction in its LFPR (-2.8 percentage points to 35.9 percent).

9. The government has committed to an ambitious program creating jobs for up to 200,000 Syrian refugees contingent on international support as part of the Jordan Compact. It is difficult to estimate the number of Syrian workers currently working in Jordan as most are not eligible for a work permit and are engaged in Jordan's informal economy. Estimates range from 70,000 to 200,000 mostly working in construction, agriculture, services, retail and wholesale trade and restaurants.⁸ As part of Jordan's compact with the international community entered into at the Supporting Syria and the Region conference held in London ('London donor conference') on February 4th 2016, Jordan committed to 'turning the Syrian refugee crisis into a development opportunity' by attracting new investment and providing incentives to five pilot development zones (Box 1). Coupled

⁸ Lower end estimate: International Labour Organization and FAFO. Impact of Syrian Refugees on the Jordanian Labour Market. 2015. Upper end estimate: Jordan Ministry of Labour, June 2015.



Source: Department of Statistics and World Bank staff calculations

with expected simplified rules of origin from the European Union, these zones are anticipated to provide jobs for Jordanians and Syrians. Jordan also commits to facilitating the issuance of work permits for Syrians inside and outside these zones which has the potential to formalize the status of many Syrians within Jordan. There is a risk this may displace other foreign workers in Jordan.

tax outweighing the pick-up in taxes on income and profits and have been affected by forgone revenues related to sectoral incentive measures. Non-tax revenues deteriorated due to smaller revenues from selling goods and services and other non-tax revenues. Grants were less forthcoming at 3.3 percent of GDP in 2015 compared to 4.9 percent of GDP the preceding year. Excluding grants, however, the fiscal deficit improved to 6.9 percent of GDP from 14.2 percent in 2014 due to lower current and capital expenditures. Current expenditures (as share of GDP) were tighter due to reduced spending on purchases of goods and services, interest payments, wages and salaries, and food subsidies compared to 2014. Despite continuation of the GCC-financed capital expenditure program, capital expenditures also retracted in 2015. The primary balance remains in deficit at -0.1 percent of GDP (a primary deficit of 3.5 percent of GDP excluding grants). Following completion of the US\$ 2 billion SBA in August 2015, Jordan is working towards an Extended Fund Facility (EFF) with the IMF. While the EFF is also anticipated to support further fiscal consolidation efforts and reduce the debt-to-GDP ratio, it will focus more on spurring growth-enhancing structural reforms particularly related to improving the business environment.

Fiscal Policy

10. The fiscal deficit was narrower in 2015 thanks to lower transfers to the National Electric Power Company (NEPCO) and the Water Authority of Jordan (WAJ) and other expenditures amid reduced domestic revenues and grants. The fiscal deficit reached 3.6 percent of GDP in 2015 compared to 9.3 percent of GDP in 2014. NEPCO resorted to borrowing from commercial banks instead of the government in 2015 providing a 6.2 percent of GDP relief to the fiscal balance. Transfers to WAJ decreased from 0.8 percent of GDP in 2014 to 0.1 percent of GDP in 2015. Without these lower utility transfers, the fiscal deficit would have widened as domestic revenues and grants underperformed compared to 2014 and there was a one-off expenditure to reimburse payables and arrears. Domestic revenues decreased by 1.5 percent of GDP on account of lower tax and non-tax revenues. Tax revenues were predominantly driven down by slower general sales

11. The gross debt-to-GDP ratio reaches a high while some debt management measures are introduced. NEPCO borrowing in 2015 given operating losses (its debt continues to be government guaranteed) combined with the fiscal deficit and slowing GDP growth contributed to pushing the gross debt-to-GDP ratio to 93.4 percent by end-2015. The share of domestic currency debt decreased from 64.5 percent at end-2014 to 62.3 percent. Two Eurobond issuances were undertaken during 2015 with a total issue size of US\$ 2 billion and weighted average cost of 3.57 percent. Following the US\$ 1.5 billion dual-tranche US-guaranteed issue in June, the government issued a ten-year US\$ 500 million Eurobond issuance (without a US guarantee) at 6.125 percent coupon in November. Jordan demonstrated sizable appetite for its credit with this transaction almost five times oversubscribed. On the domestic currency financing side, Jordan is diversifying its instrument mix. While

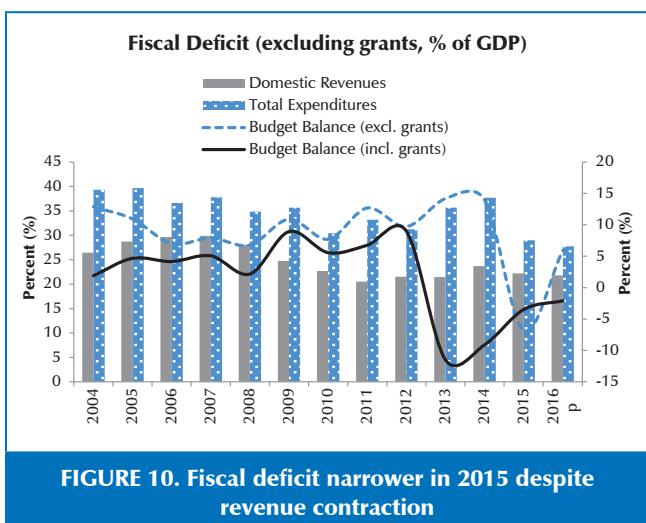


FIGURE 10. Fiscal deficit narrower in 2015 despite revenue contraction

Source: Ministry of Finance and World Bank staff calculations

the anticipated inaugural Sukuk has faced delay, the Ministry of Finance re-introduced 6-month Treasury Bills and introduced a five-year floating rate Treasury bond in two auctions since December 2015 at small volumes. The Ministry has also published an auction calendar for the first time. While this does not yet specify the instruments to be auctioned nor the dates of auctions, the calendar outlines the 2016 monthly issuance volumes targeted by the government and is a step towards further transparency to the market.

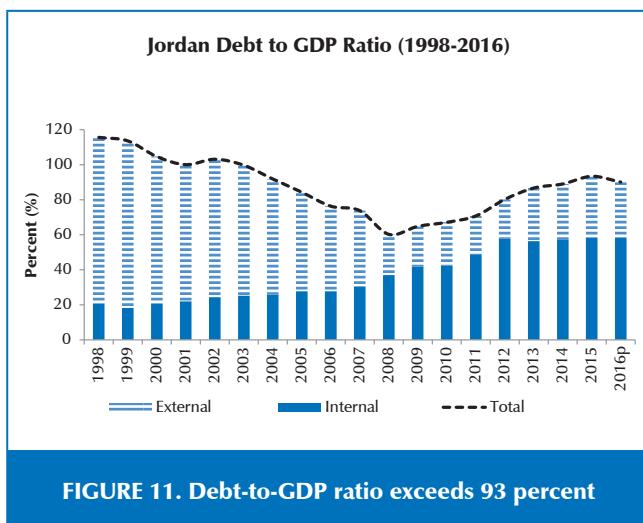


FIGURE 11. Debt-to-GDP ratio exceeds 93 percent

Source: Ministry of Finance and World Bank staff calculations

closures with Syria and Iraq. Exports to Iraq were 40.5 percent lower in 2015 compared to 2014 while exports to Syria, though six times smaller, were similarly affected by a 40.4 percent reduction over the same period. Iraq's share of exports has dwindled from 18.4 percent in 2013 to 10.3 percent in 2015. With higher exports to the U.S. and GCC in 2014 and 2015, the U.S. and GCC are now Jordan's largest export partners with 20.9 percent of exports in 2015 to the US compared with 29.8 percent for the GCC. Despite reductions in domestic exports of dairy products, cereals, vegetables, pharmaceuticals and fertilizers, a number of industries buttressed exports led by higher phosphates and potash exports (10.9 percent and 2.5 percent, respectively) and that of garments (7.8 percent) in 2015 compared to the previous year.

12. The trade in goods balance narrowed thanks to significantly lower energy imports over-compensating the overall decline in exports of goods. The merchandise trade balance narrowed by 14.7 percent on account of 11.4 percent tighter imports outweighing a 6.6 percent contraction of total exports (Figure 12). A sharp fall in global energy prices and a weaker Euro contributed to 40.6 percent reduced value of energy imports in addition to a slight decrease in non-energy imports. At 21.4 percent, the largest share of Jordan's imports stemmed from the EU followed by those from Saudi Arabia and China (15.3 percent and 12.7 percent respectively). Total exports of goods were driven largely by 7.1 percent lower domestic exports compared to 3.4 percent shier re-exports. Domestic exports were adversely affected by land trade route

13. Despite the improved trade balance, the current account widened on account of lower public transfers and weaker service exports. The current account deficit widened from 7.3 to 8.9 percent of GDP from 2014 to 2015 on account of 5.5 percent of GDP lower secondary income balance and a 2.2 percent of GDP smaller services account (Figure 13). The secondary income balance was driven down by 2.3 percent of GDP lower public transfers echoing the drop in foreign grants. While the trade in goods balance improved by 6.2 percent of GDP, the trade in services balance was 2.2 percent of GDP wider, mostly impacted by slower export of services. In 2015, exports of services deteriorated by 3.1 percent of GDP compared to the preceding year,

External Position

12. The trade in goods balance narrowed thanks to significantly lower energy imports over-compensating the overall decline in exports of goods. The merchandise trade balance narrowed by 14.7 percent on account of 11.4 percent tighter imports outweighing a 6.6 percent contraction of total exports (Figure 12). A sharp fall in global energy prices and a weaker Euro contributed to 40.6 percent reduced value of energy imports in addition to a slight decrease in non-energy imports. At 21.4 percent, the largest share of Jordan's imports stemmed from the EU followed by those from Saudi Arabia and China (15.3 percent and 12.7 percent respectively). Total exports of goods were driven largely by 7.1 percent lower domestic exports compared to 3.4 percent shier re-exports. Domestic exports were adversely affected by land trade route

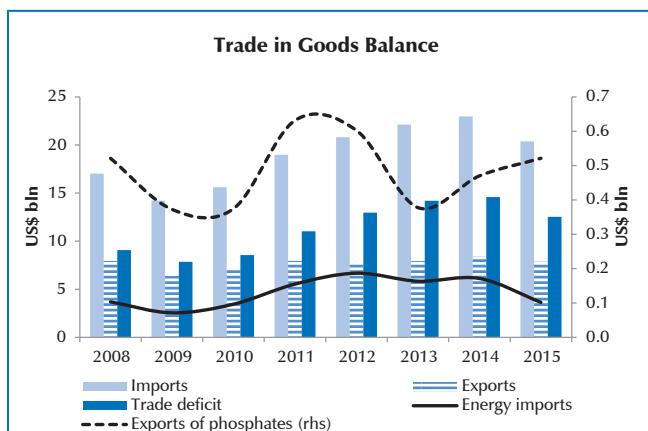


FIGURE 12. Lower energy imports narrow the goods trade balance

Source: Central Bank of Jordan and World Bank staff calculations

mainly led by a 1.4 percent of GDP contraction in travel receipts. While remittances grew in nominal terms by 1.5 percent throughout 2015, they contracted as a share of GDP by 0.3 percent of GDP compared to 2014.

