Report No. 24425-JO

Jordan
Development Policy Review
A Reforming State in a Volatile Region

November 5, 2002

Social and Economic Development Sector Unit
Middle East and North Africa Region

Document of the World Bank

CURRENCY AND EQUIVALENTS

Currency Unit - Jordanian Dinar
US$1 = JD0.71

FISCAL YEAR

January 1-December 31

ACRONYMS AND ABBREVIATIONS

AFTA	Arab Free Trade Agreement	MFA	Multi-fiber agreement
BOO	Build-Own-Operate	MNA	Middle East and North Africa Region
BOP	Balance of Payment	MOH	Ministry of Health
BOT	Build-Operate-Transfer	MOP	Ministry of Planning
CAS	Country Assistance Strategy	MOWI	Ministry Of Water and Irrigation
CBJ	Central Bank of Jordan	NAF	National Aid Fund
CFAA	Country Financial Accountability Assessment	NGO	Non Governmental Organization
CIDA	Canadian International Development Agency	ODA	Official Development Assistance
CPAR	Country Procurement Assessment Report	OECD	Organization for Economic Co-Operation and Development
CPI	Consumer Price Index	PAYG	Pay As You Go
DPR	Development Policy Review	PPG	Public and Publicly Guaranteed
ERP	Educational Reform Program	PSET	Plan for Social and Economic Transformation
EU	European Union	PSRL II	Public Sector Reform Loan II
EU-MED	Euro-Mediterranean Agreement	QIZs	Qualified Industrial Zones
FDI	Foreign Direct Investment	RMS	Royal Medical Services
FTA	Free Trade Agreement	SDR	Special Drawing Rights
GDP	Gross Domestic Product	SME	Small and Medium Enterprise
GNDI	Gross National Disposable Income	SSC	Social Security Contribution
GNFS	Goods and Non Factor Services	TFP	Total Factor Productivity
GTZ	Gesellshaft fúr Technische Zusammenarbeit	UFW	Un-Accounted-For Water
HDI	Human Development Index	UN	United Nations
IMF	International Monetary Fund	UNDP	United Nations Development Program
IT	Information Technology	UNICEF	United Nations Children's Fund
JD	Jordanian Dinar	US	United States
JICA	Japan International Cooperation Agency	US$	United States Dollar
JLCS	Jordan Living Conditions Survey	USAID	United States Agency for International Development
JUH	Jordan University Hospital	VAT	Value Added Tax
JVA	Jordan Valley Authority	WAJ	Water Authority of Jordan
M & I	Municipal and Industrial	WDI	World Development Indicator
MCM	Million Cubic Meters	WDR	World Development Report
MENA	Middle East and North Africa Region	WTO	World Trade Organization

Vice President:	Jean-Louis Sarbib
Country Director:	Joe Saba
Sector Director:	Mustapha Nabli
Sector Manager:	Dipak Dasgupta
Task Manager:	Carlos Silva-Jáuregui

TABLE OF CONTENTS

TABLES

FIGURES

BOXES

STATISTICAL ANNEX

ACKNOWLEDGEMENT

This report was prepared by a team led by Carlos Silva-Jáuregui (Task Manager) and including contributions from T.G. Srinivasan, Monali Chowdhurie-Aziz, Sara Johansson, Sandeep Mahajan, Bassam Ramadan, Elizabeth Sherwood, Ashok Subramanian, Joseph Fuleiham, and Anne M. Pierre-Louis. Masakazu Someya produced the statistical annex based on information provided kindly by the IMF. Isabelle Chaal processed the document. Zia Qureshi, Daniela Gressani and Christian Petersen served as peer reviewers. The report benefited from comments by Uri Dadush, George Schreiber, John Speakman, David Steel, Paolo Zacchia and Habib Fetini. Guidance from Mustapha Nabli, Joe Saba and Dipak Dasgupta is gratefully acknowledged.

EXECUTIVE SUMMARY

Strong Reform Effort. Since the early 1990s, Jordan has initiated efforts *toward far-reaching stabilization and structural reform.* The reforms have aimed at laying the foundations for a reduced role of the state, private-sector-export-oriented-growth, employment, poverty reduction and overall improvement in the welfare of the population. Due to this intensive effort, inflation has been reduced (from 25 percent in 1989 to 1.8 percent in 2001), the current account of the balance of payments has been stabilized (from a deficit of 16 percent of GDP in 1992 to a small surplus of 0.4 percent of GDP in 2001) and budget deficits (before grants) have been reduced from 15 percent in the mid-1980s to 7.9 percent in 2001. In addition, structural reforms in Jordan have encompassed domestic taxation/subsidy policies, trade liberalization policies, monetary/financial sector policies, exchange rate policies, administered prices and privatization. In fact, the reforms initiated since 1989 have made Jordan one of the leaders in reform in the Middle East and North Africa (MENA) region. It is creditable that Jordan has moved steadily forward in reforms in the last 12 years, despite several changes in government and adverse external shocks in the 1990s. The country has further integrated into the global economy, with a major shift in trade policy that included an Association Agreement with the EU in 1999, membership in the WTO in 2000, and a free-trade agreement with the USA in 2001. Jordan has also achieved progress in privatization, most notably in the public utilities.

But Weak Growth Response. Despite deep structural reforms and macroeconomic stability, *strong and sustainable growth in real output has been elusive.* Weak growth during the 1990s, combined with the high population and labor force growth, has led to little reduction in unemployment and poverty levels. Unemployment has remained stubbornly high, at around 15 percent during the second half of the 1990s, and poverty, almost non-existent before the 1989 crisis, has stagnated at around 12 percent.[1]

Factors Affecting Growth. Three factors have been identified[2] as major constraints to faster growth: (i) external volatility and adverse regional neighborhood effects; (ii) slow response of private investment, both in its level and in terms of productivity; and (iii) significant export competitiveness problems. Increasing growth performance as a means to reduce poverty and improve the welfare of Jordanians is the first key development challenge identified in this DPR.

Public Services. The other key development challenge in Jordan is to improve the quality and efficiency of its core public services. Efficient delivery of public services is especially critical in education and health and in the water sectors. In a resource scarce country such as Jordan, human resource development holds the key to better outcomes on longer-term growth and equity. Jordan is also one of the most water-stressed countries in the world and addressing water management issues will be central to sustainable growth. But Jordan also needs to modernize its public sector more broadly so that it does not become a drag on private sector development and helps improve the quality of life of all its citizens. Better overall public services will also help to attract more private investment and alleviate poverty more directly.

---

[1] These poverty levels are low compared with other countries in the region, but high for Jordan as they represent about four times the level prevailing before the crisis in the late 1980s.

[2] See World Bank (2001), Jordan – Sources of Growth study.

A New Government Plan. Disappointment with the growth performance and poverty reduction achieved in recent years as well as with the quality of the delivery of public services is the principal reason why the government has launched its ambitious Plan for Social and Economic Transformation (PSET) at the end of 2001. While the government's plan is likely to have a short-term positive impact on growth, employment and poverty reduction, the long-term impact will depend on the capacity of the private sector to respond, thus generating investment and employment opportunities that can materialize in higher and sustainable growth prospects, and improved welfare of the population.

Jordan's vision, as developed by its Plan for Social and Economic Transformation *is "...to make Jordan a model livable country in the shortest period of time."* The vision's goals are to (i) raise the quality and standards of living of Jordanians; (ii) develop human resources; (iii) ensure proper health care; (iv) alleviate poverty; (v) create employment opportunities; (vi) provide efficient government services to citizens and business; (vii) attract domestic and foreign investment; (viii) reduce debt and the fiscal burden; and (ix) strengthen the partnership with the private sector. To implement this vision, Jordan needs to put forward a strategy that is pro-growth and attacks the key challenges the country still faces.

The strategy requires decisive government actions in several areas. First, in order to encourage greater and more efficient private investment response, it needs to sustain its efforts to reduce the fiscal and debt burden, improve its exchange rate management, continue to strengthen its structural and institutional reforms in key areas, and improve the quality of its labor force. Second, in order to produce an efficient delivery of public services, it needs to secure better outcomes from an already high level of public spending in terms of the quality and access of education and health services, ensure better management of water resources through enhanced public-private partnerships in water projects, and build a broad array of needed reforms in the civil service, public administration and judicial reforms. This DPR identifies priorities that overlap to a significant extent with those priorities set by the government, and which interact with each other. Future development prospects depend on Jordan's capacity to address the remaining challenges identified in this DPR. While Jordan has done much to modernize its economy, the reform agenda has not been exhausted. The authorities need to stay on course and advance the reform process.

Priorities Looking Ahead

The two pillars of key reforms identified in this DPR focus on: (i) enhancing growth and reducing unemployment by reinvigorating the private investment response; and (ii) improving the quality and efficiency of public services, starting with the education, health and water sectors as the most urgent priorities, but extending to all other core public services.

Growth and Poverty Reduction. Sustainable reduction of poverty requires strong growth performance. Jordan needs to progressively increase its growth rate in real output, from the current 4 percent, (which, given Jordan's high population growth, produces only a marginal per-capita growth in income), to 6 percent or higher. High and sustainable growth rates in output are needed to reduce unemployment and poverty, generating new jobs that the economy needs to absorb the growing cohorts of young Jordanians entering the labor force.[3] Given the projected

[3] Most of Jordan's population is young with a large cohort of new entrants to the job market. Female participation in the labor force is very low (at about 16 percent) but a growing number of Jordanian women are attaining higher

population growth rate of about 2.9 percent and labor force growth of 3.6 percent per annum during the next decade, employment needs to grow by 4.8 percent to bring unemployment levels down to about 6 percent by 2010. This requires a real GDP growth of at least 6 percent a year.

Unemployment and being unable to work are among the leading causes of poverty in Jordan. A reduction in unemployment levels (as contemplated above) through increasing job opportunities will have an important sizable impact on poverty alleviation. The other tool to reduce poverty is to improve targeting of poverty programs, paying closer attention to local conditions and decentralizing public services in response. Households in some sub-regions in Jordan--Irbid, Balqa and Mafraq--appear to have a strong association with poverty. A centralized structure of decision making, as is the case in Jordan, cannot address local conditions effectively. Apart from these two factors, the other determinants of poverty appear to be household size, requiring a strategy for population growth and education improvements. While the overall indicators of literacy and health are good in Jordan, the profile of the poor clearly indicates that educational attainments directly impact upon the incidence of poverty.

Analysis of growth sources indicates that Jordan's weak growth performance is due to a combination of factors. Geography and its associated regional volatility play a role. Jordan is a relatively small open economy exposed to regional shocks and its fortunes are linked to the Gulf region and the Middle East peace process. Many Jordanian's work in oil producing countries and send remittances (about one fifth of GDP) back home. Trade is relatively un-diversified with heavy concentration of exports (40 percent) to and imports (20 percent) from the region. Tourism and investment are affected by regional insecurity. Increased regional uncertainty and slower growth has shaved off up to one percent of long-term growth in GDP.

Sluggish private investment response is a key issue. Private investment shifted to residential housing in the 1980s and declined from 26 to 11 percent of GDP between 1993-98. Much of this is explainable by a worsening of fiscal deficits that discourage private investment (operating mostly indirectly), uncertainty (as measured by real exchange rate and reserves volatility), and falling levels of worker remittances (relative to GDP). Private investment rates (non-residential) have improved but remain low, reaching only 7 percent of GDP by the end of the 1990s. It needs to be at least doubled to reach the levels attained by the fast growing countries in the world. Private investment levels above 15 percent are associated with countries growing at rates higher than 5 percent. Moreover, total factor productivity in Jordan has also been low and significant levels of FDI have only recently started to come to Jordan as a result of privatization efforts. Most FDI inflows into Jordan are acquisition transactions under the privatization program, and most are in non-traded sectors and/or in protected services (e.g., telecommunications, railways). Only limited FDI inflows in traded sectors have occurred, and those too primarily in Qualified Industrial Zones (QIZs) where the business environment (taxes, procedures, market access) is more liberal.

Weak export competitiveness is the third cause for poor growth. Export performance deteriorated over the long-term (during 1976-2000)---exception being the 2001 surge in exports from QIZs---against the background of accelerating world trade growth. The main factors behind slow growth in Jordan's exports lie in: (i) persistent weaknesses in product composition (fertilizers, agriculture, minerals) that are not geared to fast growing world markets; (ii) inability to diversify

---

levels of education and seeking job opportunities. These two factors are likely to affect labor markets and social infrastructures for decades to come.

outside of regional and traditional markets (Gulf, Iraq, and India) at a pace fast enough to offset slow regional growth; and (iii) diminishing competitiveness. Jordan is also affected by of *Dutch disease* effects, as evidenced by real exchange rate overvaluation, high reservation wages and lower traded goods investment.

Jordan cannot affect its geography but it can implement policies to diversify its sources of growth by improved *private sector investment and export response.* Three critical factors seem to negatively affect the performance of the private sector. First is the macroeconomic policy environment where the effects of large fiscal deficits and the public debt burden, as well as the choice of the exchange rate regime generate disincentives to invest. Second are cumbersome bureaucratic procedures, weak competition, red tape, and poor public service delivery, which increase transaction costs. Third is the quality of the education system that produces workers with skills different from those demanded by the market.

Fiscal and Debt Burden. Jordan's macroeconomic management over the past decade has been complicated due to large (before grants) fiscal deficits and a high public debt burden. Stronger and sustainable growth requires a policy framework that limits the disincentives for private investment and reduces the perceived fiscal risks. In the case of Jordan, *reducing the fiscal deficit and debt burden* is critical, as fiscal deficits are strong disincentives for private investment. The government is committed to a path of deficit (and debt) reduction. Implementing a fiscal consolidation strategy will allow the government to reduce its debt by about 30 percentage points to about 64 percent by 2006. On the revenue side efforts are to be concentrated on improving tax revenue and rationalizing non-tax revenues, increasing energy prices, reducing tax exemptions, liberalizing prices and strengthening the general sales tax administration. On the expenditure side cuts in the capital budget, which has been traditionally on the high side, are contemplated, without jeopardizing growth prospects. Expenditures associated with the new PSET will be financed through non-debt creating flows, including privatization revenues and additional grants. But the risks of recurrent expenditures in the future associated with the PSET exist.

While there is a comprehensive strategy to bring the deficits down, for long term fiscal sustainability, addressing structural rigidities associated with the budget will be essential, particularly those related to the public sector pension system. Public pension expenditures have been increasing rapidly. Pension deficits have already reached 4 percent of GDP despite favorable demographic conditions. *Pension expenditures* will constitute an increasingly higher burden on future budgets. There is an urgent need for deep reform in the pensions system to make it financially viable and equitable, and to reduce the distortions that the current structure of contributions and benefits creates on the labor market. Reforms could include a range of options from the re-parameterization of the public pension schemes, to a consolidation of the public system with the Social Security Corporation, which covers private pensions. In addition, pension reform and fiscal consolidation will produce a stronger fiscal stance and limit aid dependency, thus reducing macroeconomic risks.

