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JORDAN: Country Assistance Strategy

Jordan has been engaged in major structural reform since 1994. The central objective of this reform program is to integrate Jordan with world markets and create an enabling environment for increased competition to spur private sector growth and investment. It aims to build a modern and competitive financial system coupled with best-practice business laws. The privatization program aims at increasing productivity and lowering costs of important logistical infrastructure components, including telecommunications, transport and energy.

Considering where Jordan was at the start of this decade, when it faced a serious crisis, the results have been gratifying. Growth during 1992 - 1995 was 8 percent on average, debt was reduced from 175 percent of GDP in 1991 to around 100 percent in 1997 and macroeconomic stability was restored. The crisis of foreign reserves, exacerbated by the continued uncertainties surrounding the Jordan Dinar, has been managed most satisfactorily. However, Jordan has lately experienced harder times than anticipated with three consecutive years of negative per capita growth, mainly due to exogenous factors beyond the control of the Jordanian authorities. Exports to Iraq were abruptly cut by 50 percent, oil prices fell, thus affecting exports to the Gulf countries and Jordanian workers' remittances, the Asian crisis brought a large drop in phosphate and fertilizer exports, and the stalling regional peace process has hurt Jordan in many ways.

As stated in the CAS document, "Domestically, the pace of implementation of the reforms slackened in 1998. The long illness of H.M. King Hussein for much of that year followed by his death in February 1999 paralyzed the Government for a period of time and slackened action on several important measures of structural reforms. Furthermore, the fiscal deficit deteriorated in this period reversing the enormous progress that had been made until then, with the fiscal deficit (excluding grants) increasing from around 5% in 1994 to over 10% in 1998".
The ascension of H.M. King Abdullah II to the throne and the new Government, appointed in March 1999, has embraced the challenge of restoring Jordan to a high growth path and reducing poverty. The evidence of its commitment is already visible with the resumption of a more determined effort in the reform program, realizing that rapid growth is essential for addressing social problems and closing the fiscal deficit.

The journey of economic reform is a long and painful one. It is always important to develop consensus in support of far-reaching economic reforms. This is never an easy task and it certainly does not get any easier with increased political openness and participation. This is an important challenge which economic management in Jordan has to contend with at this critical stage. Against this new political environment of openness and public awareness of the heavy menu of sacrifices and pain associated with the stabilization and economic reform process, the Government and the Parliament are currently reviewing several laws relating to investment, taxes, business environment, customs, patents, unfair competition and copyrights. A schedule has been prepared to finalize the required changes by the end of this year. Moreover, public sector reforms have become an integral part of the Government's development plan for the next 3-5 years, thus making the public sector more efficient and promoting private investment in the country.

The Government is continuing its efforts to liberalize the external sector. Significant majors have been taken towards formal accession to the World Trade Organization (WTO); maximum import tariff was reduced in July 1999 from 40% to 35% except on alcohol and tobacco, and further reductions in the maximum tariff to 30% is expected to take place in mid-2000. Furthermore, the Government has implemented the new Customs Law this year, adopted the ASYCUDA system, and extended the "Green Channel" facilities to cover all ISO 9000 companies and other companies that export more than 50% of their production. An Export Credit Guarantee mechanism is being considered to insure exporters against commercial and political risks. Finally, the Government has relinquished price controls over most food supplies, and abolished import monopolies previously held for certain food products. The private sector has been encouraged to provide these services.

After a period of low pace in privatizing its major state owned enterprises (SOEs), the Government adopted bold steps and executed the following transactions:

- **Jordan Telecommunications Corporation:** 40% of its shares will be sold to a consortium led by a technical and operating partner, and 8% will be sold to the Social Security Corporation. Negotiations have been finalized and legal steps are being formulated to finalize this deal.

- **Jordan Cement Factory:** 33% of the Company's shares have been sold to Lafarge of France.

- **Public Transport Corporation:** Contracts were signed with three local operators for a ten-year concession.

- **Water Authority of Jordan (WAJ):** A performance based management contract was awarded to a French Company "Suez Lyonnaise des Eaux" for the private management of the Greater
Amman Water and Wastewater networks.