14. Jordan's foreign asset position stood ground. At US\$ 2.8 billion by end-2015, the net foreign asset position of commercial banks improved in H2-2015 to end-2015 one percent lower compared to end-2014. The CBJ's US\$14.2 billion (7.5 months of imports) foreign exchange reserves were 0.5 percent higher by end-2015 despite more than doubling its stock of gold via purchases throughout the year.⁹ The economy de-dollarized during 2015. Compared to an average of 18.4 percent in 2014, dollarization of deposit hovered around 17.0 percent during 2015 where it also stood at end-2015.

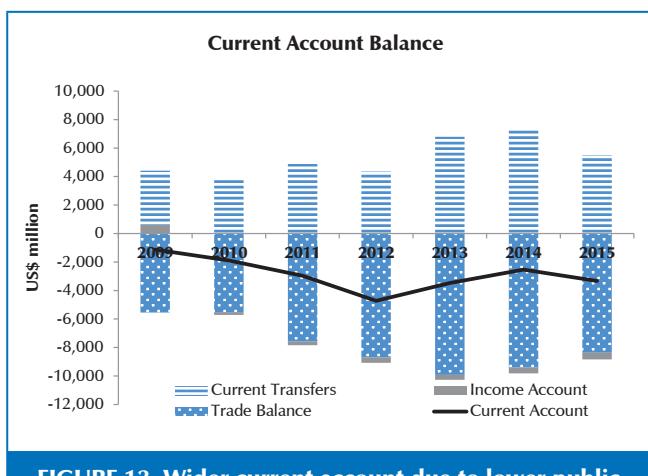


FIGURE 13. Wider current account due to lower public transfers and service exports

Source: Central Bank of Jordan and World Bank staff calculations

average of minus 0.9 percent, with only the months of January and June that were not in deflation on a year on year (yoY) basis. At US\$50.8/barrel, the average crude oil price in 2015 was 47 percent lower than that in 2014. Lower oil prices continue to affect downward pressure on headline inflation particularly on transportation and 'fuel and lighting', albeit at a slower pace. Lower global food prices (about 16 percent of Jordan's imports are food) are the main drivers of increased deflation since November 2015 and into the first quarter of 2016 which registered average deflation of 1.2 percent yoY compared to the first quarter of 2015. At its lowest since May 2013, core inflation¹⁰ averaged in 3.4 percent in 2015 and 2.2 percent in December yoY reflecting dissipation of one-off supply shocks including pressures on rents which have abated given the slowdown in the refugee influx.¹¹ Core inflation is tending towards its expected level given the Jordanian Dinar's peg to the US Dollar and the Fed's 2 percent inflation target.

16. To further stimulate the sluggish economy, the Central Bank of Jordan continued its loose monetary policy stance in 2015. Three key policy rates ended the year 75 basis points lower on average compared to end-2014 thanks to rate

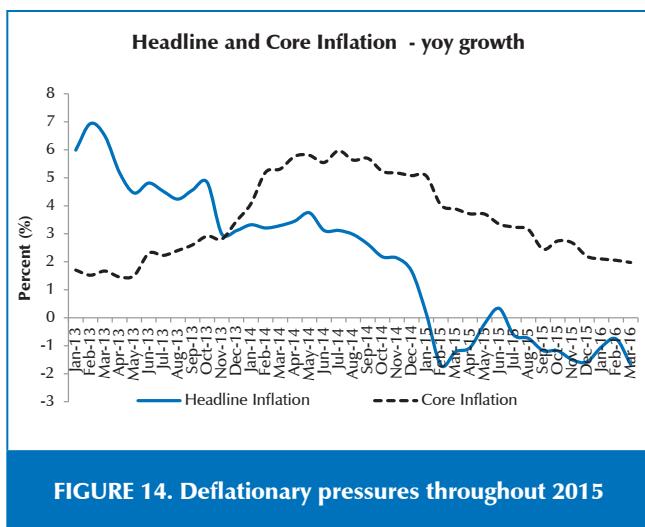
Monetary Policy and Finance

15. Deflationary pressures persisted for most of 2015 due to continued lower oil prices, a weakened Euro, a negative output gap, and the disappearance of previous years' supply side constraints. Headline inflation recorded a period

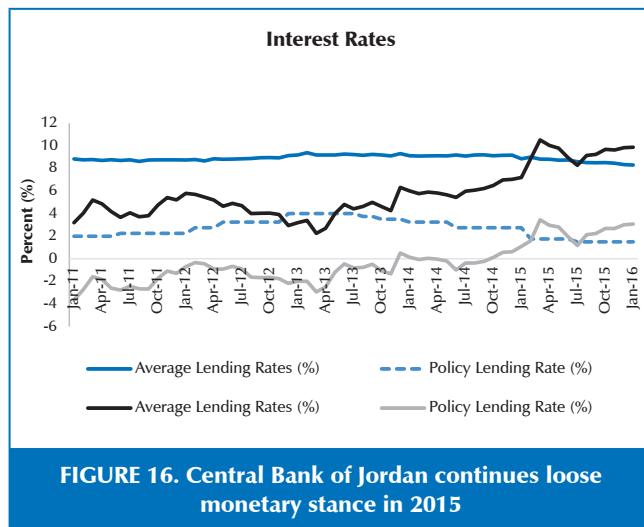
⁹ Reserves exclude bank deposits in foreign countries.

¹⁰ Core inflation is here defined as headline inflation minus energy and food items in the consumer price index (specifically transport, fuels and lighting, and food and non-alcoholic beverages) netting out items with temporary price volatility.

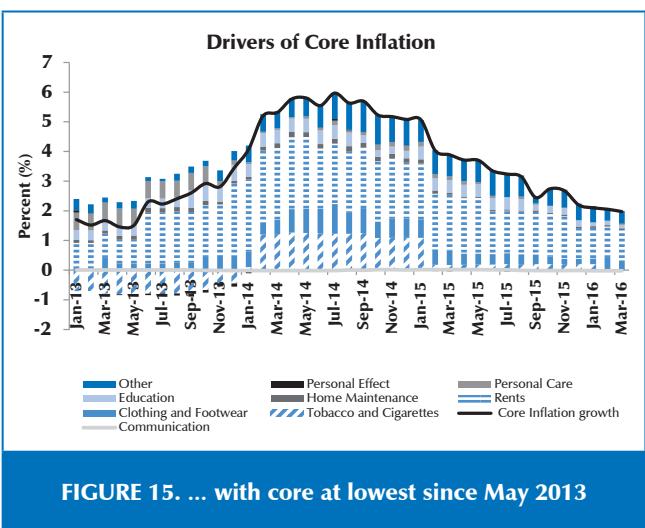
¹¹ Refer to previous Jordan Economic Monitors for an elaboration of these supply shocks.

**FIGURE 14. Deflationary pressures throughout 2015**

Source: Department of Statistics and World Bank staff calculations

**FIGURE 16. Central Bank of Jordan continues loose monetary stance in 2015**

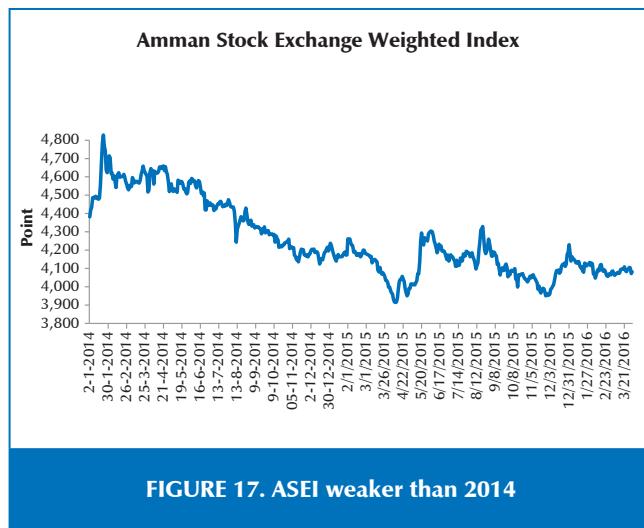
Source: Central Bank of Jordan, Department of Statistics and World Bank

**FIGURE 15. ... with core at lowest since May 2013**

Source: Department of Statistics and World Bank staff calculations

cuts in February and July.¹² In real terms however, rates remain higher than their historical values at similar stages of the business cycle (Figure 16). The policy rate cuts stimulated lending to the private sector by 6.1 percent in real terms in December 2015 yoy compared to 0.6 percent in December 2014 yoy. This could have been positively affected by NEPCO borrowing. The interbank and Treasury bonds average interest rates moved in the same direction, lower by 98 bps and 147 bps respectively between December 2014 and December 2015 with the government relying more on external financing sources in 2015 given two Eurobond issuances.