The Government of Jordan is committed to pension reform and is developing in consultation with IFIs a reform strategy that will (i) phase out the military pension scheme and enroll new recruits in the Social Security Corporation; (ii) reduce the prevalence of disability awards; (iii) extend the vesting period before retirement and determine a minimum retirement age before pension benefit entitlement; (iv) eliminate discretionary adjustments to pension benefits by

introducing an automatic indexation mechanism; and (v) rationalize benefit formulas. These measures will help to bring the pension system to sounder footing.

Bringing down the budget deficits in line with the programs agreed with the IMF, and the public debt burden through the recently agreed Paris Club rescheduling and other available means, will increase Jordan's growth prospects and foster private investment. Recent cross section studies conducted by the IMF indicate that high levels of indebtedness hold back growth performance rather than helping to finance productive investment. These studies indicate that the average impact of debt becomes negative at about 160-170% of exports or alternatively around 35-40% of GDP. The growth differential between countries with low indebtedness (below 25 % of GDP) and those with high indebtedness (above 95% of GDP) is, on average, in excess of 2% of GDP.

Structural Reforms to Improve Competitiveness. Structural reforms should be deepened to facilitate private sector response, encourage investment, improve productivity and enhance export-led growth prospects. Further *trade liberalization* to reduce tariffs in line with WTO commitments and remove administrative barriers, regulatory reform to make economic decisions more transparent, accountable and predictable, and reduction of red tape and procedures to improve the business environment will all encourage private participation and growth. While customs services have apparently improved, other bottlenecks remain. For example, freight costs in Jordan still account for some 12.8 percent of trade transaction value---two to three times higher than in countries with similar location (Tunisia and Turkey). Air transport is restricted by state ownership, and road transport, which accounts for 65 percent of all imports, has significant entry restrictions. Telecommunications costs are still high and the sector lacks competition. These areas of attention can be complemented by a monetary policy framework that is supportive of exchange rate stability, but also gives room for private sector credit expansion (and interest rate reduction). For example, in 2001 a significant (200-300 basis points) reduction in nominal and real interest rates---primarily due to a reduction in world interest rates---was associated with stepped up private credit, faster exports and higher growth. However, more flexible monetary policy can only be achieved with more flexible exchange rates, which will also help Jordan deal better with external shocks. The authorities have chosen to maintain the peg to the US dollar, which has provided an anchor but this has not been without costs, as the real appreciation of the Dinar (by 30 percent between 1996-2001) hindered export performance in the second part of the 1990s. Moreover, in the context of pro-cyclical fiscal policy, particularly now that the Program for Social and Economic Transformation (PSET) is to increase the spending envelope of Jordan in an upside cycle of the economy, the danger of overheating cannot be ignored, which can put pressures. Emerging economies like Jordan need to ensure that fiscal surpluses generated during booms are saved for bad times. This will reduce the need for debt financing during recessions. Contemplating alternative exchange rate agreements and developing a medium-term exit strategy from a nominal peg to allow exchange rate flexibility in the long-term are important policy choices that the authorities will face in the future.

The Central Bank acknowledges the importance of a flexible exchange rate to maintain the gains achieve by Jordan's reform process. The Central Bank adopted the peg as a nominal anchor to help macroeconomic management due to economic uncertainties in the region. Once these uncertainties are removed, the authorities plan to adopt a flexible exchange rate policy.

The *regulatory climate for business* also needs attention. Jordan's regulatory framework is not considered to be investment friendly by the private sector, both local and foreign. Surveys lists the five worst obstacles for doing business in Jordan to be (in decreasing order from worst to least problematic): tax regulations and high taxes; inadequate supply of infrastructure; policy instability; corruption; and the general uncertainty over costs of regulations. The reliance of the Jordanian private sector on the Government whereby a closed procurement environment shields Jordanian companies from outside competition also hampers the growth of an effective open, regional market for free trade of goods and services in Jordan. This closed environment in Jordan is also reflected in many of its neighboring countries, which further limits opportunities for the expansion and development of Jordanian companies. The Government of Jordan is attempting to improve the investment climate by streamlining investment promotion organizations and policies, and is moving towards the consolidation of government procurement agencies.

Jordan is located in a *volatile region* that constantly imposes challenges to its economic performance. The country faces a complex external political environment, with competing demands from different partners and where a fragile political balance needs to be maintained at all times. Jordan has sought to deal with this high volatility through diversification, particularly in recent years. The country has spent a good amount of effort to integrate into the world economy. This process has included significant reforms in the trade sector, and commitment to several important multilateral (WTO, EU-MED, AFTA, EU FTA) and bilateral agreements, the latest of which was concluded with the US.

Jordan still has important choices to make vis-à-vis *its integration process*. It can continue to pursue closer economic ties with the region, particularly with the Arab world. AFTA was supposed to do this but has failed to produce tangible results so far. Some progress in regional cooperation is taking place with the proposed gas pipeline (with Egypt) and the regional electricity grid between Egypt, Jordan and Syria. Jordan's Amman ring project also aims at increasing trade links by reducing transportation costs and facilitating the movement of merchandise to access the port of Aqaba. However, integration with the region is not without risks, as regional challenges (security, political, and economic) are likely to continue to affect the performance of Jordan, as well as the region as a whole. Seeking closer economic ties with Israel, an economy 13 times larger than Jordan's, can be a strategic move, but this will be difficult in the current regional context. Nevertheless, Israel already is the third largest regional destination for Jordanian exports (after Iraq and Saudi Arabia). If trade is to be the key engine of growth, should Jordan focus on developing stronger regional links or opt to embrace the globalization agenda, seek new markets and frontiers, and expand its horizons? The most likely answer is that it should follow both, as Jordan can benefit from diversification through its integration with the West and the East, and serve as a catalytic example for other countries in the MENA region.

The QIZ experiment has shown that Jordan can boost its export performance, change the composition of its export structure and tap non-traditional markets. Today, the US is the single most important destination for Jordanian exports (surpassing India, Saudi Arabia and Iraq) and manufactures are the largest component of the export basket (surpassing traditional exports). But the QIZs are a temporary solution and addressing the fundamental barriers that affect the performance of the private sector and produce weak competitiveness is the key for long-term development.

Improving the Delivery of Public Services. The second pillar of the development agenda is on improving the efficiency, quality and equity in the delivery of public services, starting with essential services like education, health and water but broadening to the full spectrum of public services. Given Jordan's characteristics with inadequate natural endowments and an abundant human capital base, the country needs to bet on further developing its rich human resources and empowering the population to reduce gender and social gaps.[4] Bridging the gender gap and social gaps are priorities that the government has identified and should continue to advance. Public awareness campaigns, and reforms plus implementation of laws will help. But increasing the amount of information made public and promoting a more inclusive public debate about policy options are also necessary to enhance voice, transparency and accountability. The country has a rich human capital asset base and fares well with respect to human development indicators in the region. However the delivery public services needs to be improved, so that the poor have better access, the government can get better results for each unit of spending, and the population receives the type and quality of services it demands.

Better delivery of public services will improve the quality of life of all Jordanians, particularly the poor. Households and individuals will benefit from improved quality and access of core public services. In addition, firms and business will benefit as a better government reduce institutional constraints. Improving the delivery of public services will enhance the quality of life for all Jordanians. Better overall public services will also serve to attract investors, both domestic and foreign, boost growth prospects and alleviate poverty. Finally, scarce government resources will be used more effectively.

Education. Jordan needs to *transform its education system* in order to meet the challenges of the knowledge economy. To participate fully in the knowledge economy, Jordan's education system must adequately prepare future workers and provide opportunities for the upgrading of skills of its current labor force. The *mismatch of skills* seems to be an important factor affecting employment opportunities. Secondary education graduates who do not go on to higher education (where quality-entry barriers are higher) represent the greatest problem---as they are increasingly unable or unwilling to find jobs at home or abroad.[5] As a result they enter into vocational training schemes that do not work in Jordan, as is the case in most other countries with publicly provided vocational training, which are unrelated to market tests and needs. An associated problem is *high reservation wages* induced by important levels of public sector employment (including in military services) and the distortions they create. The rates of unemployment for students with secondary education are high in Jordan (about 40 percent and growing), as are those for educated women. Lifelong learning needs to become a reality in the medium to long term and curriculums adjusted so that the education system produces the workers the market needs. In the near term, early childhood education (ECE) opportunities need to be extended and gains at the basic education level must be consolidated. These are priorities also identified y the government. Secondary education needs to expand and opportunities for higher education need to be further increased. Within the classroom, the application of knowledge must be promoted in order to improve Jordan's low ranking in international achievement tests. [6]

---

[4] While significant advances have taken place, women still are at a disadvantage in Jordan, with low representation in the job market and in political life.

[5] Migration opportunities also affect the behavior of the labor market, but this window is not as available as in the past

[6] See TIMSS (1999) International Mathematics Report.

Health. The health system in Jordan performs relatively well in terms of overall access to services and outcomes (as measured by such indicators as infant mortality and life expectancy). However, *Jordan spends over 9 percent of its GDP on health* (3 percentage points more than other comparable countries). Jordan spends on health well in excess of most middle-income countries and even some western industrialized countries. While Jordan provides coverage for its poor and disabled, *an estimated 20 percent of the population lacks formal coverage*, and Government financing for health care could be better structured to reflect ability to pay. The largely unregulated private sector is growing, accounting for about 30 percent of service delivery capacity and about half of spending. There is lack of coordination with the public sector and inefficient use of sector resources and as a result a two-tiered system of care that is evolving.

The Government of Jordan has embarked upon a long-term reform program which will, for the first time, draw together all major players in the sector: the Ministry of Health (MOH), Royal Medical Services (RMS), Jordan University Hospital (JUH) and the private sector. The first phase of this reform, will focus on three areas: (i) containing growth in health expenditures; (ii) assuring the efficient utilization of physical facilities; and (iii) improving the delivery and quality of health care services. Building on this foundation, the second phase will likely be expanded to address equity (universal health insurance), quality (medical education, regulation of the private sector), management (in the context of civil service reforms) and cost-effectiveness (rationalizing the public/private mix).

Water. Another critical priority for Jordan is to manage efficiently its constrained natural resources, particularly water. *Water scarcity* is the single most important environmental constraint to development in Jordan. Indeed, Jordan has a severe water crisis in a region with limited water resources and recurrent cycles of drought. Addressing this constraint requires fundamental measures to rationalize the demand for water (including reducing leaks and adjusting tariffs) and increasing water supply (through treated wastewater reuse in agriculture and the development of new water sources). The demand for water already exceeds supply and the actions to cope with this gap (overdrawing highlands aquifers) are unsustainable. New sources of water need to be developed, but this will entail enormous demands on financing, partly on account of the great distances between the water resources and the population centers, such as cities like Amman. Financing large water projects requires partnerships between the private and public sectors, otherwise they will generate enormous demands on the budget.[7] Efficient management of the sources of supply and demand, as well as partnerships between the public and private sector to develop the water infrastructure, are essential to cope with the water crisis.

Public Sector Reform. Jordan also needs to *modernize its public sector* more broadly so that it does not become a drag on private sector development (and on the economy). While the need for public sector reform in Jordan is clear and the efforts ongoing, it is also being built on a reasonably solid base of good performance. Using widely recognized measures of governance such as political stability, the rule of law, government effectiveness, the regulatory framework, control of corruption as well as voice and accountability, Jordan consistently leads the region. Moreover, it is almost at par with leading countries in other regions at similar income levels (lower, middle income countries) – especially regarding measures for rule of law, government

[7] Investment needs in the water sector during 2000-2005 are estimated at about 25 percent of GDP.

effectiveness, and the regulatory framework.[8] On matters of voice and accountability, however, its position is relatively weaker. Even so, when compared with developed countries like the OECD there is ample room for improvement in governance.

Household surveys and other sources have documented substantial costs imposed on users (both firms and consumers) by outmoded service delivery mechanisms, cumbersome procedures, and in general red tape.[9] In the absence of *institutional change* across government, including in the incentive framework and in organizational structures, Jordan's eventual transition to developed-country status will continue to miss a vital link. Modernization of the state apparatus is both achievable and indispensable. Reforming the public sector is a priority and a long- term commitment of the government.

The Government's public sector reform program, supported by the Bank's PRSL can be summarized in three main components: (i) civil service and administrative reform; (ii) budgetary and financial management; and (iii) judicial reform.

In civil and administrative reform, the main element of the program is to *improve the interaction of the citizen with government agencies*. Thus, the vision for this component is one where the Government is providing *cost-effective, fast and efficient services* in all departments, where personnel management is fast, accurate and systematic, where the system provides the correct incentives to produce the appropriate environment for employees to carry out their tasks. The Government has chosen a two pronged approach: on the one hand to make the public sector workforce more service friendly and client oriented, and, on the other, to render transactions with government agencies simpler, faster, more professional, and more transparent. To improve services to the public the objective is to obtain rapidly very tangible results in as many front line services as possible and, in so doing, lay the groundwork for further self-sustaining improvements. Progress has been achieved in several areas, including publication of service directories in 33 public departments (ministries as well as autonomous organizations) – which identify the available services, the time necessary for each transaction, the location of relevant offices, and the official cost of each service. These directories will continue to be published and posted over the next 2 years with the aim of covering all 1,400 services offered to the public. Under the *e-government initiative*, several services will be available electronically (including income tax, general sales tax and land use and surveys departments). In addition, the government program has *simplified procedures* in 40 public departments, significantly reducing the paper and time burden on users.

In terms of improvements in the financial and budgetary management, a medium-term budgetary framework (MTBF) is under consideration as well as investment programming and better integration of capital and recurrent spending. Raising the efficiency of investment will be crucial for realizing the ambitious goals of the PSET and for development and poverty reduction in general. Fostering results-orientation is also a goal. The need for re-orienting administrative procedures and civil servants' efforts away from sole attention to inputs and toward the results of government activity is clear in Jordan. The potential gains in terms of public services access and quality from introducing performance orientation in the administration, including through the

[8] See Kaufmann, Daniel, Aart Kraay and Pablo Zoido-Lobaton (2001), Governance Matters II: Updated Governance Indicators for 2000-01.

[9] See World Bank (1997) World Development Report; FIAS (1999) Jordan – Improving Administrative Procedures for Investors and Government of Jordan (2001) Accelerating the Economic and Social Transformation of Jordan

budgeting process, are substantial. The Government has accordingly decided in June 2002 to adopt a time bound but progressive approach of learning-evaluation-feedback, with maximum feasible participation by front-line employees and service users, beginning with pilot programs at the Ministry of Health. Financial management can be enhanced with a computerized system of real-time financial reporting, to improve monitoring of budget execution.

Judicial reform aims at ensuring a performance and users oriented, business friendly judiciary capable of becoming an engine for growth rather than an impediment to private sector investments and economic development and to bring Jordan up to par with international standards, in light of the free trade agreements mentioned above and of the accession to the WTO. This will be achieved by (i) strengthening the independence of magistrates; (ii) simplifying and rationalizing legal procedures with a view to reducing delays; (ii) setting alternative dispute resolution mechanisms, with particular emphasis on commercial matters, to reduce the case load of judges; (iii) increasing the transparency of judicial decision-making and predictability of judgments, (iv) increasing competency of the present and future judicial corps in matters of business law broadly defined, (v) improving the judicial system's enforcement capacity, (vi) ensuring broader and more timely dissemination of legal information through electronic access to speed archiving and dissemination , (vii) broadening the participation of stakeholders to the drafting of new legislation, and (viii) modernizing the Ministry of Justice's work processes, including but not limited to, the judicial inspection unit within the Ministry.