- Aqaba Railway Corporation (ARC): A concession agreement was signed in mid August 1999 with a consortium led by the American engineering "Raytheon" company to upgrade and operate the railway and construct two extensions.

- Royal Jordanian Airline (RJ): The Government has approved the financial restructuring plan of RJ. It will be restructured and transferred into a holding company and operating subsidiary. The bid process was scheduled for October/November 1999 and negotiations during December 1999. The privatization process will be completed in early 2000.

- Electricity sector: The National Electric Power Company (NEPCO) has been divided into three firms that are responsible for generation, transmission and distribution of electricity. Of these, the distribution and generation activities have been put for privatization, which is targeted to be completed by the end of the year 2000.

- Ma'in Tourism and Spa Complex: A 30-year concession agreement for the management of the spa complex has been awarded to a private sector operator (a French Company "Accor").

- Jordan Investment Corporation (JIC): some of the JIC portfolio companies have also been divested, including selling minor shares in 15 companies.

- Moreover, the Government is currently exploring additional future privatization transactions namely; the enterprises of the former Ministry of Supply, Postal Savings Fund, the industrial jettly of the Port of Aqaba, and opening up the media sector to private enterprises.

The Government, however, still faces a major challenge of cutting the budget deficit by 3% over the next three years, as agreed with the IMF as part of its Extended Arrangement and Compensatory and Contingency Financing Facility, approved in April 1999.

It is encouraging to know that the World Bank Group perceives Jordan's efforts in the area of economic growth, shifts towards market economy, the process of democratization and Jordan's role in the Middle East peace process as steps in the right direction. Also, Jordan is moving expeditiously and firmly to put in place an enabling environment that would create the necessary incentives for accelerating private sector participation in economic development. The Government is committed to programs aimed at reducing unemployment, improving living standards, and to a gradual reduction of Government's role that would be mainly directed to the provision of basic services, regulatory and supervisory activities; all of which are pre-requisites for the development of a robust private sector.

My Authorities have assured me that the progress towards an outward oriented private sector led growth strategy, liberalization, privatization and democratization is irreversible. Jordan faces serious challenges in the future i.e. to maintain stability with sustainable growth. The Government is cognizant that the long term challenges of employment, water supply and population growth must be given serious attention. They are also fully aware of the social
dimensions associated with the implementation of the economic reform and adjustment program. Notwithstanding the remarkable progress in restoring growth and reducing internal and external imbalances, Jordan continues to face the twin problems of unemployment and poverty. A healthy socioeconomic environment is essential for pursuing Jordan's priorities for peace and democracy.

My Authorities reiterate what has been already stated in their development policy i.e. "We realize that our reform program as presented in our development plan and objectives is an ambitious one. We have no alternative but to succeed. The first phase of our program has been substantially completed with a successful outcome. We also know that we shall not be able to carry it through in a satisfactory manner without full cooperation and support of our multilateral and bilateral partners. However, we are confident that the Government fully satisfies one of the key criteria our development partners expect of us, namely, Government's serious commitment to follow through and implement this reform and stabilization program. The cost of slippage is too large to do otherwise. The Government's agenda in the aftermath of the regional peace is to alleviate poverty and to bring about visible changes in the lives of the poor. We also wish to note that since the beginning of the current reform program in 1992, our track record has been good. We have been able to achieve, and in several instances exceed, the monetary, fiscal and structural reform targets set by the Government under the IMF's arrangements. We are continuing an active dialogue with our bilateral donors with a view of securing most optimum levels of technical and financial assistance to support us during this critical period. The World Bank's contribution to this program is of utmost importance, not only in terms of its own direct assistance, but also in terms of mobilizing other cofinancing resources".

Jordan fully appreciates the valuable support it has received from its development partners. This support has been well demonstrated since launching the Country's ambitious and comprehensive economic reform program. Jordan is looking forward to an even larger and deeper cooperation with the World Bank Group and other development partners. Jordan's success in implementing its economic reform program is to be shared with all.