¹² The re-discount, repo and window rates were reduced by a total of 50bps, 50bps, and 125 bps respectively to 3.75 percent, 3.75 percent and 1.50 percent as of end-2015.

**FIGURE 17. ASEI weaker than 2014**

Source: Amman Stock Exchange and World Bank staff calculations

17. The 2015 equity market was underperforming on the whole save for a rally in the last month of the year. The Amman Stock Exchange Index (ASEI) reversed its largely downward trend throughout 2015 and surged by 5.7 percent month on month (mom) in December 2015 as a result of a 4.2 and 15.6 percent increases in the banking and services sectors, respectively. However, this strong performance during the last month of the year could not fully recover the losses incurred earlier in the year, leading to a 0.2 percent cumulative loss in 2015 (Figure 17). By end-March 2016, the ASEI had lost another 3.5 percent of its value compared to end-2015 amidst the crash in international stock markets resulting from fears about the crash in oil prices and turbulence in China.

TABLE 1. Financial Soundness Indicators (in percent unless otherwise stated).

	2008	2009	2010	2011	2012	2013	2014	2015
Nonperforming Loans/Total Loans	4.2	6.7	8.2	8.5	7.7	7.0	5.6	5.0
(Provisions (in percent of classified loans	63.4	52.0	52.4	52.3	69.4	77.0	77.6	75.7
Risk-weighted Capital Adequacy Ratio	18.4	19.6	20.3	19.3	19.0	18.4	18.4	19.1
Leverage Ratio	12.9	13.0	13.1	13.1	13.3	12.9	12.5	13.0
ROE	11.5	8.8	8.8	8.3	8.6	9.9	11.0	10.3
ROA	1.4	1.1	1.1	1.1	1.1	1.2	1.4	1.3
(Net Profits Before Taxes (in JD million	564.3	460.4	523.4	516.6	587.8	719.5	822.1	876.0
Liquidity Ratio	141.2	159.1	161.4	152.9	143.5	149.1	152.2	162.2
Growth Rate of Total Assets	11.4	7.4	9.6	7.9	4.3	9.1	4.9	5.1
Growth Rate of Customer Deposits	13.2	12.1	10.9	8.3	2.4	10.5	9.3	7.7
Growth Rate of Credit Facilities	17.2	2.1	8.6	9.8	12.5	6.3	5.2	9.5

Source: Central Bank of Jordan

BOX 1. The Jordan Compact.

Jordan has committed to the Jordan Compact to address the challenges presented by the Syrian refugee crisis. At the February 4th, 2016 ‘Supporting Syria and the Region’ conference in London, Jordan committed to the Compact, “a new holistic approach between the Hashemite Kingdom of Jordan and the international community to deal with the Syrian refugee crisis.” The Compact supports the Jordan Response Plan for 2016-2018 which assesses budgetary needs of US\$ 8 billion for refugee and resilience response programs across impacted sectors including education, energy, environment, health, justice, livelihoods and food security, local governance and municipal services, shelter, social protection, transport, and water sanitation and hygiene (WASH).

The Compact centers on the following three pillars:

- “1. Turning the Syrian refugee crisis into a development opportunity that attracts new investments and opens up the EU market with simplified rules of origin, creating jobs for Jordanians and Syria refugees whilst supporting the post-conflict Syrian economy;
- 2. Rebuilding Jordanian host communities by adequately financing through grants the Jordan Response Plan 2016-2018, in particular the resilience of host communities; and
- 3. Mobilizing sufficient grants and concessionary financing to support the macroeconomic framework and address Jordan’s financing needs over the next three years, as part of Jordan entering into a new Extended Fund Facility program with the IMF.”

Additionally, Jordan commits to undertaking reforms towards achieving the Compact. These are related to reforms that improve the business and investment environments, implement administrative procedures allowing Syrian refugees to apply for work permits and allow Syrian refugees to formalize their businesses. The Compact also focuses on the education sector, committing to provide education to each child in Jordan for the 2016/2017 academic year. The plan is estimated to cost US\$ 1 billion to implement over 2016-2018 and hinges on financial support from the international community and relaxed rules of origin from the EU.

While the international community has pledged financial support towards the Compact, a number of areas require clarification. Pledges in London amounted to US\$ 700 million in grants in each of 2016, 2017 and 2018 and further support is expected from multilaterals to scale up concessional financing to Jordan. Four related points are important to understand to assess fiscal impacts: (i) first, the amount of firm financing specifically for Jordan is yet to be announced, including how much financing is new and incremental to what has already been programmed by donors; (ii) second, the split of financing between grants and concessional financing and at what terms would impact Jordan’s fiscal balance, interest cost, and debt levels; (iii) third, how much of the support will support humanitarian versus development programming; (iv) finally, how much financing will be disbursed through the budget or off-budget. Off-budget funding is typically directly channeled to NGOs and UN agencies, and while welcome, would not be captured in supporting the fiscal balance.

18. Jordan's banking indicators largely improved in 2015. Banks' nonperforming loans (NPL) ratio continued to improve for the fourth year in a row to 4.0 percent by end-2015 from 8.5 percent end-2011 and the lowest since 2008 (4.2 percent) (Table 1). While banks' Return on Equity (ROE) and Return on Assets (ROA) both slightly weakened to 10.3 percent and 1.3 percent respectively by end-2015 (compared to 11.0 percent and 1.4 percent respectively), the capital adequacy and leverage ratios both improved to 19.1 percent and 13.0 percent, respectively, by end-2015. For the first time since 2012, banks' exposure to sovereign debt¹³ is lower at the end of the year compared to the previous year. By end-2015, this accounted for 40.6 percent of total assets (and further to 40.4 percent by end-January 2016) compared to 40.8 percent end-2014.

¹³ Bank's sovereign debt exposure is computed as the ratio of commercial banks' aggregate investment in claims on public sector and deposits at CBJ relative to total assets.

PROSPECTS

19. Growth is projected to rebound slightly, to an average of 3.3 percent over 2016-2018.

The main assumption underlying this projection is an unchanged situation regarding the Syrian crisis. The projections reflect a downward level shift from the previous medium-term projections given the protracted low oil prices' impact—through the GCC—on reducing investment, and potentially grants and remittances to Jordan given the Jordanian working diaspora in the Gulf especially in Saudi Arabia. The baseline forecast also assumes (i) agreement on an EFF leading to fiscal adjustment and lower debt-to-GDP levels, (ii) some trickling in of grants and concessional financing pledged at the London donor conference in line with the Jordan Compact's attempt to mitigate the pressures of hosting Syrian refugees; (iii) enhanced exports related to the Jordan Compact economic opportunities plan, mostly kicking in in 2017.

20. The outlook for 2016 forecasts growth at 3.0 percent on account of a growing mining and quarrying sector, some energy investments and base effect of tourism and construction sectors. In signs of growth for Jordan's phosphate and potash industry, a US\$ 1.4 billion deal between Jordan's Phosphate Mines Company and China's Chongqing Minmetal and Machinery Import and Export Company Ltd seeks to build a fertilizer factory in Aqaba. Additionally, the Arab Potash Company is planning to increase production capacity by 245,000 tons. These developments bode well for higher volumes of potash, phosphate and fertilizer exports in 2016 although global demand patterns are likely to depress the full export potential. On the energy front, Jordan continues plans to diversify its energy mix in line with Jordan's target of 10 percent renewable energy input into the energy mix by 2020, mainly harnessing solar and wind energy

with a number of projects in development in 2016.¹⁴ Inflation for 2016 is forecasted at 1.3 percent on account of a growing economy, higher average global oil prices, normalization of real estate market demand and expected price adjustments for utilities. Downside risks are present should these factors not materialize.¹⁵ The current account deficit is projected to narrow to 6.6 percent of GDP in 2016 on account of improved exports of goods and travel services although this deficit is likely to be wider should emerging developments from the GCC countries on Jordan's exports, remittances and travel receipts continue to slowdown. GCC-grants are expected to continue financing capital expenditure projects and the U.S. has pledged US\$ 1.275 billion in non-military aid for 2016.

21. Potential exists for an uptick of these projections given some movement in geopolitical developments. Some of the larger factors that could influence more favorable projections include: (1) continuation of the 27 February 2016 implemented cease-fire in Syria and progress to a longer term solution to the conflict, significantly diminishing risks to Jordan and providing it with an opportunity to support the reconstruction effort; (2) re-opening of the Baghdad-Amman route as per current discussions between both countries which would boost Jordan's exports; (3) a higher amount of support and investment realized from the international community in line with the London donor conference and subsequent donor meetings compared to projection assumptions.

¹⁴ Refer to the Spring 2015 and Fall 2015 Jordan Economic Monitors for discussion on Jordan's energy diversification efforts.

¹⁵ As per World Bank commodities forecast for crude oil, average, spot at US\$ 37.0/barrel in 2016 increasing to US\$ 48.0/barrel in 2017.

22. However, the balance of risks is on the downside. Chiefly, Jordan will need to continue managing repercussions from the regional security and political situation, and the challenges of hosting 1.27 million Syrians (of which 639,704 registered refugees). Additionally, since Jordan benefits from the GCC for remittances, exports, FDI and grants - large sources of foreign exchange - persistently low oil prices are a risk for Jordan this year and in the medium term. Also, fiscal adjustment fatigue becomes a more prominent risk in the upcoming period. Weak global demand could depress demand for potash and phosphate, particularly from India and China. Furthermore, the willingness and speed of reform implementation particularly to improve the business climate will be crucial to attract the investment Jordan aspires for.