Jordan's reform program attempts to bring the public sector up to standards approaching those of high- income countries, while addressing, through administrative reforms, issues of transparency and accountability. Adhering to the proposals for public sector reform will increase the efficiency of the Jordanian public sector, improve the civil service, as well as the judicial and administrative structures of the government, while setting the foundation for solid budget management. This will in turn reduce the drag the public sector imposes on the private sector and improve the prospects for further development of the latter. Complementary measures will also be needed, in areas such as decentralizing government services and activities, especially to address local services for the poor.

The attached matrix summarizes key elements of the development agenda for Jordan. What could be regarded as immediate priorities (next 12-18 months) are highlighted in bold.

Risks

As mentioned above, Jordan is located in a volatile and conflict-ridden region. As a result, there are several factors that can jeopardize Jordan's achievements so far and hinder the country's development prospects. However, the risk that appears to be uppermost in the minds of all sections of society is that associated with regional instability.[10] Unexpected turns in regional political events continue to be a major cause for concern. Jordan's economy is intrinsically linked with progress on the Middle East peace process. Improved prospects for peace offer Jordan opportunities for increased trade, greater mobility of labor and capital, and an improved environment for foreign investment and tourism. Though Jordan's economy has shown resilience to the intensification of the Israeli-Palestinian conflict, this may be tested in new ways. For example, if the conflict is allowed to deteriorate triggering yet another wave of refugee

[10] Security concerns are also associated with failed FDI projects in agro-processing and transport sectors.

arrivals, social pressures could test the economy, as well as the social and political structures. Also, foreign private investors' interest may dwindle in such a scenario where regional security is at risk. Similarly, the possible expansion of the war on terrorism to Iraq can also test the vulnerability of Jordan to its dependence on subsidized Iraqi oil (of which about 5 million tones was received-approximately half free and the other half below market price). Estimates by the IMF suggest that a military action against Iraq could reduce fiscal grants by 4.5 percent of GDP, thus jeopardizing the fiscal stance, and widen the current account deficit to 4.5 percent of GDP over the medium-term. In the absence of a strong policy response the fiscal and current accounts deficits could become unsustainable. Moreover, as in the past, it can also affect remittances and labor exports.

Conclusion

The reform agenda of the last decade is a brave attempt to rectify the problems of the past and create a foundation for private-sector-export-oriented sustained growth. There is also determination to address social and gender gaps. Significant advances have taken place but the reform agenda has not been exhausted and the remaining challenges need to be faced to bridge Jordan's transition to developed-country status. Progressive Arab states like Jordan want to build their legitimacy on how they prepare their people for a better future rather than on excuses for not to reform. Regionally, Jordan is at the frontline of reform, far ahead of other countries in MENA. However, globally Jordan still has some way to go. The expectations associated with the reform process have been high and the results have not always been fulfilling. Achieving results is neither instantaneous nor permanent unless the policy framework is right and the reform effort is constantly pursued. The government needs to stay focused on the reform course, maintaining a balance between increasing development spending and opening further space for the private sector to lead the way. Increasing private investment will prove to be critical for growth, employment and poverty reduction. Improving public sector governance will enhance efficiency in the delivery of essential public services and boost growth prospects. As long as policymakers stick to the reform agenda, there is well-founded hope for a better future for all Jordanians.

Jordan - Key Elements of Development Agenda

Policy Area	Challenges and Objectives	Key Actions
MACROECONOMIC MANAGEMENT	• reduce fiscal deficits and meet fiscal deficit targets • reform the public sector pension system • reduce public debt levels • consider more flexible exchange rate regime • improve capacity to cope with volatility and external shocks	• **develop a comprehensive public sector pension reform program** • **rationalize government expenditure under the new economic and social transformation program** • **reduce public debt burden though Paris Club and other means** • improve revenue collection by reducing tax exemptions, increasing energy prices liberalizing regulated prices and strengthening general sales tax administration • implement civil service reform as per PSRL recommendations • contain growth in military expenditures • develop a strategy for long-term exchange rate flexibility • reduce dependency on foreign aid
PRIVATE SECTOR DEVELOPMENT	• improve business climate • enhance prospects for (non-residential) private investment • promote SME development • improve public sector services	• **improve competitiveness** • **accelerate privatization agenda** • **reduce fiscal deficits** • **advance public sector reform as per PSRL agenda** • reduce the state's role in infrastructure and encourage greater private sector participation in water and energy • introduce trade reforms to strengthen competition and improve competitiveness
HUMAN RESOURCE DEVELOPMENT	• reduce poverty levels • curtail social and gender gaps • curb population growth • lower unemployment rates • improve education and health outcomes	• **strengthen skills development to better match labor market demands** • **reduce labor market distortions freezing public sector hiring** • implement early childhood education initiatives • improve health care management through information systems and decentralization • promote safe reproductive health programs • implement the national strategy for poverty alleviation • enhance the capacity of the National Aid Fund • promote gender equity through legal reforms and public awareness campaigns • decentralize public services to better target pockets of poverty
WATER MANAGEMENT	• reduce water demand • increase water supply • create incentives for more efficient and equitable water use • promote private sector participation in management and development of water resources	• **promote private sector financing and co-financing to develop and manage new and existing water sources** • **improve monitoring and correct water leakages** • **eliminate water pricing distortions and rationalize tariffs** • increase use of treated wastewater for agriculture • promote water conservation awareness though public campaigns

Policy Area	Challenges and Objectives	Key Actions
PUBLIC SECTOR REFORM	• improve delivery of public services • complete civil service and administrative reform • advance legal and judicial reform • improve financial management and press forward budgetary reform	• **implement civil service, administrative and judicial reform as per PSRL agenda** • **enhance transparency and accountability through information disclosure** • **establish a medium-term expenditure program** • implement performance management budgets • decentralize core public services • improve financial management of the budgetary process

Immediate priorities (next 12-18 months) are indicated in bold.

Chapter I. Development Outcomes

Introduction

Jordan is a small lower-income country with a relatively open economy that is located in one of the most unstable regions of the world (wedged between Israel and Palestine to the West, Iraq to the East, Saudi Arabia to the East and South and Syria to the North). The Hashemite Kingdom of Jordan has always been sensitive to economic and political events in the MENA region. It is inevitable that such events often pose direct threats to the country's stability and its economic prospects. Over time, Jordan suffered from several large migration waves that changed the composition of its population.[1] The effects of the Gulf War and the Israeli-Palestine conflict had profound consequences too. More recently, the prospects of a new international conflict with Iraq and the escalation of the Israeli-Palestine conflict is starting to have a toll on Jordan's development prospects, reducing the interest of the world economy for Jordan as an investment destination and taking a toll on tourism.

Due to its geographical location and to its limited natural endowments, the Kingdom is constantly forced to do more than otherwise required to mitigate the impact of external shocks that affect the country.

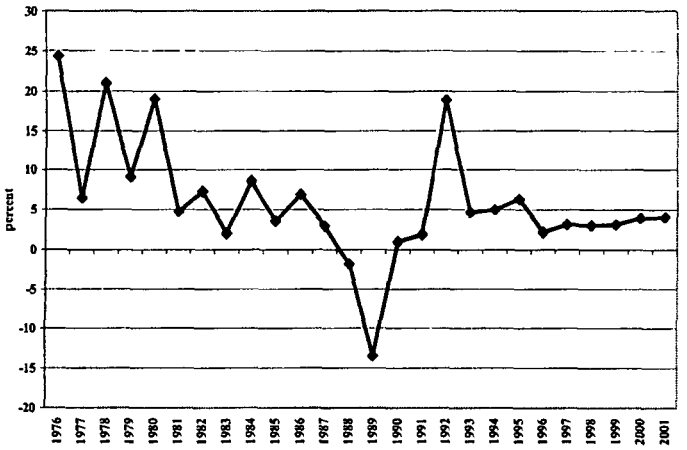
Since the early 1990s, Jordan has initiated efforts *toward far-reaching stabilization and structural reform*. The reforms have aimed at laying the foundations for a reduced role of the state, private-sector-export-oriented-growth, employment, poverty reduction and overall improvement in the welfare of the population. Due to this intensive effort, inflation has been reduced (from 25 percent in 1989 to 1.8 percent in 2001), the current account of the balance of payments has been stabilized (from a deficit of 16 percent of GDP in 1992 to a small surplus of 0.4 percent of GDP in 2001) and budget deficits (before grants) have reduced from 15 percent in the mid-1980s to 7.9 percent in 2001. In addition, the country has further integrated into the global economy, with a major shift in trade policy that included the signature of an Association Agreement with the EU in 1999, membership in the WTO in 2000, and a free-trade agreement with the US in 2001. Jordan has also achieved remarkable progress in privatization, most notably in public utilities.

Jordan has made great advances in the past ten years. Significant structural reforms have changed the face of the Jordanian economy, but the initial effort needs to be consolidated, deepening the structural reform agenda and further modernizing Jordan's economy so that the benefits spread to all segments of society. This chapter analyzes the changes that took place over the past decade.

[1] These large migration waves included about 450,000 people from Palestine in 1946-50, 400,000 people from West Bank and Gaza in 1967 and the return of 300,000 Jordanian workers from the Gulf in 1991.

Twelve Years of Reforms

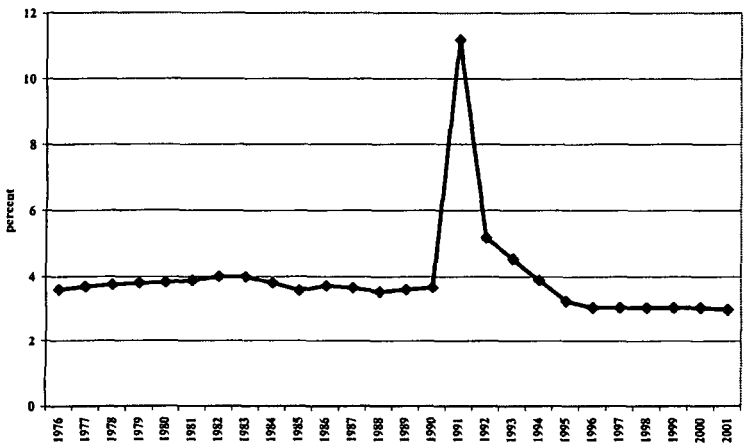
Figure 1.1. Jordan GDP Growth



Fifteen years of economic boom in Jordan ended, with the fall of the price of oil in the mid-1980s, and a subsequent decline in remittances from workers (primarily from the Gulf), external financial assistance, and exports. Average annual growth during 1983-89 was under 1 percent (see Figure 1.1).

By 1989, Jordan's inability to meet its external obligations precipitated a balance of payments crisis, which led to an IMF-supported program as well as World Bank support and a series of Paris Club rescheduling agreements.

Figure 1.2. Population Growth



With the advent of the Gulf War in 1990, Jordan faced the new challenge of disruptions of aid and the return of 300,000 Jordanians from the Gulf area (see Figure 1.2), primarily from Kuwait, which raised unemployment to about 20 percent.

Since the 1989 crisis, the Government has pursued an ambitious reform agenda in order to stabilize the economy, to improve efficiency, and to broaden the role of the private sector. Fueled primarily by a major inflow of savings from Gulf returnees, in addition to external debt relief and new concessional aid, real GDP rebounded in 1992, with growth reaching 6 percent. Growth was about 5.4 percent per annum during the period 1993-95, while annual inflation averaged just 3 percent (see Table 1.1).

Table 1.1. Key Economic Indicators

	1976-80	1981-85	1986-90	1991-95	1996-00	1996	1997	1998	1999	2000	2001
Real GDP growth	15 8	5 2	-1.1	7.2	3.1	2.1	3.3	3.0	3.1	4.2	4.2
Gross national savings/GNDI, cur. pr.	21.3	18.5	17.0	19.2	20 2	23.0	21 9	19.6	19.5	17.1	20 9
Gross fixed investment/GDP, cur. pr.	35.0	31.0	22.3	29.3	23 9	29 0	25.5	21.9	21.7	21.2	25 9
Inflation (CPI)	11 6	5.4	9.2	4 2	2 8	6 5	3.0	3.1	0 6	0.7	1.8
Fiscal balance (central govt)											
Excluding grants	-27 5	-16 2	-14.2	-3 5	-8 2	-5 8	-10.4	-10.0	-7 3	-7.4	-7 0
Including grants	-11.5	-6.0	-6 9	1.1	-4 2	-0.8	-6 4	-6 3	-3 9	-3.4	-3 0
Primary balance (exc. grants)	-26.3	-14.4	-9 6	2.0	-3 4	-1.5	-5 2	-5 5	-2.5	-2.5	-2.6
Current account balance	-0 3	-5.1	-3 3	-10.6	0 6	-3.2	0 4	0.3	5.0	0 7	0 6
Total debt service/exports	7.0	13.0	23.4	18.9	14 8	15 7	14.8	14.4	14 1	15.0	14 5
External public debt/GDP, end period	49 8	77.6	203.4	102.0	91.8	94.8	89.2	95 1	95 5	84 2	79.4
Domestic Debt/GDP, end period	15.1	18 3	38.2	19.5	18.9	19 3	17 6	19 8	17.9	20 3	21.9
Total Public Debt/GDP	64 9	95.9	241 6	121.5	110.7	114 1	106.8	114.9	113.4	104 5	101.3
Terms of trade, 1997=100	84.3	77.2	86.2	96.6	96.0	100 7	100.0	95 2	95.2	88.8	88.0
Exchange rate, Dinar/US$	0.3	0 4	0.5	0 7	0.7	0 7	0 7	0 7	0.7	0 7	0 7
Real exchange rate, 1997=100	150.7	158 4	121 0	91 6	103.6	92 2	100.0	106 3	107 6	111.7	118.5
Real interest rate	-5.3	0 9	-1.7	4.1	5 4	1 9	4.6	5.7	7 4	7.2	4.4

Note: Annual averages, unless otherwise indicated.
Source: The World Bank

Understanding recent economic performance in the context of longer-term growth trends requires a decomposition of total output – or GDP – with respect to the production sectors (Table 1.2). The main conclusions that emerge from the analysis of growth trends are that (i) Jordan's service sector plays a predominant role in the Jordanian economy, denoted by its large contribution to output, accounting for over 70 percent of GDP at basic prices– due to big government, a developed financial service sector and important tourist industry; (ii) manufacturing has been slowly growing and becoming a steady contributor to growth; and (iii) construction and agricultural production are cyclical but declining during the 1996-2001 period.

Table 1.2. Sectoral Composition of GDP

	1996	1997	1998	1999	2000	2001
GDP at basic prices	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	3.8	3.3	3.1	2.4	2.2	2.3
Industry	26.1	25.8	26 4	25.8	24.8	25.3
Construction	6.1	5.4	4.5	4.3	3.9	4.0
Electricity and water	2.5	2.6	2.6	2.7	2.6	2.6
Mining and quarrying	3.7	3.8	3.6	3.4	3.0	3.2
Manufacturing	13.8	14 0	15.7	15.5	15.2	15.5
Services, etc	70.0	70.8	70.5	71.9	73.0	72.4

Source: IMF.