23. Jordan's initiative to create economic opportunities for Jordanians and Syrian refugees is ambitious, and contingent on timely reform implementation. The plan to create jobs for Jordanians and Syrian refugees by attracting new investment is an innovative holistic approach to an emergency situation involving a number of actors in the international community (Box 1). Jordan will need to embark on investment climate reform, labor market reform, trade reform, and special economic zones development to implement the plan, among other measures. Under the plan, five development zones will be provided with investment incentives. Combined with easier access to European markets compared to current conditions by summer 2016, the plan is envisaged to create jobs for Syrians and Jordanians and boost exports. Jordan will need to overcome a history of implementation challenges to deliver on the plan.

SPECIAL FOCUS

ENHANCING MUNICIPAL SERVICE DELIVERY AMIDST URBAN DISPLACEMENT IN JORDAN

Responding to one of the largest refugee crisis in modern history, humanitarian agencies have played a colossal role in providing basic subsistence and protection for hundreds of thousands of Syrian refugees who sought refuge in Jordan. However, with eighty per cent of refugees living in host communities, the pressure on local resources and services was mounting, underscoring the need for addressing capacity gaps at the local level - something that could not be sustained through a humanitarian response. The Emergency Services and Social Resilience Program (ESSRP) was launched as a multi-donor platform to meet this need. The Project proved critical in helping local authorities cope with the social and political risks associated with the refugee crisis and served as an innovative approach to dealing with urban displacement. It also brought to the fore the challenges associated with working through a local government system that is constrained by systematic inefficiencies and structural issues, undermining its responsiveness and highlighting the need for critical reforms.

I. Context

24. An urban refugee crisis undermines the capacity of the Government of Jordan to sustain the quality of its services and protect its developmental outcomes. By mid-2013, an estimated 650,000 Syrian refugees had crossed the border to Jordan representing over 10 percent of the country's population. While some Syrians were living in camps, more than 80 percent were living in urban centers where they shared the space, resources and services with Jordanian hosts. This influx of refugees rapidly expanded the population of many towns. In some cases, like in Ramtha, the population had increased by almost 25 percent. The additional pressures were undermining the coping mechanisms of public institutions, communities, households and individuals. Public authorities lacked the resources to keep up their service provision, such as maintaining health and education services, providing adequate roads, transportation and street lighting, ensuring waste collection and disposal, and delivering core social services. Due to emerging needs, funds from planned capital expenditures were being diverted towards immediate operating costs posing a risk to longer-term development outcomes.

25. The hospitality of Jordanian communities was being eroded and symptoms of community tensions were emerging. Jordanian host communities - individuals and households – in the affected areas were experiencing downward pressures on their incomes, increased competition for housing, employment and basic commodities. Community life was also interrupted with the large influx of Syrian refugees. Because of the close ties across the border and a belief in the short-term nature of the crisis, Syrians benefited from large amounts

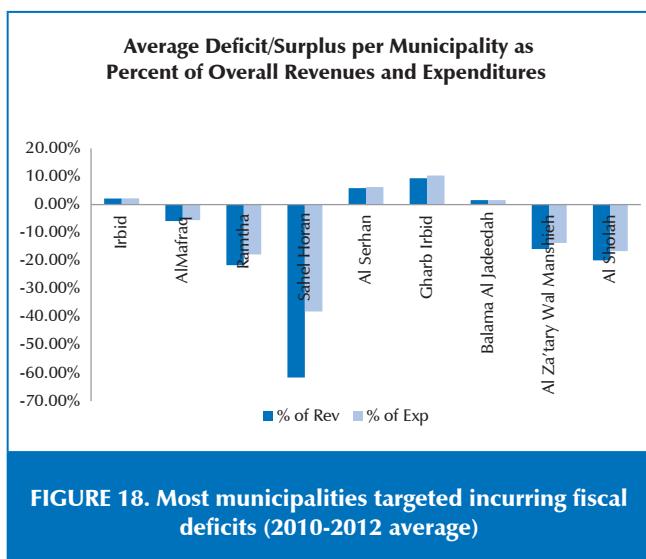


FIGURE 18. Most municipalities targeted incurring fiscal deficits (2010-2012 average)

Source: *Institutional Assessment Report of the nine municipalities to be supported by the ESSRP, A Study Commissioned by the World Bank*. Working document. November 2013.

of in-kind and financial support from Jordanian individuals, charities and businesses. However, with the continuation of the crisis and limited support targeting hosting communities, the burden on Jordanians was increasingly becoming untenable. Hospitality was wearing thinner and symptoms of tension among communities were increasing. Given the uncertainty around the longer-term situation of refugees, there was a felt need for supporting adaptive coping strategies targeting communities and local authorities to manage tensions and strengthen their resilience to this change.

26. Jordan's municipalities have been suffering years of underinvestment and the erosion of their local assets. Municipalities in Jordan are responsible for a range of functions and services, among them solid waste collection, road construction, rehabilitation and maintenance, street lighting and cleaning, construction and operation of slaughterhouses, markets, public parks, libraries, and town planning activities. The Syrian crisis accentuated many of the challenges facing Jordanian municipalities even before the crisis. Amongst those challenges - limited attention to service delivery performance, standards and outcomes; out-dated equipment and logistical means to ensure delivery and maintenance of services and assets; insufficient capacities underpinned by a freeze on public recruitment and a patronage-based system of recruitment; limited attention to unplanned urban

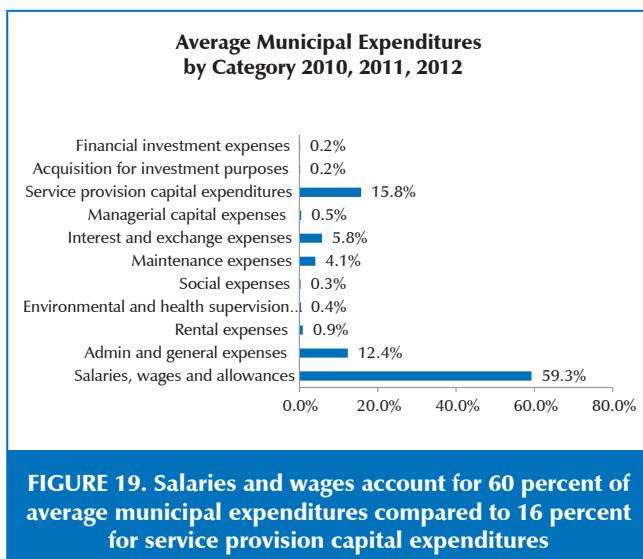


FIGURE 19. Salaries and wages account for 60 percent of average municipal expenditures compared to 16 percent for service provision capital expenditures

Institutional Assessment Report of the nine municipalities to be supported by the ESSRP, A Study Commissioned by the World Bank. Working document. November 2013.

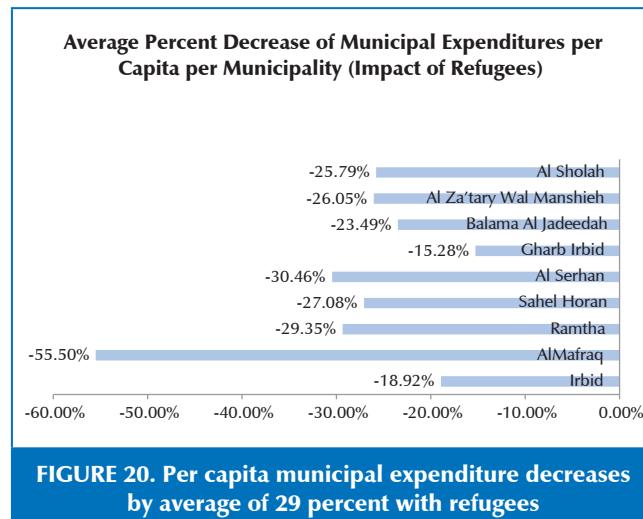


FIGURE 20. Per capita municipal expenditure decreases by average of 29 percent with refugees

Source: *Institutional Assessment Report of the nine municipalities to be supported by the ESSRP, A Study Commissioned by the World Bank*. Working document. November 2013.

growth resulting in increased informal settlements; limited participation especially in local development planning; and out-dated financial management practices and systems. These challenges were exacerbated by a very precarious financial situation (Figure 18) whereby municipalities suffered from a crippling salary burden (Figure 19) and unsustainable debt service, a limited revenue base, and very low and unpredictable levels of fiscal transfers. This has left municipalities with very little investment capacity to respond to the needs of their population.¹⁶ It was under such conditions that municipalities were called upon to address an additional burden on

¹⁶ National Resilience Plan – 2014-2017, January 2014, Ministry of Planning and Cooperation, Jordan.

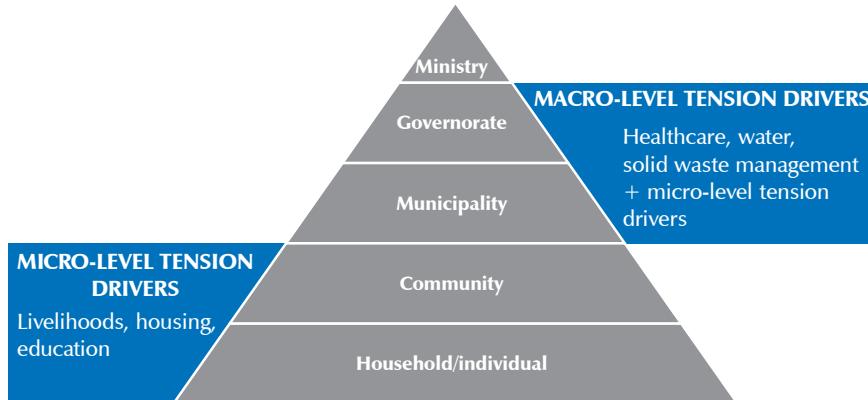


FIGURE 21. Pre-existing structural vulnerabilities in Jordan, exacerbated by Syrian crisis, main fault lines for social cohesion and community resilience

Source: REACH Jordan Emergency Services And Social Resilience Project (JESSRP) Monitoring Study 1, November 2015

their services due to the large influx of refugees and limited resources were stretched further (Figure 20).

27. Water, solid waste management and livelihoods (housing and employment) were identified as the three sectors most impacted by the Syrian refugee crisis.¹⁷ The pressures resulting from the large influx of Syrians into urban communities affected all aspects of life amongst Jordanian host communities and were giving rise to social tensions. According to a study done by REACH, 40 percent of Jordanians and 29 percent of Syrian households identified increase in water shortages as the most prominent change they witnessed in their community. The increase in the daily disposal of solid waste has almost doubled in some areas. Across Irbid and Mafraq governorates daily waste accumulation was reported to have increased by an estimated 340 tons and waste accumulation was reported by over a fifth of households as the second most prominent change

they had witnessed in their municipality. The use of unsustainable coping mechanisms to dispose of waste (dropping garbage anywhere outside or burning it) was causing serious environmental and health hazards. High rental costs were also resulting in the increased vulnerability of households as most of them were resorting to borrowing and taking loans to be able to pay rent. The increased demand for housing also led to a boom in new construction, which resulted in the establishment of new neighborhoods requiring roads, street lighting and connections to services. It was in this latter context that the World Bank identified as a priority to address needs at the local level since, at the time, support from the international community was largely targeting the needs of refugees themselves. Support to national service delivery systems was being channeled through line ministries with slow trickle down impact on local communities who were shouldering the biggest burden.

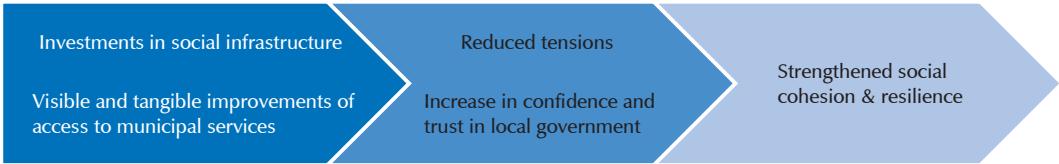


FIGURE 22. Project Rationale

Source: REACH Jordan Emergency Services And Social Resilience Project (JESSRP) Monitoring Study 1, November 2015

¹⁷ REACH, Social Cohesion in Host Communities in Northern Jordan, Assessment Report, May 2015.

BOX 2. The Emergency Services and Social Resilience Program – Fact Sheet.

The World Bank responds to the Syrian crisis through a comprehensive package of interventions. At the early stages of the Syrian refugee crisis, the World Bank provided a State and Peace-building Fund Grant (SPF, US\$1.2 million) to improve access to basic education, vocational training opportunities for targeted host and displaced communities. As the crisis intensified, a larger program of support was designed to help Jordan build up resilience to the current and future impacts of conflict spillover. Through a loan of US\$ 150 million, the World Bank funded an Emergency Project to Assist Jordan Partially Mitigate Impact of Syrian Conflict which financed vaccines, drugs and treatment of Jordanians crowded out of public hospitals, as well as universal bread and Liquid Petroleum Gas (LPG) subsidies. The Emergency Services and Social Resilience Program was launched in 2012 as another component of the World Bank's support to host communities with the objective of helping Jordanian municipalities and host communities address the immediate service delivery impacts of Syrian refugee inflows, and strengthen municipal capacity to support local economic development. The operation formed part of a wider World Bank response to support Jordan mitigate the socio-economic impact of Syrian refugees.

Beneficiaries

ESSRP targets municipalities most affected by the Syrian crisis using as a proxy the proportional increase in total population. In its first year of implementation, the ESSRP supported nine municipalities in the Northern Governorates of Irbid and Mafraq. At the time, both Governorates were hosting 55 percent of the refugee population in Jordan. The nine selected municipalities had an estimated population of about 791,150 Jordanians and 299,000 Syrians. By the second year, it was evident that the pressure of the refugee influx was expanding to other parts of the country including in the middle and southern regions. As such, an additional seven municipalities were targeted bringing the total number of participating municipalities to 16 with an estimated population of 1.8 million, of whom a quarter million were Syrian refugees. Given the focus of the Project on supporting non-exclusionary municipal services, it benefited both host and refugee communities. The participatory mechanisms of the Project were intended to promote inclusion and enhance the voice of host communities including women and children. With its focus on institutional support, the Project also sought to support institutions at different levels to prepare emergency preparedness and risk management plans and systems.

Project Components and Activities

Funding investments in municipal services through the transfer of annual municipal grants. The ESSRP was designed as a simple project with two main components – 1) A municipal grants component and 2) A capacity building and Project management component. Component 1 provides direct Municipal Grants to municipalities on an annual basis. The individual allocations are based on the total number of refugees and are transferred to municipalities on a bi-annual basis thereby providing some predictability that allows municipalities to plan for the use of resources over a multi-year period. Municipal grants financed public services and programs that were directly within the municipal competence – e.g. solid waste management, rehabilitation of roads, street lighting, pest control, recreational facilities, local economic development and livelihoods, etc. in addition to financing the rehabilitation and building of social infrastructure, such as women's and children's centers, soccer fields, parks, or other communal infrastructure, activities and services. The identification and prioritization of key investments is done through a community consultative process that leverages consultative mechanisms established and supported by other partners including UNDP, USAID and others.

The ESSRP provided critical technical assistance to strengthen capacity of implementing partners including municipalities. Component 2 finances technical assistance to participating municipalities to help them plan, implement and manage activities funded by the Municipal Grant, as well as project management support to implementing agencies to coordinate, manage and oversee the Project. It also provides capacity building for key Government agencies and vulnerable communities in emergency preparedness, and risk planning, management and financing. Project management support is extended to the Ministry of Municipal Affairs (MOMA), the Cities and Villages Development Bank (CVDB) and other national and subnational agencies and institutions involved in the coordination, management and oversight of the Project's implementation. It finances inter alia implementation support, fiduciary and safeguards oversight and management, and other project related communication activities, workshop, trainings and Project monitoring.

II. The Emergency Services and Social Resilience Program (ESSRP) – An Innovative Approach for Dealing with Urban Displacement

28. Supporting local service delivery is a critical ingredient for maintaining social cohesion and resilience. Given the predominantly urban nature of the displacement challenge in Jordan, the ESSRP was launched in 2012 as an innovative mechanism that sought to address pressures on local communities working through local authorities who were at the frontline of the crisis and who were expected to offer quick solutions to rising tensions (Box 2). The Project was premised on a number of key approaches – i) to build citizens' confidence in local authorities through investments that resulted in tangible improvements in terms of better security through improved street lighting, improved hygiene through garbage collection and reduced tensions through safer spaces for young people; ii) to equip municipalities with discretionary resources that enable them to problem solve as they are the first ones to be called upon to address emerging community problems; iii) to build individual and community resilience by treating resilience as a dynamic process encompassing positive adaptation within the context of adversity through fostering institutional spaces for communities and to finance locally engendered

solutions for urgent service delivery needs. Finally, and assuming that the Syrian crisis and the refugee situation were expected to evolve, the Project was designed with some flexibility to allow for easy scale up in line with the evolving needs.

III. Results to Date

29. The ESSRP leverages funding from a wide range of donors becoming one of the largest channels for supporting local service delivery. ESSRP investments supported a wide range of investments and had entered its third year of implementation making a steady progress towards meeting its objectives. The Multi-Donor Trust Fund has leveraged since its inception a total budget of US\$ 65 million with grant financing from the World Bank and the Governments of the UK, Canada, Sweden, Denmark and Switzerland. The Government of Jordan has also contributed US\$ 3 million. As such, the ESSRP has become one of the largest platforms for supporting host communities working at the local level to finance critical service delivery and addressing the needs of expanding populations.

30. Municipal grants were invested across a range of assets including equipment, basic infrastructure and community spaces enhancing local service delivery. Out of the US\$ 40 million that have already been transferred from the World Bank administered MDTF since the beginning of the Project, the ESSRP had financed investments totaling US\$ 27 million while commitments for ongoing contracts stand at US\$ 13 million. Given

BOX 3. Women's Sewing Workshop in Sarhan.

Sarhan municipality built a space to house a sewing workshop for women. One of the owners of a garment factory in one of the Qualified Industrialized Zones (QIZ) established the sewing workshop to create employment opportunities for the women residing in the town. The workshop employed over 150 women in two shifts. The investment in building a new space for the workshop through the ESSRP enabled hiring up to 400 women and meeting hygienic standards for work. The success of this partnership between the municipality and the private sector has prompted other municipalities to seek similar opportunities. On one of the visits to a neighboring community, one of the women who was also a member of the municipal council said that creating opportunities for women in their hometown was critical since their families would not be in favor of them traveling out of the town for work.