Box 1.1. Messages from the Sources of Growth Study

Jordan reform efforts have been substantial making it the best performer in the middle-east region. Consequently, structural changes are evident in Jordanian economy. The private sector now plays a larger role in the economy, especially with respect to investment, and public sector demand element has decreased from about 30 percent of GDP in the late 1980s to about 25 percent now. Private investment in non-residential investment has roughly doubled from about 4 to 7 percent of GDP between 1990-98. Jordan has also diversified its external trade, both in markets and products. In export markets, the share of the top 5 destinations has declined from 57 percent of total to 40 percent between 1990-98.

However, the extent and relative success of the gains from structural reforms are being dampened or slowed by three major sets of constraints.

- External volatility and adverse regional neighborhood effects.
- Slow response of private investment, both in its level and in terms of productivity.
- Significant export competitiveness problems.

Investment is dampened because of much greater uncertainty, its productivity is lowered, and foreign investment does not come into traded sectors. Pro-cyclical fiscal and monetary policies make it worse. In addition to the volatility of external environment, the secular decline in regional neighborhood growth adversely affects long-term growth in Jordan.

There has been a huge decline in growth of the total fixed capital stock in Jordan from 16 percent annually in the second half of the 1970s to only 3 percent by the second half of the 1990s. The asset composition of physical investment also shifted notably to residential housing stock since the mid-1980s. Falling rates of private investment are the principal reason for the slowdown in fixed investment. Much of the decline is explainable by worsening of fiscal deficit discouraging private investment (operating mostly indirectly by signaling a larger government size and future tax burdens), effects of volatility and uncertainty (as measured by real exchange rate and reserves volatility), and falling levels of worker remittances (relative to GDP).

Export performance has deteriorated over long-term (exception being the late surge in exports from QIZs), against the background of accelerating world trade growth. The main factors behind slow growth in Jordan's exports lie in: (a) persistent weaknesses in product composition (fertilizers, agriculture, minerals) that are not geared to fast growing world markets; (b) inability to diversify outside of regional and traditional markets (Gulf, Iraq, India) at a pace fast enough to offset slow regional growth; and (c) diminishing competitiveness.

Looking forward, what can Jordan to overcome the constraints on its growth? Jordan cannot do much to affect its geography or adverse neighborhood effects. With associated costs, adverse effects of volatility can be dampened. The implication is that the country may need to pursue even stronger policy reforms (than comparators) in areas where it has control, to offset the disadvantages of geography.

- Raise the rate of private investment, especially in traded goods and services sectors (for example, manufacturing, tourism and information technology sectors), and including critically plant and machinery investment, rather than investment in housing construction. The dynamic growth of new industrial sectors also hold a key, as well as the efficiency of public services. Strengthening domestic competition policies will also be important. Reducing investor uncertainty, staying the course on fiscal prudence, ensuring greater access to financing of private investment, encouraging FDI in green-field traded goods sectors, and improving business environment would prove helpful in reviving greater private investor response.

- The rapid diversification of exports will also need to be achieved, in terms of both destination and of major products (that is, closer integration with world markets, rather than regional ones). Incentive mechanisms that affect the profitability of exporters need to be addressed to ensure rapid supply response. Public service improvements that address "behind the border" reforms, such as customs administration, are again a key. Facilitating public-private partnerships, including high-level exporting councils, that help to identify and address critical bottlenecks to the exporting effort need to be re-evaluated.

Source: World Bank (2001), Jordan - Sources of Growth.

Nonetheless, the post-war growth momentum lost its steam in 1996, and the subsequent period (1996-99) has been characterized by a slow recovery. Jordan's economic performance in recent years has been mixed. On the one hand, the rise in real GDP per head has been quite small and fiscal consolidation has not been as rapid as what would have been desirable. The level of public debt, while declining remained high. On the other hand, monetary stability has been reinforced, the external position has been strengthened, and structural reforms have been implemented. The peg of the Jordanian Dinar to the US dollar has anchored prices, and inflation has been consistently low in recent years, although the fixed US dollar peg might well have hurt export performance in the past and limited the instruments available to cope with external shocks.

Several external and internal factors may have contributed to the slowdown of the economy during 1996-99. The hiatus in the Middle East peace process, the closure of Iraqi markets and recession in East Asia all are likely to have played some role. Domestically, perhaps linked to the external events, the pace of reform slackened. Internal political uncertainty weakened the Government's efforts, particularly during 1996-98. This contributed to inaction in important areas of reform such as privatization, public sector reform, as well as the delay in passage of laws to improve the business environment. Reversing progress made earlier in the decade, the fiscal stance also deteriorated during this period.

With Jordan's economy sluggish in the second half of the 1990s and with its labor force growing rapidly, the official unemployment rate remained high, at about 14-15 percent, clouding the gains from the deep reform effort.

His Majesty King Abdullah has made the restoration of economic growth and the reduction of poverty the priorities of the new government, which was appointed in March 1999. The pace of structural reforms has picked up since then, and is reflected in the performance of the economy in 2000-2001. Growth per capita has resumed; albeit modestly, inflation has further declined; the fiscal deficit has been slightly reduced to 7.9 percent (before grants). The government, however, faces additional challenges, as the structural reform agenda needs to be further advanced while maintaining macroeconomic stability in a deteriorating regional environment. At the same time, the government needs to address the public demand for poverty reduction, employment and growth with equity.

Recent macro-economic developments demonstrate the increasing capacity of the Jordanian economy to cope with regional events. It is notable that Jordan's GDP growth has proved to be resilient in face of regional conflict, particularly the Intifada which has been going on for many months. The growth rate of real GDP was 3.1 percent in 1999 and 4.2 percent in 2000. This momentum persisted through 2001, with GDP growing at an estimated 4.2 percent during the year. Although growth performance in 2000-2001 is better than in previous years (1996-99), it is still modest for Jordan's needs. As a result, unemployment and poverty have not been reduced significantly.

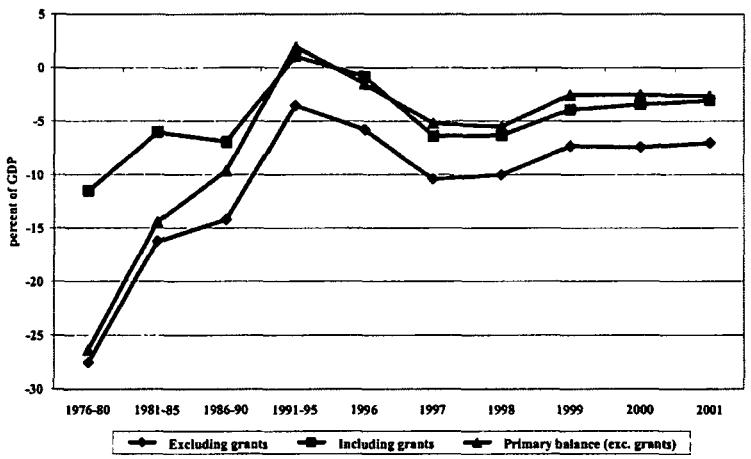
Jordan managed to improve its balance of payments and to achieve a comfortable level of international reserves after the chronic external weakness characteristic of the first half of

the 1990s. Jordan's external current account deficit narrowed, reflecting a significant reduction in the trade deficit, an improvement in the services account, and an increase in private transfers (due mainly to the inflows of UN transfers to compensate Jordanians affected by the Gulf War). Indeed, the current account including grants has shown a surplus since 1997. The recent improvement in the trade balance resulted mainly from a decline in imports (in part because of lower re-exports to Iraq and lower oil prices for much of the period under review), while exports are showing a strong pick up, led by the performance of Qualified Industrial Zones (QIZs).

The capital account has witnessed cycles of inflow and outflow, depending on the swings in investor confidence. Foreign direct investment was relatively stable over 1997-2000. Nevertheless, a slowdown in global capital flows to emerging markets and an increase in regional uncertainties are suggestive of a lukewarm interest in Jordanian investment opportunities in 2001.

The fiscal deficit and the public debt have remained the weak points of the Jordanian adjustment process. The overall fiscal deficit before grants was about 8.2 percent of GDP on average during the second half of the 1990s, with slippages in 1997-1998 when the clearance of domestic arrears, and the widening of the coverage of public expenditures in the fiscal statistics inflated the deficit to over 10 percent of GDP (Figure 1.3).

Figure 1.3. Fiscal Balance



Slow growth has made fiscal adjustment more difficult. In addition, the fiscal accounts have been affected by the cost of structural reforms, such as cuts in customs tariffs, reductions in dividends from public enterprises associated in part with their privatization, and increased reliance on domestic financing at market-based interest rates. Moreover, the budget structure is rigid, so adjustments are difficult to make. Much of expenditure is inflexible, with about 80 percent of current government spending going to wages, pensions, interest payments, and military expenditure.

New estimates suggest a deficit before grants of 7 percent of GDP in 2001, a small decline from the previous year despite a shortfall in estimated revenues due to unanticipated cuts in taxes from the tourism sector affected by the September 11 events,

and an increase in military pensions. Reform of the public sector pension system remains among the most import structural issues affecting the budget, as pension deficits have reached 4 percent pf GDP despite favorable demographics.

While the overall fiscal deficit remains quite high, roughly one half of the fiscal deficit (between 3.5 and 4.0 percent GDP) has been covered by external grants over the years. The largest component of budgetary grants is that from Iraq, the magnitude of which is to a large extent determined by world oil prices. This reliance in grant financing while helping Jordan during the adjustment process has also created a dependency that will be difficult to eliminate. Without these grants, the fiscal situation would have been unsustainable.[2]

Public debt levels continue to be an issue of concern for the authorities. Though on a declining trend, the size of public debt remains high. Total public debt relative to GDP declined from 123 percent of GDP in 1995 to 101 in 2001.[3] The growth of public debt has been contained owing in part to substantial receipts of foreign grants. A series of debt reschedulings under the auspices of the Paris Club have also helped Jordan to better cope with its external liabilities (see Box 1.2).

A new round of Paris Club negotiations took place in 2002, in which Jordan seek to further extend the maturity and repayment profile of its external debt. The Paris Club and the Hashemite Kingdom of Jordan agreed on July 10, 2002 on an exit treatment that enables Jordan to graduate from Paris Club rescheduling. The Government of Jordan committed not to seek further treatments from the Paris Club once this exit agreement is implemented. This treatment supports the continuing efforts on economic recovery undertaken by Jordan under the current Stand-by Arrangement and fully fills the financing needs of Jordan during the Stand-by Arrangement. In that perspective, 100 percent of pre cut off date debt maturities falling due during the period of the current IMF arrangement, i.e. from July 2002 to July 2004, will be rescheduled. Moreover, considering Jordan's commitment to exit from Paris Club rescheduling and taking into account the good performance of Jordan under the previous Paris Club Agreed Minutes and under IMF Arrangements, considering also the expectation that Jordan will graduate from further IMF Arrangements and in order to contribute to Jordan's financial sustainability, Paris Club Creditors agreed to consolidate maturities due until December 31, 2007.

[2] Fiscal sustainability analysis indicates that the current fiscal stand is sustainable, but requires that the level of grants be maintained and the cost of borrowing remains low.

[3] Total public debt is estimated at 101 percent of GDP in 2001, of which government domestic debt represents 22 percent of GDP.

Box 1.2. Paris Club Debt Rescheduling Agreements

In 1989, Jordan's public debt was rescheduled for the first time, with the Paris Club official creditors. Since then, Jordan's debt has been treated four more times, every two or three years, with the total amount adding up to US$3,725 million. Following the Paris Club principles, the debt treated for cancellation and rescheduling has only included debt taken on by Jordan before January 1, 1989, and each negotiation has only concerned debt due in the near future.

The first two debt reschedulings were made on so called Classic terms, in which all credits, whether classified as official development assistance (ODA) or not, are rescheduled at the appropriate market rate, with a repayment profile negotiated on a case-by-case basis. As of 1994, however, Jordan has benefited from rescheduling on Houston terms, which generally applies to severely indebted lower middle-income countries with a relatively high share of official bilateral debt in their debt stock. On Houston terms, non-ODA credits are rescheduled at the appropriate market rate over around 15 years with 2-3 years grace and with progressive payments rising year by year. ODA credits are rescheduled at an interest rate at least as favorable as the original concessional interest rate applying to these loans, over 20 years with a maximum 10-year grace. Houston terms also include the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country The last two reschedulings, in 1997 and 1999, were undertaken conditional upon, and in support of, Jordan's consecutive programs with the IMF in 1996 and 1999.

The dates, amounts and terms of rescheduling agreements on both concessional debt (ODA) and non-concessional have been as follows·

Debt consolidation on **Classic terms**, including payment arrears

- July 19, 1989, US$586 million, 9 years maturity with 5 years grace period (this has now been fully repaid)
- February 28, 1992, US$771 million, 19 years maturity with 10 years grace period for ODA, 14 years maturity with 8 years grace period for non-ODA debt.

Debt consolidation on **Houston terms**, including payments arrears and previously rescheduled debt

- June 28, 1994, US$1,147 million, 19 years maturity with 9 years grace period (ODA), 17 years maturity with 2 years grace period (non-ODA)
- May 23, 1997, US$400 million, 19 years maturity with 10 years grace period (ODA), 14 years maturity with 3 years grace period (non-ODA)
- May 20, 1999, US$821 million, 20 years maturity, 10 years grace period (ODA), 18 years maturity, 3 years grace period (non-ODA).

New rescheduling negotiations between Jordan and Paris Club took place in 2002 The Paris Club and the Hashemite Kingdom of Jordan agreed on July 10, 2002 on an exit treatment that enables Jordan to graduate from Paris Club rescheduling

Source: The World Bank and Paris Club .

Structural Transformation

The collapse of Jordan's economy in the 1980s essentially challenged the authorities to find a different development model from the one that had prevailed in the past. The earlier model was, on the one hand, inextricably linked to the fortunes of the regional external environment (to oil prices and hence revenues from workers' remittances, aid inflows from oil-rich states, and exports to the Gulf countries), and on the other, to a public sector driven development strategy at home, in which the state played the largest role in the economy and was a major influence on growth and investment patterns. One characteristic of this model was a very large non-traded services sector-due to the effects of big government, a financial service sector intermediating remittances, and a large role of the construction sector. Correspondingly, the manufacturing and traded goods and services sectors of the economy-sectors which have far bigger potential for growth-remained undeveloped. Manufacturing, for example, accounted for only about 15 percent of GDP, or about one-half the level observed for all lower middle-income countries around the world.

In order to turn around the economy and to elicit faster growth and recovery, required responses and structural shifts had to be both large and deep. The structural reforms implemented during the past decade aimed at changing the face of the Jordanian economy.