Results Framework by August 2015*

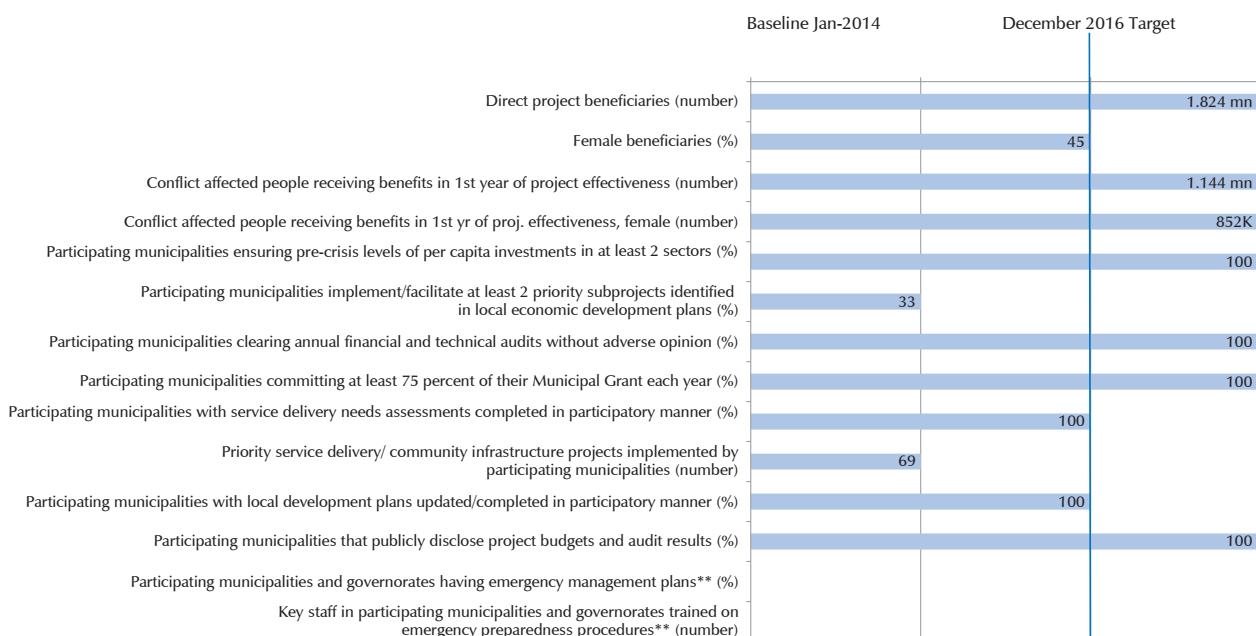


FIGURE 23. Most indicators achieved / surpassed target

Source: World Bank ESSRP Results Framework, 1 December 2015. *Blue bars represent actual results as of August 2015 compared to target.

** Indicators for this component have not yet started implementation.

the acute shortages in capital investments prior to the crisis, the Project provided a critical opportunity for municipalities to upgrade their equipment fleet to be able to address their biggest challenge of managing the huge increase in the volume of solid waste and wastewater and the associated health and environmental implications. Investments in equipment represented an estimated 35 percent of the total value of grants. The remaining 65 percent were used to invest in upgrading basic infrastructure including roads maintenance and construction of sidewalks, water drainage systems, retaining walls, culverts, and the opening of new roads to keep up with the expansion of municipal areas due to construction of new housing units for refugees. Municipalities also invested in building social spaces for youth and children including soccer fields and parks as well as community and knowledge centers that offered entertainment and learning opportunities for the community. A few projects were funded to support productive sectors that generated employment for local citizens including the construction of spaces for housing private sector run businesses.

31. By addressing critical capacity gaps, the ESSRP resulted in some visible improvements in the levels and quality of local services, and expanded attention to host communities' needs as well as those of refugees. By the end of 2015, the impact of the ESSRP has become quite visible particularly in smaller municipalities where small investments can have a relatively large impact. Since the Project was amongst the first to support service delivery at the municipal level, it signaled an important shift in the attention of the international community towards the needs of host communities. As such, it also helped address a perception of a single focus on the needs of refugees living in poor communities where the basic needs of Jordanians themselves were not being adequately addressed. The ESSRP provided a critical injection of funds that helped offset a huge funding gap that has undermined the ability of municipalities to deliver on their most basic services and was undermining their credibility vis-à-vis their population. Mayors and municipal council members expressed their appreciation for being empowered to directly implement their projects, to make decisions on their priority needs

and to have a sense of predictability of funds to plan their investments over a three year period. Although it was not a main objective of the Project, municipal staff also welcomed the technical support they were receiving for implementing the project and for organizing consultations and improving their outreach to the community. On their side, both the Government and the donors appreciated having a single instrument and a coordinated approach for channeling funds at the local level.

32. The ESSRP meets and, in some instances, exceeds its 2015 results indicators resulting in higher per capita investments than before the Syrian crisis. By the end of the second year, the ESSRP had already exceeded a number of its target results indicators for 2015 (Figure 23). Municipal per capita investments in solid-waste management and roads rehabilitation have exceeded pre-crisis level; a total of 11 community spaces had been established; participatory investment plans were completed by all sixteen municipalities and all municipalities have cleared their financial audits for 2014 and 2015. Meetings with municipal council members and community representatives confirmed great improvements in the quality of services delivered by municipalities.

IV. Lessons Learned

33. Surveyed households confirm improvements in the quality of services but remain unhappy with the responsiveness of municipalities to their needs. The first independent monitoring round of the ESSRP was conducted in August 2015 assessing interventions that were financed through the first year of municipal grants (Box 4). The findings of the monitoring confirmed that project interventions were addressing key priority needs as identified by both households and municipal officials. Solid waste management and public roads were identified by households as the top two priority needs, followed by street lighting. On the other hand, 56 percent of households still perceived municipalities as not being very responsive to their needs (Figure 24). This could be interpreted as the existence of unmet needs, inefficient use of assets in

the delivery of services, or the need to communicate better with the communities. Since the ESSRP is limited to the financing of services that fall within the mandate of municipalities, it does not address the concerns of the community in terms of the impact of the refugee influx of crowding in schools and health centers and the lack of job opportunities and access to affordable housing. When comparing between municipalities, however, there was a large diversity of perceptions of municipalities' responsiveness, ranging from 47 percent of households agreeing that the municipality was responsive to their needs (e.g. Al Sholah) to only 17 percent of households in some other municipalities. This variance can, in part, be attributed to the differences between the municipalities themselves in terms of population and size, demographic composition, capacity of municipal staff and a range of other factors. For example, larger municipalities are likely to face greater challenges in engaging with and consulting the broader community, and to effectively and evenly deliver services to the community. This was reflected in the feedback of households on the extent to which they have been consulted on investments funded by the Project. This is then likely to be reflected in negative perceptions of municipal responsiveness to needs. Demographic composition of municipalities could be another factor influencing municipalities' engagement with communities and subsequently communities' perceptions of municipal responsiveness to priority needs. This was illustrated in the level of satisfaction being higher in municipalities that were more homogenous (e.g. Al Serhan). Other factors that may influence households' perceptions of municipal responsiveness could be linked to overall funding or external support as provided through other donors.

34. The efficiency of ESSRP interventions is undermined by lengthy bureaucratic procedures and limited capacity for strategic and financial planning. The REACH assessment of the efficiency of the investments pointed to delays encountered in the procurement and delivery of the first round of equipment procured by the Project. This was attributed to the lack of capacity, insufficient understanding of the required procurement procedures and, in cases where procurement was

done at the local level, to limited responsiveness of the local markets. Delays in procurement and/or delivery of equipment were also attributed to complicated clearance requirements from the Center and lengthy customs procedures. Another issue that undermined the efficiency of the Project was the lack of adequate financial planning for operation and maintenance costs linked to the Project's investments. As an example, municipalities were procuring additional lighting, which was essential to address security in the streets, while suffering from huge debts against the electricity company. In other incidents, equipment procured – such as compactors for collecting garbage – was not being operated at full capacity due to the lack of trained operators.

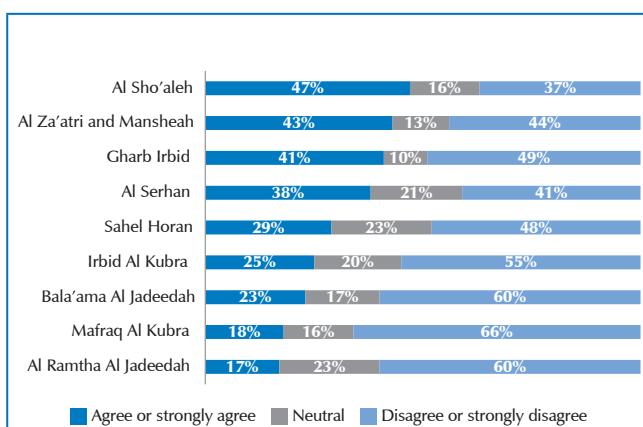


FIGURE 24. Proportion of households agreeing that the municipality responds to their priority needs)

Source: REACH Jordan Emergency Services And Social Resilience Project (JESSRP) Monitoring Study 1, November 2015

BOX 4. ESSRP Independent Monitoring Methodology.

ESSRP is monitored through an independent organization that examines process and outcome performance. The World Bank and DFID had contracted REACH – an independent organization - to undertake the monitoring and impact evaluation of the ESSRP. The aim of the monitoring process is to identify and extract best practices and lessons learned, to make the necessary adjustments to Project implementation, and to inform similar engagements that seek to address the needs of host communities as a result of urban displacement. The REACH monitoring is based on a combination of household surveys, focus group discussions and key informant interviews with municipal staff and implementing partners. The monitoring rounds look at process level monitoring and outcome level monitoring (Figure 25). Process level monitoring examines change at the institutional level based on three indicators of successful interventions: the relevance of interventions and their alignment with priority needs; the accountability of the process by which interventions are selected and subsequently implemented; and, finally, the efficiency of the implemented projects, namely the efficiency of the procurement process, the extent to which assets are being efficiently used and the financial sustainability of funded projects. The outcome level monitoring examines the effectiveness of the interventions and the quality of service delivery and perceptions of improvements amongst the community.