The economy started to move from (i) a public sector dominated to a private sector led economy; (ii) a non-traded goods and services to a traded goods and services led economy; (iii) regional and protected domestic industries to globally competitive sectors at home and international markets abroad; and (iv) low-skills workforce to high-skills in sectors at home, given the ongoing investment in human capital in Jordan and the effect of regional labor markets.

Building on macroeconomic reforms in exchange rate, fiscal and monetary policies in the early 1990s, Jordanian authorities embarked on a series of structural reforms to improve efficiency, to broaden the role of the private sector and to promote export-oriented-private-sector-led growth (see Box 1.3).

Overall, the extent and pace of structural reforms in Jordan compare very favorably with most other major reformers in the developing world, and this despite Jordan being a relative latecomer to the process. These reforms have produced some significant shifts in the economy.

Box 1.3. Structural Reform in Jordan, 1989-2001

Structural reform programs in Jordan encompassed domestic taxation/subsidy policies, trade policies, monetary/financial sector policies, exchange rate policies, administered prices and privatization In fact, reforms initiated since 1989 have made Jordan one of the most reformed countries in the Middle East and North Africa region. It is creditable that Jordan has moved steadily forward in reforms in the last 12 years, despite several changes in government and despite adverse external shocks through the 1990s

In domestic taxation, the narrowly based, small consumption tax has been replaced. It was first replaced with a 7 percent General Sales Tax in 1994, which was raised to 10 percent in 1995, and which in turn was replaced with a 13 percent VAT in 2001 As a result, indirect tax revenues, as a ratio of GDP, have doubled from 8 percent in 1989 to 16 percent in 2000, which compares well with other lower-middle income countries Food and fodder subsidies have been eliminated, and energy prices have been brought in line with international prices In direct taxation, the number of tax bands has been cut from ten to six; maximum individual income taxes have been brought down to 30 percent, from 45 percent in 1995, and further lowered to 25 percent in 2001. Corporate tax rates have been reduced from 38-55 percent range to 15-35 percent range in 1995

In trade reforms, Jordan moved from a country with a 40 percent coverage ratio for non-tariff barriers, a 34 4 percent weighted average tariff rate and 26 1 percent dispersion in 1987-88 to virtually no significant non-tariff barriers, to a 13 5 percent weighted average tariff rate with a dispersion of 13 percent at present. Most of the capital goods (since 1999) and intermediate goods (since 2000) enter with zero import duties. Customs administration procedures have been improved with the adoption of ASCUDA system for valuation of imports in 1997 Today Jordan has the lowest weighted average tariff rate and the highest proportion of zero duty items among MENA countries Trade policy reforms in recent years consist of tariff reductions, rationalizations, strengthening of custom administration and commitment to several important multilateral trade agreements such as WTO, EU-MED, AFTA, EU FTA and several bilateral agreements the latest one concluded with USA Jordan officially became member of the World Trade Organization in April 2000. In addition, Jordan has provided facilities for Qualifying Industrial Zones (for duty-free and quota-free exports to the US under special provisions). More recently, Jordan launched the Aqaba Special Economic Zone, with potential for US$6 billion in foreign investment and 75,000 new jobs

In monetary policy instruments, Jordan has moved progressively away from being a financially repressed economy with direct controls on credit and interest rates to a mature liberalized one where indirect controls play the lead role. Since 1990, deposit and lending rates are set by market conditions; the CBJ has issued certificates of deposit since 1993 to control domestic liquidity, reserve requirements have been unified across deposit types and institutions, the CBJ started overnight deposit and repurchase agreements, with commercial banks in 1998, in order to stimulate inter-bank market Regular auction of Treasury Bills has been used to set benchmark interest rates since 1999

In the foreign exchange market, Jordan has witnessed substantial liberalization Jordan ended its dual exchange rate system and adopted a basket peg (five currencies of SDR with Jordan specific trade-partner weights) from 1989 to 1995 After 1995 the US dollar has served as the nominal anchor The distinction between resident and non-resident accounts ended in 1996 Residents are now allowed to hold foreign currency accounts. Full capital account convertibility has been in force from 1997

In the area of administered prices, key utility prices such as water, electricity and petroleum products have been revised up. Water prices were quadrupled in 1994 Electricity prices were revised up by 12 percent in the same year. Though Jordan receives all of its oil products from Iraq under a generous subsidy, oil product prices have been recently revised up, between 15 to 47 percent, in order to rationalize consumption and to reduce vulnerability to sharp movements in oil market trends

In terms of privatization, Jordan began in a small way (US$102 million) in 1998, with the disinvestments of Jordan Cement Factories Corporation It soon moved quickly to a massive (US$508 million) selling of government's 40 percent share in Jordan Telecommunication Corporation in 2000 Close to US$1 billion, or 12 percent of GDP, has been realized as privatization proceeds in transactions until 2001, with several more transactions (airline, electricity, mining, water companies) worth more than a billion dollar waiting to be taken to the market in the coming years.

Changes in the regulatory environment have strengthened the financial sector, reduced direct tax burden, broadened and improved the efficiency of indirect taxation, promoted investment and increased labor market flexibility. Wide-ranging regulatory reforms have been undertaken These include the elimination of private investment restrictions, the liberalization and placing foreign investors on an equal footing with domestic investors, allowing 100 percent foreign investment in most sectors, reducing corporate and individual tax rates Reforms have meant establishing an investment promotion corporation, promoting widespread privatization (see further below), and passing and implementing modernizing laws and regulations, covering labor, banking, security, insurance and telecommunications. The effects are that Jordan now has one of the more transparent and open business environments in the region

Source: The World Bank

Poverty and Inequality

Jordan's poverty during the 1980s was very low. According to available data, 3 percent of the Jordanian population was below the poverty line in 1987. The increase in poverty following the economic crisis of 1989 was severe. The Poverty Headcount Index increased from 3 to 15 percent of the population, while the Poverty Gap Index increased from 0.3 to 3.7 percent between 1986/7 and 1992.[4] The number of poor increased six fold during 1987–92 (rising from 85,000 to 554,000 people) and remained relatively unchanged between 1992 and 1997, despite a 9 percent reduction in inequality as measured by the Gini coefficient (Table 1.3).

Unfortunately, poverty data in Jordan is not up to date, so poverty analysis and policy design is handicapped by the lack of more recent poverty measures. Current analysis of poverty in Jordan is based on the two household Income and Expenditure Surveys of 1992 and 1997, conducted by Jordan's Department of Statistics and extrapolations based on the results of the World Bank analysis of these data sets. New data and analysis will be available in 2003.

Table 1.3. Poverty Trends in Jordan, 1987–2001

	1987	1992	1997	1999[b]	2000	2001
Headcount index (% of population)[a]	3.0	14.4	11.7	12.0	11.8	11.6
Number of poor people (000's)	85	554	538	564	578	580
Poverty gap (percent of poverty line)	0.3	3.6	2.5	--	--	--
Gini coefficient of inequality	0 36	0.40	0.36	0 36	0.36	0.36
GDP per capita index (1987=100)	100	78.7	81.4	81 3	81.9	82.6

[a] The headcount index is based on updating the official poverty line (per capita consumption expenditure per year) originally derived by the Ministry of Social Development for the year 1987. For example, the 1992 update of the 1987 official poverty line generated a per capita poverty line of JD261 per year, which would equal an annual per capita poverty line of JD 313.5 (equivalent to US$442) in 1997 prices.

[b] Assuming that inequality did not change from its 1997 level, a per capita income-poverty elasticity of –2, and given the per capita GDP growth rates of –0.1 in 1998, 0 in 1999, 0 83 in 2000 and 1.0 in 2001.

Source: Shaban *et al* (2001), *Poverty Alleviation in Jordan Lessons for the Future* and staff estimates.

Some characteristics of the poor are constant over the 1992-97 period. In terms of regional distribution, poverty incidence is higher amongst households in rural areas than in urban areas. In terms of household head characteristics, poverty incidence is higher among households whose heads are male, 41-50 years old, ill-educated, and if employed, then in the private sector (rather than the public or mixed private/public sector). In terms of overall household characteristics, poverty incidence is higher amongst households who have a high economic-dependency ratio, and that rent instead of owning their housing.

Other characteristics of the poor vary over the 1992-97 period. In 1992, the most populous governorates, Amman in particular, exhibited by far the lowest poverty incidence. The 1997 regional variation was not as clear-cut, and regional inequality, measured in per capita expenditure terms, was smaller. In 1992, the highest incidence of poverty occurred among households with a disabled (i.e. outside the labor force) and/or

[4] The World Bank, *Poverty Assessment*, vol. 1, Report No. 12675-JO, January 1994, p. 11.

widowed head. In 1997, households with unemployed and/or married heads had the highest incidence of poverty.[5]

GDP per capita increased slightly between 1997-2001, possibly implying a small reduction in the poverty headcount index from 12 percent in 1999 to 11.6 percent in 2001 (assuming no change in inequality), however the number of poor is estimated to have increased by about 42,000 from the 1997 levels, reaching 580,000 in 2001 due to the high population growth rate. A major cause of poverty is unemployment,[6] which remains stubbornly high at 15 percent. Economic growth is an important prerequisite for improving welfare and reducing poverty, but per-capita growth has been elusive during the 1990s and no significant decline in unemployment or poverty has taken place. Nonetheless, the stronger performance of the economy during the past two years and the forecasts for stronger growth in the future are encouraging signs.

Despite the numbers indicating a reduction in poverty between 1992 and 2001, there is widespread belief in the country that poverty actually increased in Jordan. This is partly in reaction to declining overall per capita incomes during 1996-1999, in the context of expectations of rapid economic improvements following the 1994 Jordanian-Israeli peace treaty. Poverty declined in Jordan between 1992 and 1997, primarily because there was a decline in inequality. In 1997 prices, per capita expenditure levels went down from JD821 in 1992 to JD762 in 1997. However, the poorer 40 percent of the population had higher per capita expenditure levels in 1997 than in 1992, while the richer 60 percent were worse off. This clear reduction in inequality outweighed the effect of the decline in per capita expenditure levels and led to a lower poverty rate in 1997 than in 1992. Inequality in per capita consumption expenditure, as measured by the Gini Index, declined from 0.40 to 0.36 during this period. This underlying level of inequality is essentially moderate by regional and international standards.[7] Poverty is likely to have declined further in the past two years, albeit marginally, because of the revival of economic growth and the return of per-capita income growth.

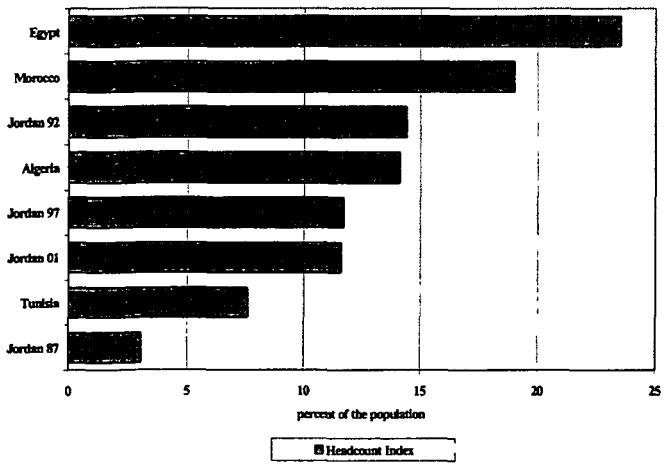
Regardless of which comparison is used, it is clear that Jordan's poverty, which was minimal in 1987, is broader and deeper today and that the advances made in the 1990s have not been sufficient to significantly reduce poverty levels. Nonetheless, the incidence of poverty in Jordan is on the low side when compared with other regional countries. With the exception of Tunisia, whose head count index is 7.6 percent, Jordan's poverty levels are lower when compared with Algeria (14.1 percent), Egypt (23.5 percent) and Morocco (19 percent). All have higher poverty rates than Jordan (Figure 1.4). However, stronger growth and employment generation is needed to further reduce poverty levels on a sustainable basis, and this is a priority for the current government.

[5] Shaban *et al.* (2001), *Poverty Alleviation in Jordan: Lessons for the Future.*

[6] Household surveys in 1992 and 1997 showed that the unemployed had the highest incidence of poverty at 16.4 and 26.3 percent respectively (Shaban *et al.*, 2001, page 48).

[7] Jordan's level of inequality is similar to other MENA countries at similar income levels: the Gini coefficient for Tunisia (0.40) and Morocco (0.39) show greater inequality while Algeria (0.35) and Egypt (0.32) seem to have less inequality

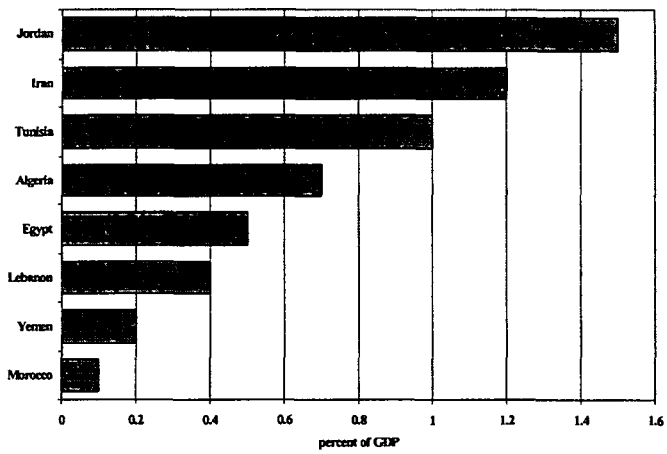
Figure 1.4. Poverty in Selected MENA Region Countries



The dilemma is how to generate stronger and sustainable growth rates and higher employment rates, enticing the private sector to be the leading source for this growth.

Poverty alleviation remains the top priority for the Kingdom of Jordan and a national poverty alleviation program has been launched to combat poverty in all its aspects. The government strategy aims at: (i) improving the social safety net for the poorest; (ii) improving employment opportunity for those capable of working; and (iii) providing access to quality education and assuring access to health care for all below the poverty line. The basic approach being followed is to improve upon and support existing government programs, such as those administered by the National Assistance Fund (NAF), the government agency providing cash assistance to the poorest in Jordan. Spending on social assistance is over 1.5 percent of GDP (Figure 1.5).

Figure 1.5. Spending on Social Assistance in MENA Countries



The key programs administered by NAF are:

- *Recurrent cash assistance program* (RCA) which assists the "poorest of the poor" and constitutes 68 to 75 percent of total NAF cash assistance;
- *Emergency and exceptional aid* which provides a one-time-only cash payment for exceptional situations;
- *Cash assistance for handicapped care* which assists families with handicapped children;
- *Assistance for physical rehabilitation* which provides loans to low-income families for the purpose of physical rehabilitation and for small businesses; and
- *Health insurance program* which pays to Ministry of Health on behalf of RCA recipients who are not covered by any health insurance.

A New Development Plan

Disappointment with the growth performance and poverty reduction achieved in recent years and motivated by a sense of urgency to spread the fruits of development to all Jordanians, the government announced in November, 2001 an ambitious five-year plan to accelerate the social and economic transformation of the country (see Box 1.4).