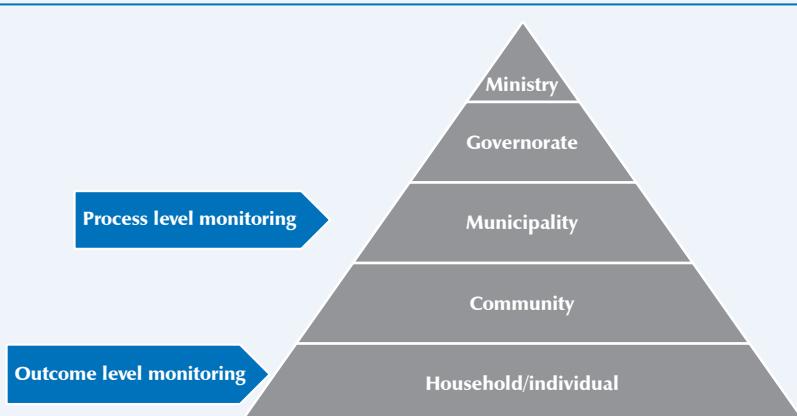


FIGURE 25. Methodology of the first monitoring round

Source: REACH Jordan Emergency Services And Social Resilience Project (JESSRP) Monitoring Study 1, November 2015

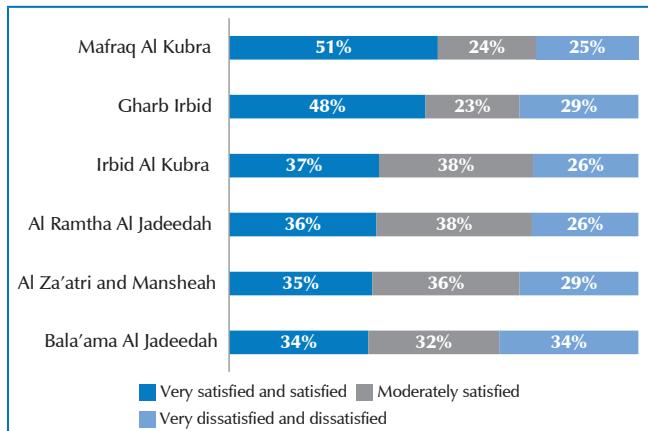


FIGURE 26. Reported levels of household satisfaction with ESSRP Solid Waste Management Intervention

Source: REACH Jordan Emergency Services And Social Resilience Project (JESSRP) Monitoring Study 1, November 2015

35. Although levels of satisfaction varied widely across both services and municipalities, communities reported improvements in the quality of services compared to the 2014 baseline. However, for the most part, the reported rates of satisfaction have not significantly improved from 2014. Although 34 percent of households reported improvements in the quality of solid waste management, 53 percent of households still reported being dissatisfied with the quality of the service. Over 70 percent attributed their dissatisfaction to infrequent garbage collection. Other reasons mentioned included the insufficient number of workers, poor management by municipalities, and insufficient numbers of waste containers. Similarly, with the rehabilitation of roads, while 37 percent confirmed that there have been improvements in

the quality of roads, 43 percent were still dissatisfied with the overall quality citing the lack of sufficient maintenance, the need for broader coverage of municipal areas and for more sidewalks. Similarly for street lighting, although more than 50 percent reported improvements over 2014, the community complained of insufficient coverage and of the need to ensure that new roads were provided with sufficient lighting. Most municipal areas lacked sewage systems and households continued to rely on private desludging services for removal of waste. Forty-nine percent of households surveyed were dissatisfied with public leisure spaces citing the non-availability of such spaces, their poor maintenance and/or, in some cases, the focus on specific demographics.

V. Project Adjustments and Potential for Generating Employment Opportunities

36. Improvements in Project management procedures and processes have been introduced to enhance project efficiency and outcomes. Many of the issues identified in REACH's independent monitoring were also identified through Joint Annual Reviews carried out by the Government in

BOX 5. Good Practice Case Study: Gharb Irbid.

Gharb Irbid represents an example of a municipality which conducted well designed effective community consultations, with a high diversity of participants and detailed documentation to ensure that the results of these processes inform the planning and design of projects. Municipal officials reported they held 10 community discussions, in 10 separate villages, as well as more general outreach activities, such as bilateral meetings and informal conversations at weddings and community events. It appeared that the officials within the Local Development Unit (LDU) were personally motivated to communicate and engage with the local community. For the community discussions, participants were selected from a diversity of backgrounds, including mokhtars (community leaders), women's groups, Syrians and representatives of community based organizations (CBOs) and the private sector. Potentially as a result of the wide geographical reach of these consultations 5 percent of households reported that they had been consulted and 100 percent of consulted households reported they were either satisfied or very satisfied with the process. Further, the LDU was able to provide copies of the documentation for this process, which demonstrates that there was a clear and transparent mechanism by which the communities' opinions were recorded and subsequently taken into account in the planning process.

partnership with the World Bank and participating donors. Indeed, one of the major challenges faced during the first year were related to delays in the delivery of equipment, limited implementation capacity at the municipal level and heavy bureaucratic requirements. Consultations with communities over priority needs were not sufficiently guided by standard project procedures and, as a result, there were wide variations in the quality of such consultations. To address these challenges, a number of actions were taken to improve the responsiveness of the Project both in terms of speed and also the quality and relevance of its investments. A Municipal Support Team consisting of several experts was recruited to provide implementation support to municipalities; procurement procedures were streamlined by reducing the number of technical reviews; and additional experts were recruited to improve the oversight function of the CVDB and the Project Management Unit in the areas of financial management and monitoring and evaluation.

37. Building municipal capacity for community outreach and participatory consultations is seen as key to achieving the Project's objectives. UNDP was contracted to work with municipalities to prepare multi-year investment priorities that helped provide the basis for subsequent consultations on 2016 investment sub-projects. In preparation for 2016 planning process, clear guidelines were developed for the consultation process. In addition, municipalities received support in organizing a more structured outreach to smaller community groups and in conducting consultation workshops that resulted in lists of prioritized interventions that were thereafter reviewed by a designated sub-project selection committee that included as members community representatives. These harmonized procedures were reflected in a revised Project Operational Manual. In 2016, the Project also introduced a requirement that a minimum of 15 percent of municipal allocations be invested in developmental/social projects that generated a specific number of jobs or that benefited marginalized groups of the community, including women, gender and youth.

38. The scale up of the ESSRP will help Jordan meet its commitments under the Jordan Compact.

Jordan has recently concluded a "Compact" with the International Community whereby it committed to easing access to the labor market for Syrians in return for commitments for increased donor support to Jordan's host communities and the financing its Jordan Response Plan (2016-2018), addressing its developmental and fiscal needs over the next three years and providing easier access for Jordanian products to EU markets (Box 1). The World Bank is currently working on scaling up the ESSRP to include a window for financing labor intensive works that will have the double benefit of supporting improvements in infrastructure to facilitate growth opportunities at the regional level while creating jobs for Syrian refugees based on a more relaxed system of permits. ESSRP would thus serve as one of the instruments through which Jordan could benefit from investments to support its longer-term development while creating longer term solutions to the existing protracted refugee crisis.

VI. Addressing Urban Displacement – the Opportunities and Challenges of Working through Local Authorities

39. Supporting local authorities is a critical element for building community and institutional resilience in an urban refugee crisis where the majority of refugees settle in host communities. Although the ESSRP could not address the full range of issues that were driving tensions at the community level, including the perceived additional pressure on employment, housing and crowding in the classrooms, the Project helped boost the credibility of local authorities in terms of their responsiveness to the needs of their own community. The Project also signaled the limitations of a purely humanitarian response to refugee crises and the need to rapidly shift the focus of the international community

towards supporting longer-term approaches that helped mitigate the impact of the crisis on services that were already stretched in meeting the needs of the Jordan's own citizens. Amongst the lessons learnt, however, is that the efficiency and effectiveness of working through local authorities is conditioned upon the capacity of existing systems across all levels of Government.

40. Supporting resilience at the community and institutional level is critical for addressing situations of protracted displacement. However, such support should be complemented with reform efforts that support improvements in the efficiency and accountability of service delivery systems. In the case of Jordan, and while the design of the Project was kept simple, its procedures were streamlined, and municipalities were provided with maximum flexibility to manage the implementation of their investments, the efficiency of the Project's interventions was undermined by a centralized and bureaucratic local governance system and a generally low level of capacity at the municipal level. Despite ongoing and past efforts to address these inefficiencies, municipal performance continues to suffer from structural issues that relate to an unpredictable and tight fiscal transfer system, a limited revenue base and heavily staffed municipalities that are running large amounts of debt and high salary costs. The ability of the Project to finance a broader range of social and developmental services was also constrained by the absence of systems in place for allowing municipalities to work with other partners like the private sector and non-governmental organizations. In light of the newly passed decentralization and municipal laws, Jordan faces a real opportunity to embark on a systematic process of reforms that can address these systematic issues and unlock the potential for creating a more accountable system of local governance; one that delivers better and more efficient services to its citizens.

DATA APPENDIX

TABLE 2. Selected Economic Indicators.