Box 1.4. The Plan for Social and Economic Transformation

On November 15, 2001, His Majesty King Abdullah II announced on behalf of the government a five-year Plan for Social and Economic Transformation (PSET) with the objective to stimulate private investment and strengthen economic growth and employment creation The six main components of the PSET are: structural reforms, accelerated privatization and a private sector-led investment program, human resource development, rural development, improvements in health care, and poverty alleviation.

The legislative reform agenda under the PSET includes 20 new laws, 10 new regulations, and amendments to 23 existing laws and 9 regulations. The laws and regulations to be amended or enacted include the securities law, the companies' law, the investment law, pension reforms and civil service regulations. The pension reform endorsed in the PSET will be developed on the basis of technical assistance currently being provided by the Fund. The authorities will also establish various regulatory authorities (e g , in power, post and telecommunication, and transport) The judicial reforms include: hiring of judges and lawyers; installing IT systems in courts and publishing all court decisions on the internet; establishing performance standards for judges and supporting administrative personnel; enacting a new code of ethics for lawyers, and developing a court management system. Judicial and administrative reforms are also being supported by the World Bank under its Public Sector Reform Loan. Administrative reforms include: implementation of performance-based budgeting and resource planning; outsourcing of management and implementation of certain services and functions, and flexibility in hiring.

With respect to privatization, the PSET includes, for the next 3-4 years, most public enterprises with a total estimated value of about JD 1 billion. The major privatizations are· the remaining 50 percent shares of Jordan Telecommunication Corporation; the remaining 52 percent of the Arab Potash Company; power sector generation and distribution companies; remaining shares of Jordan Cement Company; and the remaining holdings of the Jordan Investment Corporation. In parallel, the government is negotiating private sector participation (BOT basis) in a large number of investment projects, including the gas pipeline, water distribution, electricity generation by independent power producers and several other mid-size projects that could amount to more than JD 1 billion in total investment over the next 3-4 years.

The PSET's human resource development program amounts to JD 250-275 million (about 4 percent of GDP) per year Strengthened general education and skill development through vocational training programs constitutes the core of the PSET, accounting for JD 116 million in spending. The largest part of this is intended to strengthen general education, including JD 60 million to the Ministry of Education "to enable it to implement its new strategic policies." The PSET also includes improvement in teachers' qualification, a new evaluation system, revised curriculum, and the introduction of one year of kindergarten before the regular schooling. The rural development program (JD 118 million) is mostly accounted for by the Think Big Campaign (JD 63 million), which would provide start up loans to 1,200 SMEs in rural areas, and the construction of roads (JD 25 million). In the health care area (JD 41 million), the focus is on improving the quality of human and material resources through training and upgrading of equipment. The PSET's allocation for social spending and poverty alleviation is JD 28 million in 2002. The majority of this allocation would go toward the creation of a supplemental income support scheme to bridge the gap between family income and the accepted poverty line. The program is expected to cost about JD 100 million annually if fully implemented.

For 2002, the authorities have decided to scale back the size of PSET spending to JD 150-200 million, in view of the implementation capacity constraints and the delays in securing the needed financing. The government is working closely with the World Bank to prioritize its social sector program and evaluate implementation capacity. At the request of the government, the World Bank is also providing four technical experts to assist in the areas of education, health, vocational training and public sector reforms, and in capacity building of the relevant implementation agencies.

Source: IMF.

The plan envisages a large (additional) expenditure package and speeding up reforms in several areas, namely (i) direct public investment in education, vocational training, culture, media, youth care, health care, social productivity and poverty alleviation, water resources and rural development, telecommunications, construction and civil defense; (ii) fiscal reform; (iii) administrative reform; (iv) judicial reform; (v) major development projects (Disi water conveyance, power plants, natural gas pipeline from Egypt and the development of Aqaba, Amman and the Dead Sea) to foment private investment; and (vi) improvement of the legislative, institutional and regulatory framework. For the year 2002, the plan envisages an expenditure of up to JD275 million contingent on availability of privatization proceeds and supplementary foreign grants. Expenditure on the acceleration plan has been kept off estimated budget deficit calculations for 2002 by the authorities because of the contingent nature of the spending.

The plan, however, is not without risk. On the one side it will increase the presence of the public sector in the economy through a significant additional expenditure outlays. As a result the fiscal deficit (before grants) is likely to increase in the near term and the long-term impact on the deficit will depend on the inertia of the expenditure programs. While the government is committed to finance these expenditures with non-debt creating sources, recurrent outlays are likely to be generated and the political economy will determine how these expenditures are financed in the future. Moreover, the program will increase the dependence of the Jordanian economy on foreign grants. On the other hand, the long-term growth and development effects of the program will depend on the response of the private sector to the proposed measures.

Chapter II. Growth, Unemployment and Private Sector Response

Introduction

Jordan has undertaken a far-reaching macroeconomic adjustment and structural reform program since 1990. As a result, significant progress has taken place in the last twelve years, with many key reforms already completed or underway to completion. Jordan's reform effort has aimed at establishing the foundations for private sector led export-oriented growth, with expected gains to employment and poverty reduction. Nevertheless, strong and sustainable growth has been elusive and the weak growth performance, in combination with high population and labor force growth, has led to stubborn unemployment and little reduction in poverty levels. Unemployment rates have remained in the vicinity of 15 percent during most of the past decade. The high level of unemployment is in part due to the demographic dynamics of the country and the weak growth performance. It also reflects to an extent weaknesses in the quality of education in terms of producing workers without the appropriate set of skills demanded by the Jordanian labor market. Along with persistent unemployment, poverty incidence, which affected around 3 percent of the population before the crisis in the late 1980s, has remained in the neighborhood of 12-14 percent during most of the last decade.

As mentioned in the previous chapter, Jordan lost its growth momentum in 1996, at which time the reform process also slowed down. Real output growth declined to about 3 percent per annum during 1996-99, which implied essentially no growth in per-capita terms. Since 1999, reform has accelerated and Jordan has been able to start collecting some of the benefits of this renewed effort. Jordan attained a moderate real output growth rate of about 4 percent per annum in 2000-2001, surpassing the projections of the 1999 country assistance strategy, and despite a deteriorating external (regional and global) economic environment. This growth rate implied a return to positive per capita growth. While this is good news, the growth performance of the country is still insufficient to cope with the high population (about 3 percent per annum) and labor force (about 4-5 percent per annum) growth rates, or to reduce unemployment and poverty levels significantly.

Achieving faster and sustainable rates of growth of about 6 percent or more that translate into higher employment levels and reduced poverty is a critical challenge for Jordan. But these higher growth rates, to be sustainable, need to be driven by a more dynamic performance by the private sector, rather than by additional government spending. If Jordan is to achieve a private-sector led and export-oriented economy it needs to be able to induce much higher private (non-residential) investment rates than at present and to enhance the competitiveness of such private activities towards exports. Currently, Jordan's growth performance is weak because of low levels of private (non-residential) investment rates, and investors have not yet responded significantly to the reforms undertaken by the Government.

Three critical factors negatively affect the performance of the private sector. First is the macroeconomic environment where the effects of the fiscal and debt burden and the choice of the exchange rate regime generate disincentives to invest. Second is bureaucratic procedures, weak competition, red tape, and poor public service delivery affecting private investment. Third is the quality of the labor force due to an education system that produces workers with skills different from those demanded by the market. Addressing all three will be central to improving Jordan's growth prospects.

Disappointment with the growth performance and poverty reduction achieved in recent years are the principal reasons why the government has launched its recent plan for economic and social transformation. The plan contemplates an acceleration of reforms and a strong fiscal stimulus in the form of additional government spending of up to 4 percent of GDP per annum during the 2002-2006 period.[1] The plan aims at boosting growth, generating more employment (thus reducing unemployment) and bringing poverty levels down. While the plan will have an immediate significant impact on growth, employment and poverty reduction---largely through its spending impact---its sustainability will depend critically on the capacity of the private sector to respond to the proposed reform measures, and thus generating higher investment rates and employment opportunities that can materialize in sustainable higher growth rates and improved welfare of the population.

This chapter starts with a brief discussion of the causes of persistently high unemployment and slow growth in Jordan alluded above---the most urgent issue facing the country. It goes on to underline the direction of priority reforms in three core sub-areas that are necessary to improving the private investment climate and improving growth and employment prospects: fiscal, debt management and exchange rate policies, completion and removal of administrative bottlenecks to structural reforms affecting private investment, and achieving better education sector and labor market outcomes. The discussion continues in part to the next chapter, which turns to a second major issue and the other area of needed reform in Jordan---on improving the delivery of public services.

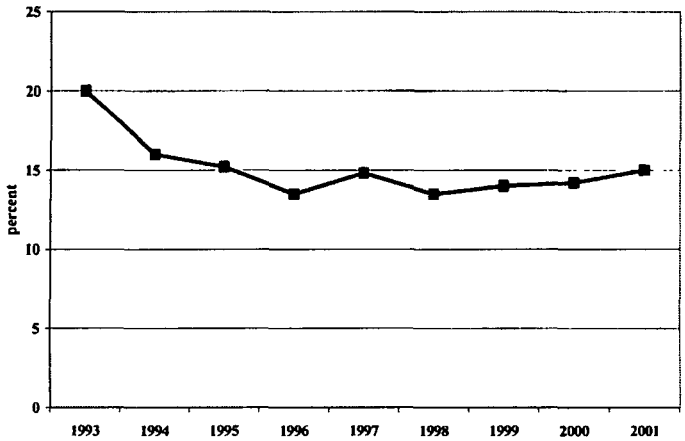
Labor Force and Unemployment Dynamics

Jordan has a young and rapidly growing population of about 5 million people. Children (age 0-14) represent roughly 42 percent of the population and young adults (age 15–29) about 31 percent. In the MENA region, only Algeria and a handful of countries in the world, have younger populations than Jordan. The population growth rate is still high, at around 3 percent per annum, which implies that the Jordanian population will double in 23 years. Population growth needs to be reduced and job opportunities increased. The demographic characteristics of the country coupled to its transition dynamics---rapid population growth with large-scale shifts from rural to urban areas---have led to severe pressure on the labor market and social services. Turning to the labor market, the labor force growth is high (about 4 percent per annum) and female participation rates are low

[1] The actual level of spending is conditional to the availability of non debt creating resources. New privatization revenues and additional grants are the only sources used to finance the plan expenditures.

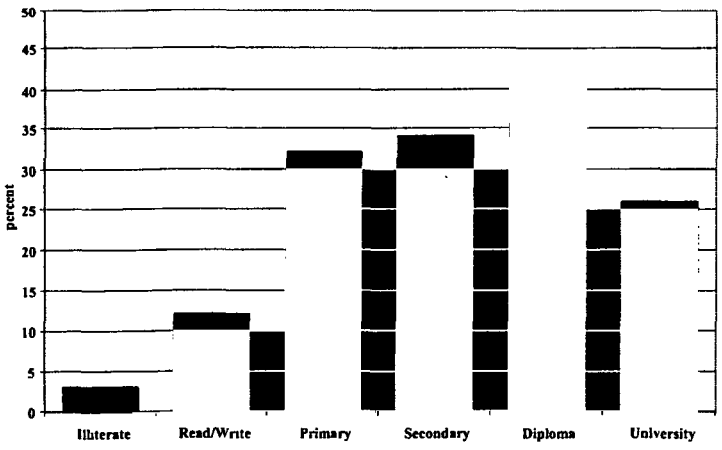
but growing (16 percent for women). New cohorts of young Jordanians are entering the labor force and not finding job opportunities, keeping unemployment high despite low women participation rates. On social services, the population structure is such that strong demands on education and health services exist given the large share of children and youth in the population, and in the future these cohorts will demand old-age health services. Managing this complex demographic transition is one of the key challenges for Jordan during the next decades.

Figure 2.1. Unemployment Rate



Unemployment is a major concern to the government as it is the leading source of poverty.[2] Unemployment has remained stubbornly high at around 14-15 percent in recent years (Figure 2.1). Unemployment in Jordan is in part the result of a population that is primarily young and rapidly increasing, and the lack of matching opportunities for new entrants to the labor market due to both weak economic growth and significant skills mismatch. Inward migration and labor market segmentation also play a role. Most of the unemployment is concentrated in first time job seekers with low education (with unemployment rates around 30-40 percent). But unemployment among Jordanians with secondary or higher education is on the rise (currently at 41 percent) pointing to a problem with the quality of the education system (skills mismatch). Unemployment among the youth (ages 15-39) represents 90 percent of total unemployment. Applications to public sector jobs continue to be high since these jobs are better paid (for low skill workers) and more secure, raising reservation wages and hampering the private sector. Women also bear the burden of high unemployment (twice as much as men) despite their low labor force participation rates and higher education levels.

Figure 2.2. Female Unemployment Rate by Education Level



[2] Shaban *et al.* (2001), *Poverty Alleviation in Jordan. Lessons for the Future.*

Female unemployment is disproportionately high among educated women (Figure 2.2).

Demographic pressures and the resource-constrained economy result in excess labor supply leading to unemployment and migration. Moreover, average Jordanian education is high by regional standards, increasing the demand for Jordanian labor outside the country. Because wage prospects are better abroad, particularly in the Gulf, many Jordanians opt to work outside of Jordan, and labor demand for lower-skilled and thus cheaper labor is met by an influx of foreign workers (from Egypt and Iraq). As a result, Jordan is simultaneously a labor importer and exporter, implying a segmented labor market along nationality, education level and skills, given that very different types of labor are being imported and exported. This result indicates the need to adjust education services for a better skill match in the labor market.

Jordan needs to generate about 40,000-50,000 new jobs per year (about 1 percent of the population) to absorb the new entrants to the labor force. But new jobs need to be generated by the private sector, as public sector employment and emigration to the Gulf are no longer sustainable options capable of absorbing as many Jordanians as before. Moreover, as the participation of women in the labor force increases, pressures on labor markets will amplify with potential for much higher levels of unemployment. Unless the challenge of generating more jobs is met, Jordan could face severe unemployment and rising poverty levels in the future. Jordan's labor force will grow at close to 5 percent per annum during this decade. To reduce unemployment to single digits, employment will have to grow by at least 5 percent per annum. For this to happen, effective matching of supply and demand and flexible real wages are necessary, which implies an important labor market adjustment. Otherwise, the demographic pressures will translate into higher unemployment, migration and declining participation rates.

Private Sector Response

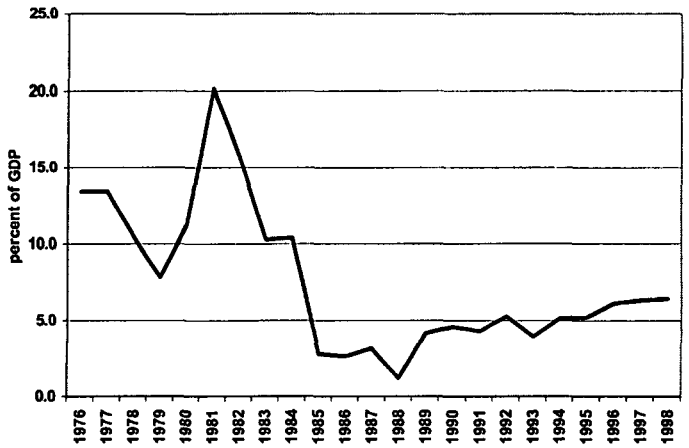
Jordan's structural reforms aimed at promoting private sector led development and increasing export orientation. The private sector generates 80 percent of total value added and must remain the focus of the efforts to accelerate growth and create employment prospects.

Weak Private Investment. Private sector response to the far-reaching structural reform effort has been weaker than anticipated and private investment rates collapsed during the 1990s (from a peak over 25 percent of GDP to around 12 percent by 1998).[3] Non residential private investment peaked at 20 percent in 1981. It collapsed during the 1980s and has yet to fully recover (see Figure 2.3). Non residential private investment stands at about 7 percent of GDP, way below the levels of fast growing private sector led economies in the world. Private investment rates of over 15 percent are associated with countries growing at high rates (above 5 percent). These levels indicate that current private investment rates in Jordan are not sufficient to generate the growth rates that the

[3] See World Bank (2001), *Jordan - Sources of Growth.*

country needs.[4] Jordan needs to at least double its rate of non-residential private investment to achieve a high and sustainable growth rate of about 6 percent a year or better, compared to its current growth rate of 4 percent.

Figure 2.3. Private Non-residential Investment



Weak Productivity. While slower capital accumulation has played a role, negative total factor productivity (TFP) has continued to be another major weakness. From a growth accounting framework, it appears that growth of physical capital stock in Jordan has decelerated over time, labor force growth has also slowed, while human capital (education) growth has exceeded labor force growth, implying an upward trend in human capital accumulation per worker (measured as years of schooling). The residual of the equation is factor productivity. Assessing the contribution of these factors to growth, the period of booming GDP growth (1976-85) was driven primarily by physical capital accumulation and to a lesser extent by TFP growth. In the subsequent period, however, human capital accumulation has had the greatest impact on growth, but TFP actually fell, reflecting diminishing efficiency (Table 2.1).

Table 2.1. GDP Growth by Factors of Production

	Annual Growth Rate, (%)				Growth Contribution, (%)			
	GDP	Physical Capital	Labor Force	Human Capital	Physical Capital	Labor Force	Human Capital	TFP
1976-80	15.8	17.8	3 3	3.4	7.8	0.8	1.1	6.1
1981-85	5.2	10.6	7.3	6.6	4.7	1.7	2.2	-3.3
1986-90	-1 1	4.9	6.8	5.2	2 1	1.6	1.7	-6 6
1991-95	7.2	5.3	10.3	6.3	2.3	2.4	2.1	0.4
1996-00	3.0	3.0	6.0	5.6	1.3	1.4	1.3	-1.0

Source: World Bank (2001) Jordan - Sources of Growth.

Low Foreign Direct Investment. Foreign direct investment (FDI) remained very low until the privatization program picked up in the mid-1990s (see Table 2.2). Most FDI inflows into Jordan are acquisition transactions, and most are in non-traded sectors or in protected services (e.g., telecommunications, railways). Only limited FDI flows into

[4] While data is unavailable for recent years, the non-government component of gross domestic investment has increased by about 0.6 percent of GDP since 1999 and the growth rate of credit to the private sector increased by 11 percent in 2001 (versus 4.5 percent in 2000). All these indicators signal higher levels of private investment which could be having the desired observed impact on the growth rate of the economy.

traded sectors and those are primarily associated with the Qualified Industrial Zones (QIZs).

A critical challenge for Jordan is to thus raise the rate of private investment, especially in traded goods and service sectors (for example, manufacturing, tourism and information technology sectors), attract more FDI and to improve its productivity. The dynamic growth of new industrial sectors holds the key.

Table 2.2. Trends in Foreign Direct Investment

	FDI (US$ millions)		FDI/GFCF, %		FDI Stocks/GDP, %	
	1985-95	1996-2000	1985-95	1999	1985	1999
Tunisia	259.0	511.0	8.5	7.0	83.0	57.0
Chile	1182 0	5482.2	15.7	62.4	14.1	55.2
Costa Rica	171.0	463.8	14.1	20.6	24.4	43.3
Jordan	**14.0**	**227.6**	**1.0**	**9.7**	**9.6**	**19.3**
Egypt	870.0	1060.4	5.5	5.6	16.4	19.2
Morocco	238.0	562.4	4.5	9.9	3.4	16.0
Philippines	700.0	1340.0	7.7	5.1	8.5	14.9
Turkey	529.0	850.0	1.8	1.9	0.5	4.4

Note: GFCF refers to gross fixed capital formation. Figures for periods refer to annual averages.
Source: *UNCTAD, World Investment Report, 2001.*

Factors Affecting Private Investment and Growth

As mentioned above, three critical factors seem to affect negatively the performance of the private sector, generating low levels of private investment and weak growth performance. First is the macroeconomic environment where the effects of the fiscal and debt burden and the choice of exchange rate regime generate disincentives to invest. Second is the abundance of cumbersome procedures, weak competition and red tape, and poor public service delivery in areas affecting private investment. Third is the quality of the education system that produces workers with different skills than those demanded by the market. These issues are analyzed in the remaining of this chapter.

Macroeconomic Environment

Fiscal Performance. Jordan's macroeconomic management over the 1990s has been complicated due to large fiscal deficits and high public debt burden. While advances have taken place in reducing large deficits of the past, a continuing concern over Jordan's economic policy stance is that the fiscal deficit and the public debt are still high and that the budget structure is quite rigid. Rigidities in the fiscal structure exist on both the revenue and the expenditure side. The overall fiscal deficit amounted to about 8.2 percent of GDP before grants during the second half of the 1990s. The deficit reached 7 percent of GDP in 2001, a small decline from the previous year. However this deficit was twice the level contemplated in the original IMF-program target. Roughly one half (between 3.5 and 4.0 percent GDP) of the fiscal deficits are covered by external

grants, which represent a blessing but also a curse to Jordan since they generate a culture of aid dependency that is difficult to break and is risky.[5] The largest component of budgetary grants is that from Iraq, the magnitude of which is to a large extent determined by oil prices. Slow growth has made fiscal adjustment more difficult, but the high deficits are also hindering growth prospects and are the most important contributor to the weak private investment response.[6] In addition, the fiscal accounts have been affected by the cost of structural reforms, such as cuts in customs tariffs, reductions in dividends from public enterprises associated in part with their privatization, and increased reliance on domestic financing at market-based interest rates (rather than on concessional lending terms).

Meanwhile, much of expenditure is inflexible, with 80 percent of current government spending envelope going to wages, pensions, interest payments on the debt, and military spending. Reduction of military spending may be difficult in the current regional environment but its growth rate can be contained and the government seems to be initiating this process.

The government is committed to a path of deficit (and debt) reduction. Implementing a fiscal consolidation strategy will allow the government to reduce its debt by about 30 percentage points to about 64 percent by 2006, but will require a reduction in the deficit of about 3-4 percent. On the revenue side efforts are to be concentrated on improving tax revenue and rationalizing non-tax revenues, increasing energy prices, reducing tax exemptions, liberalizing prices of bread and animal feed, and strengthening the general sales tax administration. On the expenditure side cuts in the capital budget, are contemplated without jeopardizing growth prospects. Capital expenditures represent 16 percent of total expenditures in 2001 or 5.2 percent of GDP. However, reduction in current outlays over the medium term would require determined efforts to contain expenditure growth in most areas to offset expenditure that cannot be easily adjusted in the short term (like pensions). To limit deficit growth, expenditures associated with the new PSET will be financed through non-debt creating flows, including privatization revenues and additional grants. But the risks of recurrent expenditures in the future associated with the PSET still exist.

Pension reform remains one of the most critical elements of the fiscal consolidation agenda. Pension deficits alone have reached over 4 percent of GDP and represent about half of the (before grants) fiscal deficit.[7] This is the result of a public pension system covering civil service employees (hired before 1995), but primarily military and security

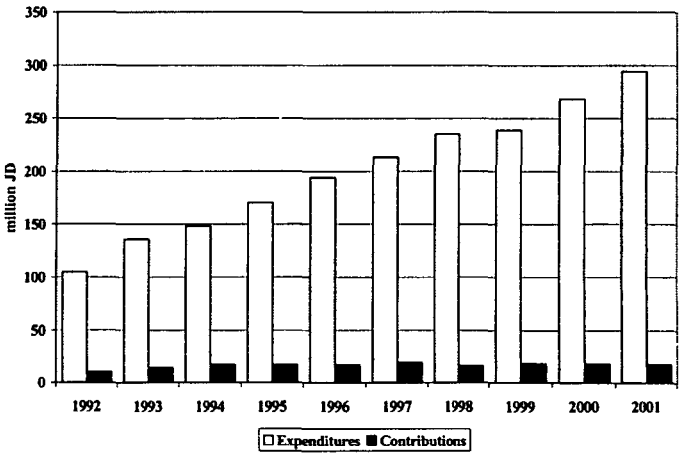
[5] Fiscal sustainability analysis (see Annex 1) indicate that the deficits (after grants) are sustainable if the current levels of grants are maintained, growth is accelerated and the implicit cost of the public debt remains very low (currently at about 5 percent of GDP). Loosing the grants will make the fiscal situation unsustainable and due to the rigidity of the spending envelope a critical risk for Jordan. Grants are given to Jordan for strategic reasons which could change depending on the regional political environment. Given the rigid structure of the budget this could have significant consequences.

[6] See World Bank (2001) *Jordan - Sources of Growth.*

[7] Pension expenditures have been growing at an annual rate of 12 percent during the past decade while contributions have remained low, increasing the pension deficits from 2.6 percent of GDP in 1992 to 4 percent of GDP in 2001

personnel, with very generous benefit provisions, early retirement options and low contributions (Figure 2.4).

Figure 2.4. Pension System Finances



There is an urgent need for reform in the pensions system to make it financially viable, equitable and reduce the distortions that the current structure of contributions and benefits creates on the labor market. The rapid growth in pension payments can only be contained through speedy implementation of pension reforms for the military and civil service to dampen pension growth in the medium term until the longer-term reforms take hold. Reforming the pension system will be complex and undoubtedly a politically sensitive undertaking. While some initial steps are being implemented significant work lies ahead. Several options are possible including (i) the re-parameterization of the public pension system; (ii) the unification of the public and private systems (government's preferred option) to operate under the unified framework of the Social Security Contribution (SSC) agency (the private pension system), but caution should be taken not to destroy the sound financial position of the SSC with a poorly managed transfer of the pension obligations of the public system; and (iii) the reform of the military pensions which account for three-quarts of the pension deficit.[8]

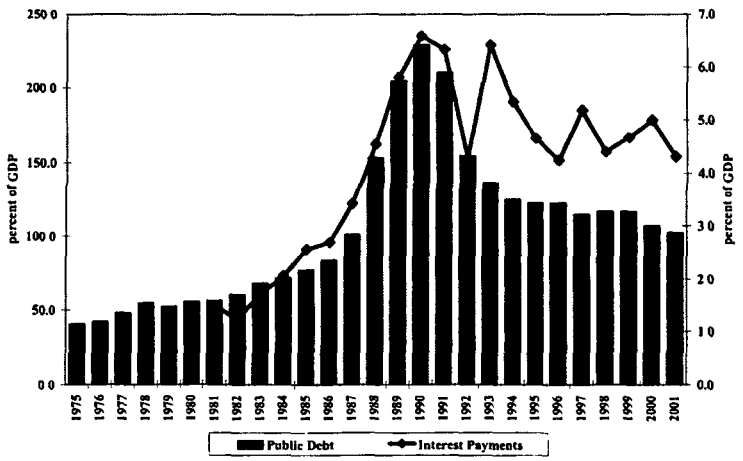
The Government of Jordan is committed to pension reform and is developing in consultation with IFIs a reform strategy that will (i) phase out the military pension scheme and enroll new recruits in the Social Security Corporation; (ii) reduce the prevalence of disability awards; (iii) extend the vesting period before retirement and determine a minimum retirement age before pension benefit entitlement; (iv) eliminate discretionary adjustments to pension benefits by introducing an automatic indexation mechanism; and (v) rationalize benefit formulas. These measures will help to bring the pension system to sounder footing.

While some small parameter adjustments of the PAYG pension system can achieve savings, fundamental structural change in the pension systems needs to be designed and implemented to bring long-term financial sustainability, fairness and effectiveness to the system, by tightening the link between contributions and benefits. Pension reform could have important implications on the overall fiscal stance and the growth prospects of the economy in the long-term.

[8] For details see IMF (2002), Pension Reform in Jordan: More Urgent than Ever.

Public Debt. Jordan has one of the highest ratios of public debt to GDP in the MENA region, but with a very low debt service to GDP ratio.[9] Though on a declining trend, the size of public debt remains high (Figure 2.5). Growth of public debt has been contained owing to substantial receipts of foreign grants. Total public sector debt relative to GDP declined from 123 percent of GDP in 1995 to 101 percent in 2001, of which 22 percent of the debt is domestic. Traditionally, government's domestic debt is owed almost entirely to the Central Bank of Jordan and commercial banks, although a small volume of bonds (between 3.5 and 4.5 percent of GDP) are held by non-bank institutions and the general public. However, there has been a shift from external to domestic borrowing, and from interest-free advances from the Central Bank of Jordan to securitized borrowing from the commercial banks. Public debt need to come down further to more comfortable levels, which require stronger growth performance and/or a more prudent fiscal stance. Reducing the debt is a clear objective by the government which has introduced legislation toward that purpose. Jordan engaged in a new round of Paris Club negotiations in 2002. The Paris Club and the Hashemite Kingdom of Jordan agreed on July 10, 2002 on an exit treatment that enables Jordan to graduate from Paris Club rescheduling.

Figure 2.5. Public Debt



Reducing public debt, an objective of the government,[10] will have a direct impact on the expenditure side of the budget (about ¾ percent of GDP just from debt service reduction if the strategy contemplated above is implemented), scaling down debt service payments and the deficit, and reducing the country risk by improving the perception of confidence. This in combination with further rationalization of expenditures (pension reform, wages, and military expenditures) and improvements in revenue collection that brings the deficit down can have real effects on the economy, bringing down interest rates, increasing private investment and with it the growth rate of the economy.

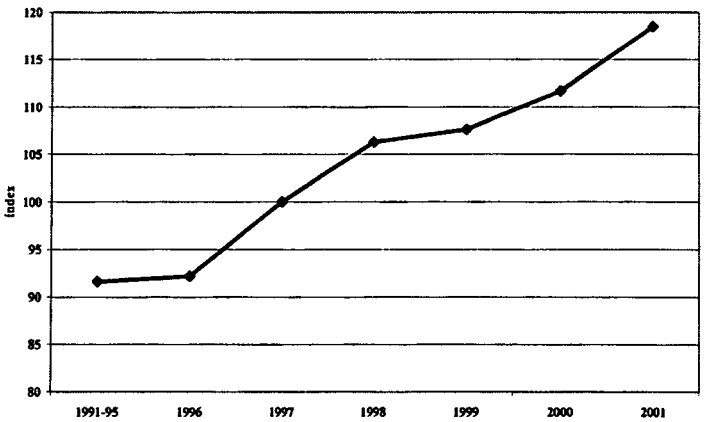
Exchange Rate Policy. Jordan's exchange rate is pegged to the US dollar. While this policy has served to bring inflation down and to have a nominal anchor for the economy it has also have negative consequences. The Dinar has appreciated in real terms by about

[9] Only Lebanon has a (much) weaker debt position in the MENA region.