	2013 Act.	2014 Act.	2015 Act.	2016 Proj.	2017 Proj.	2018 Proj.
Real sector						
Real GDP	2.8	3.1	2.4	3.0	3.3	3.6
Real GDP per Capita	0.6	0.8	0.0	0.8	1.0	1.3
Agriculture (share of GDP)	3.1	3.3	3.3	3.2	3.1	3.1
Industry (share of GDP)	25.0	25.2	25.2	26.1	26.0	25.9
Services (share of GDP)	56.0	55.8	55.9	60.1	60.2	60.3
Net taxes (share of GDP)	15.9	15.7	15.6	10.6	10.6	10.7
Money and prices						
CPI Inflation (p.a)	4.8	2.9	-0.9	1.3	2.7	1.5
Money (M2)	9.7	6.9	8.1	6.2	7.4	6.0
Investment & saving						
Total Investment	28.1	28.0	22.9	23.2	24.8	25.6
Gross National Savings	17.6	20.7	14.0	16.7	18.8	20.2
Government finance						
Total revenues and grants	24.1	28.6	25.5	24.7	24.8	23.5
Domestic Revenue (excluding grants and privatisation)	21.5	23.7	22.2	21.8	22.1	22.2
o/w. tax revenue	15.3	15.9	15.4	15.3	15.4	15.4
Foreign Grants	2.7	4.9	3.3	2.9	2.7	1.3
Total expenditure and net lending	35.7	37.9	29.1	27.8	27.1	26.1
Current ¹	31.4	33.4	24.9	23.7	23.1	22.8
o/w wages and salaries	5.0	4.9	4.7	4.1	4.1	3.9
o/w interest payment	3.1	3.6	3.4	3.3	2.9	3.0
o/w Transfer to utilities (NEPCO and WAJ)	6.0	7.0	0.1	0.0	0.0	0.0
Capital & Net Lending	4.3	4.5	4.2	4.1	4.0	3.3
Overall balance (deficit (-), excl. grants) ²	-14.2	-14.2	-6.9	-5.5	-4.0	-2.6
Overall balance (deficit (-), incl. grants)	-11.5	-9.3	-3.6	-2.6	-1.3	-1.3
Primary Balance (deficit (-), excl. grants)	-11.1	-10.5	-3.5	-2.1	-1.1	0.4
Primary Balance (deficit (-), incl. grants)	-8.4	-5.7	-0.1	0.7	1.6	1.7
External sector						
Current Account	-10.4	-7.3	-8.9	-6.6	-6.0	-5.5
Net Exports	-29.6	-26.4	-22.4	-17.3	-16.3	-13.8
Export FOB	42.4	43.3	37.7	40.0	43.6	47.3
Import FOB	72.0	69.7	60.1	57.3	59.9	61.0
Net Income and transfers	19.2	19.1	13.5	10.7	10.2	8.3
Net Private Investments (FDI and Portfolio)	10.2	8.6	6.8	5.6	7.3	8.0
Gross Reserves ³ (Months of Imports GNFS ⁴)	5.9	6.7	7.5	6.9	6.4	6.4
Total Debt						
Total Debt Stock	29,192	31,983	35,136	36,302	37,050	38,092
Debt to GDP Ratio (%) ⁵	86.7	89.0	93.4	90.1	87.4	84.8
Memorandum Items:						
Nominal GDP (Billion JD)	23.9	25.4	26.6	28.5	30.0	31.8
GDP (in million US\$)	33,679	35,917	37,612

Source: Government Data and World Bank Staff Calculation. Projections as of 1 March 2016. Data as of 15 April 2016.

1 Includes adjustment to other receivables for 2012 (0.4% of GDP) and transfers to NEPCO and WAJ. As of 2015, NEPCO and WAJ reverted to government-guaranteed borrowing from commercial banks. The government transferred 0.1 % of GDP to WAJ in 2015.

2 Includes fiscal gap of 2016 (0.5% of GDP) and 2017 (1% of GDP) and 2018 (1.3% of GDP)

3 Reserves exclude bank deposits in foreign currencies

4 GNFS: Goods and Non-Factor Services.

5 Government and guaranteed gross debt. Includes NEPCO and WAJ estimated borrowings for 2016-2018.

SELECTED SPECIAL FOCUS FROM RECENT JORDAN ECONOMIC MONITORS

FALL 2015 JEM: “A HICCUP AMIDST SUSTAINED RESILIENCE AND COMMITTED REFORMS”

Tech startup ecosystem in Jordan: (Special Focus) A new wave of entrepreneurship and innovation is emerging in both developed and emerging economies, spurred by digital entrepreneurs. Various developments, particularly those led by Information and Communications technology (ICT), have reduced the cost of innovation and market access substantially, allowing small tech businesses to compete with established industries. Today a startup can be created with just a laptop and Internet connection. This has led to the surge of tech startup ecosystems worldwide, where communities of entrepreneurs interact. Jordan in particular could benefit from this phenomenon, particularly for job creation. Tech startup founders are predominantly university-educated, a factor that could alleviate the country's high unemployment rate among those with a college degree. The innovation that startups bring can also be beneficial to the country's tech hub aspirations by making the sector more dynamic and sustainable. Jordan is no stranger to the tech ecosystem having spawned one of the most successful startups in the region; Maktoob. It now needs to leverage this early mover advantage by finding solutions to constraints like talent, space and funding that are hindering the development of its tech startup ecosystem.

SPRING 2015 JEM: “PERSISTING FORWARD DESPITE CHALLENGES”

Access to Finance in Jordan: (Special Focus) Access to finance is underdeveloped in Jordan where firms rate their inability to receive credit as the second overall obstacle to their operations. This status quo is of particular concern for micro-, small-, and medium-sized enterprises (MSMEs), which make up over 90 percent of the Jordanian economy and are major contributors to its competitiveness and employment potential. The situation has only worsened since 2006, with basic Access to Finance indicators deteriorating for firms across the country, of varying size and age, and in different sectors. The Jordanian authorities, including the Central Bank of Jordan, have introduced several measures to improve access to finance but instrumental structural reforms are still needed to instigate transformational improvements across the board.

SPRING 2014 JEM: “RESILIENCE AMID TURMOIL”

Updating Poverty Estimates at Frequent Intervals: Preliminary Results from Jordan: (Special Focus) 1) Jordan, not unlike many countries, relies on infrequent household expenditure and income surveys (HEIS) to estimate poverty in the country. In Jordan, the last HEIS survey dates from 2010 so

that the last official poverty estimates is also from that year. When policy decisions are made in 2014, they are therefore based on rather dated estimates of poverty. Not only has Jordan suffered from a series of negative shocks, the Government has also introduced major mitigation programs (e.g., the petroleum cash compensation transfer). Have these programs been successful in protecting the poor? Is Jordan still progressing in its fight against poverty? To help answer these questions, World Bank staff developed an alternative method for estimating poverty by imputing household consumption data into the Employment-Unemployment Survey, which is conducted every quarter. This approach offers alternate annual poverty estimates for Jordan. Based on this new approach, estimates for 2011 and 2012 point to a small decrease in the poverty rate compared to 2010. Previous Bank research revealed, however, that a third of the population lived below the poverty line in at least one quarter of the year. Hence, while progress continues in tackling chronic poverty, transient poverty affects a large swath of the population, which points to a large share of vulnerable Jordanians.

Syrian Refugees and Labor Market Outcomes in Jordan:

(Special Focus 2) A large influx of refugees into a country occurring over a relatively short time is bound to have a major impact on the host country's labor market. While in principle both positive and negative impacts could arise from such a shock, ultimately the net impact on the Jordanian labor market remains an empirical question. Official data are utilized to examine the impact on three labor market indicators – labor force participation, the employment rate and the unemployment rate - while accounting for economic activity through using construction permits as a control variable, at the level of governorates. The Vector Autoregression (VAR) methodology has been adopted on panel data that involves a cross-section of governorates in Jordan, during the time period Q4 2007 to Q3 2013. We find evidence suggesting that the Syrian refugees are causing a reduction in the national labor force participation rate of Jordanians. Preliminary analysis reveals this could be the result of refugees willing to work for relatively low wages, causing a

large increase in discouraged Jordanian workers (as these have a reservation wage that they perceive cannot be satisfied under the current environment and therefore prefer to drop out of the labor force altogether; since these discouraged workers are no longer searching for jobs, they are not counted in the rank of the unemployed). Given Jordan's previously low labor force participation rate prior to the Syrian conflict, the recent drop in the participation rate is a source of concern.

SELECTED RECENT WORLD BANK PUBLICATIONS ON JORDAN

(for an exhaustive list, please go to: <http://www.worldbank.org/en/country/jordan/research>)

Title	Publication Date	Document Type
Learning or Leaning: Persistent and Transitory Spillovers from FDI	2015/12/31	Working Paper
Plunging Oil Prices Bring Gains and Losses to the Middle East and North Africa Region	2015/01/29	Press Release
Jordan Economic Monitor, Fall 2014: Steady and Moderate Growth Continues	2014/12/10	Report
Jobs or Privileges: Unleashing the Employment Potential Of the Middle East and North Africa	2014/11/01	Jordan Issue Brief
Doing Business 2015: going beyond efficiency – Jordan	2014/10/01	Working Paper
Jordan Economic Monitor: Steady and moderate Growth continues	2014/04/01	Report
Jordan Economic Monitor: Resilience amid turmoil	2014/04/01	Report
Jordan country opinion survey report (July 2013 - June 2014)	2014/03/14	Working Paper
Jordan Economic Monitor: Moderate Economic Activity With Significant Downside Risk	2013/10/31	Report
Soft skills or hard cash? : the impact of training and wage subsidy programs on female youth employment in Jordan	2013/08/14	Brief
Mitigate the Impact of Syrian Displacement on Jordan	2013/07/18	Loan Agreement
Jordan Economic Monitor: Maintaining Stability and Fostering Shared Prosperity Amid Regional Turmoil	2013/06/25	Report
Developing micro, small and medium enterprises in Jordan: the route to shared prosperity (English)	2013/03/01	Brief
Do wage subsidies help young women get jobs?	2012/01/12	Brief
Doing business 2013 : Jordan – smarter regulations for small and medium-size enterprises : comparing business regulations for domestic firms in 185 economies	2012/03/10	Working Paper
Soft skills or hard cash? What works for female employment in Jordan?	2012/19/10	Working Paper
The Patterns and determinants of household welfare growth in Jordan: 2002-2010	2012/01/10	Policy Research Working Paper
PPIAF assistance in Jordan	2012/01/10	Brief
Health equity and financial protection datasheet: Jordan	2012/01/08	Brief
Privatization: lessons from Jordan	2012/01/07	Brief
Soft skills or hard cash? The impact of training and wage subsidy programs on female youth employment in Jordan	2012/01/07	Policy Research Working Paper
The Jordan education initiative: a multi-stakeholder partnership model to support education reform	2012/01/06	Policy Research Working Paper
Who needs legal aid services? Addressing demand in Jordan	2012/01/03	Brief

NOTES

NOTES



The World Bank
www.worldbank.org/jo