[10] By law public debt is to decline to at most 80 percent of GDP by 2006 (foreign debt should not exceed 60 percent of GDP) Debt sustainability exercises indicate that these targets are achievable.

30 percent over the second half of the 1990s, in a period of appreciation of the dollar vis-à-vis other currencies (Figure 2.6). This has implied a loss in price competitiveness that depressed exports over the same period. Exports annual average growth during 1996-2000 was about 1 percent, in a period when world trade was expanding at significant higher rates.

Figure 2.6. Real Exchange Rate (Base 1997=100)



Jordan's export performance turned around in 2001. Export growth in 2001 was very strong (25 percent) despite the appreciation of the Dinar, the deterioration of the terms of trade and the downturn in the global economic environment. This exceptional performance was the result of trade liberalization and the elimination of administrative barriers (through temporal preferential market access schemes like the QIZs) which indicate that these elements are as important as the exchange rate in affecting trade flows but not a substitution in the long-term for an exchange rate regime that allows more flexibility.[11]

However, given Jordan's relative openness, international experience suggest that the viable long-term options for its exchange rate system are either a hard peg supported by a credible policy framework and institutions, or a variety of flexible exchange rate arrangements. Jordan has the choice to start moving to a more flexible exchange rate regime to improve competitiveness abroad, improve investment response and reduce volatility, or to keep its current system but with a higher level of reserves, and address competitiveness issues through other means. So far the second option has been the preferred choice of the authorities, but a long-term exit strategy of the peg needs to be contemplated as a more flexible exchange rate system will serve well Jordan transit from developing to develop country.

The Central Bank acknowledges the importance of a flexible exchange rate to maintain the gains achieve by Jordan's reform process. The Central Bank adopted the peg as a nominal anchor to help macroeconomic management due to economic uncertainties in the region. Once these uncertainties are removed, the authorities plan to adopt a flexible exchange rate policy.

[11] Exports through QIZs may decline significantly during 2002 as a result of the Israeli-Palestine conflict, since border crossing delays for shipments out of the port of Haifa are increasing and there is limited room for increasing shipments from Aqaba in the near term.

In the context of the pro-cyclicality of the fiscal policy, particularly now that the PSET is to increase the expenditure envelope of Jordan by a significant amount in an upside cycle of the economy, the danger of overheating exists, which can put at odds the peg of the Dinar. Emerging economies like Jordan need to ensure that fiscal surpluses generating during booms are saved for bad times. This will reduce the need for debt financing during recessions. Fiscal policy should be contractionary during boom cycles to prevent the economy from overheating and expansive during downturns to "spend" its way out of recessions.

Structural and Institutional Constraints

Jordan has undertaken a large and impressive array of structural reforms. As documented in Chapter 1, Box1.2, the country has advanced its structural reforms in tax policies, reduced its trade policy barriers substantially, signed several important trade agreements with major partners such as WTO, EU and US (as an element of the National Program to upgrade the Industrial Sector), overhauled customs administration, established free trade zones, reformed financial sector policies, embarked on successful privatization, and enhanced the regulatory framework for private investment. Measured in terms of such reforms, Jordan is ahead of most other countries in the region and among its peers in middle-income countries. Yet, the private investment response remains limited. The main set of impediments appears to be a combination of: (a) cumbersome procedures and bureaucratic red tape; and (b) weak competition policies especially in key infrastructure services.

Jordan consistently ranks near the top of countries at similar lower middle-income levels on measures of rule of law, government effectiveness and the regulatory framework. However, these public sector assets are underutilized owing to the institutional liabilities of the system: regulatory rigidity, an abundance of red-tape, and weak policy coordination and programming capacity. Household surveys and other sources have documented substantial costs on users by outmoded service delivery mechanisms and red tape. In the absence of institutional change across government, including in the incentive framework and in organizational structures. Jordan needs to modernize its public sector so that it does not become a drag on private sector development (and on the economy), and delivers high quality public services.

Structural reforms should be deepened to facilitate private sector response, encourage investment and improve productivity. Further trade liberalization, regulatory reform and reduction of red tape and cumbersome procedures will encourage private participation and growth, reducing unemployment and poverty. Import tariffs are at moderate levels, but import licenses are still required for a large number of products affecting some 10% of imports. While customs services have apparently improved somewhat especially with modification of valuation procedures in March 2000 to make them compatible with WTO, other bottlenecks remain. In a survey of Jordanian exporters, the lack of transparent decisions making regarding duties applied to imports and timely clearance of both imports and exports (2 weeks is a common time span for clearing spare parts, often causing production to stop) were cited as significant. Discretionary decision-making was

also reported with respect to eligibility for imported capital equipment and spare parts for duty-exemption. Exporters have repeatedly reported problems with customs on acceptance of machinery imports as industrial use equipment.

In services provision, there remain some major issues. For example, freight costs in Jordan still account for some 12.8 percent of trade transaction value---two to three times higher than in countries with similar location (Tunisia and Turkey). Air transport is restricted by state ownership, and road transport, which accounts for 65 percent of all imports, has significant entry restrictions. Telecommunications costs are high and the sector lacks competition. For example, basic telecommunications service costs remain very high by international standards (7 cents per minute for local calls), international tariffs are among the highest in the world, and leased lines and services are very expensive, hampering critical electronic commerce.

Regulatory Framework. The regulatory climate for business also needs attention. Jordan's regulatory framework is not considered to be investment friendly by the private sector. The 1997 WDR survey lists the five worst obstacles for doing business in Jordan to be (in decreasing order from worst to least problematic): tax regulations and high taxes; inadequate supply of infrastructure; policy instability; corruption; and the general uncertainty over costs of regulations. The reliance of the Jordanian private sector on the Government whereby a closed procurement environment shields Jordanian companies from outside competition also hampers the growth of an effective open, regional market for free trade of goods and services in Jordan.[12] This closed environment in Jordan is also reflected in many of its neighboring countries, which further limits opportunities for the expansion and development of Jordanian companies. Regulatory reforms that specifically address red tape, procurement regulations and practices in order to provide an enabling environment for the private sector which is key to growth. The Government of Jordan is attempting to improve the investment climate by streamlining the investment promotion organizations and policies, which complement earlier initiatives to improve the business climate and is moving towards the consolidation of government procurement agencies, all of which address the above.

Improvements in other areas may also help in bringing stronger private sector response. For instance, further competition in the banking sector is likely to help in reducing the cost of capital and increasing investment. Likewise advancing the trade liberalization agenda will help Jordan collect more of the fruits it's already getting from global integration. Speeding up the privatization process will also facilitate greater private sector participation.

[12] See Country Procurement Assessment Review, World Bank 2000. Jordanian contractors usually cannot satisfy the experience and financial requirements specified for pre-qualification for donor projects which are usually large infrastructure projects. The Government thus feels justified in limiting outside competition for the lower value projects financed from the national budget, by using a public procurement system that is protective of the private sector via provisions in the regulatory framework limiting the ability of foreign companies to compete effectively for public contracts.

Financial Sector. The financial sector in Jordan is relatively well developed both in terms of services provided and the degree of monetarization. There are eleven domestic commercial banks, five foreign banks and five investment banks. The system is concentrated with two banks much larger than the rest. Available indicators of bank soundness show capitalization exceeding required minimum for the whole system with all banks meeting the requirement. Liquidity is available. A key issue is to reduce cost of credit but central bank policies are as much a factor as low degree of competition. Relaxation of the monetary policy in 2001 had an important impact on interest rates and demand for credit. This, in turn, had a positive impact on growth. Long-term credit, however, is not available and instruments need to be developed. Access to capital by SMEs also needs to be enhanced. Technical assistance to SMEs will be provided as part of the PSET program. The banking system and the economy will benefit from further competition in the sector. The stock exchange is one of the largest in the region.

Re-orienting Trade. Jordan has spent a good amount of effort to integrate into the world economy. This process included significant reforms in the trade sector area.[13] Some of these measures are having an important impact on Jordan's economy and its transformation. While Jordan has a relatively large inter-Arab trade share compared with other Arab countries (about 40 percent of exports and 24 percent of imports are with Arab countries) the opening of markets in the US through QIZs (which implied the removal of tariffs and administrative barriers) resulted in a dramatic increase of industrial exports to the US, by about 400 percent in 2001, making the US Jordan's largest export destination (ahead of Iraq, India and Saudi Arabia). This revitalized the export sector, which grew by over 25 percent in 2001 after years of weak performance (annual average growth of 1 percent in the preceding five years). The export boom has come despite a steady appreciation of the Dinar and the deterioration of the terms of trade over the last two years. Traditional exports are no longer leading, being replaced by manufactures which in 2001 represented 41 percent of all exports. Other measures are likely to have a lesser impact. For instance, so far the AFTA has produced little results and the FTA with the US will not produce the desired results with the 35 percent local component requirement restriction that Jordan can hardly met.[14]

Jordan also integrates to the world through the export of labor services. Jordan has traditionally exported high-skill labor to the Gulf and other regions, serving as a means to buffer unemployment. At the same time it imports low-skill labor, primarily from Egypt. The export of labor services generates significant workers remittances (about 20 percent of GDP per annum in recent years).

Jordan has important choices to make vis-à-vis its integration process. It can continue to pursue closer economic ties with the region, particularly with the Arab world. AFTA was supposed to do this but it has failed to produce tangible results so far. Some progress in regional cooperation is taking place with the proposed gas pipeline (with Egypt) and the regional electricity grid between Egypt, Jordan and Syria. Jordan's Amman ring project

[13] See Box 1.2 in Chapter I of this report for a full description of trade reform measures and other advances in the structural reform agenda.
[14] Local content of current exports is about 15 percent.

also aims at increasing trade links by reducing transportation costs and facilitating the move of merchandise to access the port of Aqaba. However, integration with the region is not without risks as regional challenges (security, political, economic) are likely to continue to affect the performance of Jordan and the region as a whole. Seeking closer economic ties with Israel, an economy 13 times larger than Jordan can be a strategic move, but will be difficult in the current circumstances. Nevertheless, Israel already is the third largest regional destination for Jordanian exports (after Iraq and Saudi Arabia).

Diversification is an important form of insurance to reduce volatility. The other integration route followed by Jordan is with the rest of the world, particularly with the West (EU and US). This is being pursued through WTO membership, and the trade agreements with the EU and the US. Exports to the US, for instance, increased from JD9 million in 1999 to JD164 million in 2001 (despite the weak economic performance in the US). The EU-MED agreement calls for a free trade area by 2010. This route is diversifying Jordan's trade base to more stable regions, reducing the risk and volatility associated with its old trade patterns.

Quality of Education and the Labor Force

If investment response is to be high there also needs to be an improvement in human resources. Jordan needs to transform its education system in order to meet the challenges of the knowledge economy. To participate fully in the knowledge economy, Jordan's education system must adequately prepare future workers and provide opportunities for the upgrading of skills of its current labor force. Skills mismatch is an important factor affecting employment opportunities. Unemployment increases with women's education, raising important questions about the relevance of female education to work opportunities. Secondary education graduates who do not go on to higher education (where quality-entry barriers are high) represent the greatest problem---increasingly unable or unwilling to find jobs at home or abroad, and entering into vocational training schemes that do not work in Jordan, as in most other countries with publicly provided vocational training unrelated to market tests and needs. Unemployment rates of secondary education students are high in Jordan (about 40 percent and growing), as are those for educated women. Without the proper labor force investment rates will be below what is necessary for the country to grow at high (and sustainable) rates. The challenges and opportunities for improving the quality of the work force (through education reforms) are discussed in the next chapter.

Conclusion

The deep economic reform policies introduced during the last decade have been to a large extent successful. Macroeconomic stability was rapidly achieved; arresting inflation, rebuilding foreign exchange reserves and narrowing the fiscal and current account deficits, and the progress in the structural reform effort has been significant, placing Jordan as one of the leading reformers in the region. But the outcomes have not been as good as expected. Jordan can and needs to do better to raise the quality and standard of

living of the population, create employment opportunities and alleviate poverty, three of the key goals of the new development vision put forward by the government in its Plan for Social and Economic Transformation (PSET).

Jordan's macroeconomic management over the past decade has been complicated due to large fiscal deficits and high public debt burden. Reforms have been deep but private sector response has been timid and growth performance weaker than anticipated. Stronger and sustainable growth requires a policy framework that limits the disincentives for private sector response and reduces the perceived fiscal risks. In the case of Jordan, reducing the fiscal deficit and debt burden is critical, as fiscal deficits are perceived as strong disincentives for private investment. [15] Addressing structural rigidities associated with the budget, particularly those related with the public sector pension system is critical for long-term sustainability.

Finally, structural reforms should continue to facilitate private sector response, encourage investment and improve productivity. Further trade liberalization, regulatory reform and reduction of red tape and cumbersome procedures will encourage private sector participation. These measures can be complemented with a monetary policy that although supportive to the exchange rate system, it also gives room for private sector credit expansion (and interest rate reduction). In the context of the exchange rate policy so far the authorities have chosen to maintain the peg to the US dollar, but this has been not without costs. Contemplating alternative exchange rate agreements and developing a medium-term exit strategy from the peg are important policy choices that the authorities will have to make. Since Jordan seeks to have the private sector as the main engine of growth in the economy, private sector response needs to be enhanced. Strong and sustainable growth rates require investment rates (non-residential) that are at least twice the ones prevailing in Jordan today.

The reform agenda of the last decade embodies a courageous attempt to rectify the problems of the past and create a foundation for private-sector-export-oriented growth. There is also determination to address social and gender gaps. Progressive Arab states like Jordan want to build their legitimacy on how they prepare their people for the future rather than on excuses why not to reform. Regionally, Jordan is at the frontline of reform, way ahead of other countries in MENA. Globally Jordan still has some way to go.

The expectations associated with the reform process have been high and the results have not always been fulfilling. Achieving results is neither instantaneous nor permanent unless the policy framework is right and the reform effort constantly pursued. The government needs to stay focused on the reform course, maintaining a proper balance between increasing development spending and creating an enabling environment and opening further space for the private sector to lead the way. Increasing private investment will prove to be critical for growth. So long as policymakers stick to the reform agenda, there is well-founded hope for a better future for all Jordanians.

[15] According to the Sources of Growth study, fiscal deficits are the most important variable hindering private sector investment.

Chapter III. Quality and Efficiency in the Delivery of Public Services

Introduction

Improving the quality and efficiency of core public services is the second big challenge for Jordan. Better delivery of public services will improve the quality of life of all Jordanians, particularly the poor. Households and individuals will benefit from improved delivery of core public services (education, health, water and other services). In addition, firms and business will indirectly benefit as an improved government reduce institutional constraints. This chapter addresses the direction of improvement needed in this key area of Jordan's development priorities.

Effective delivery of certain key essential public services, such as education, health and water, is a priority that the government has already identified, and is an important component of the PSET. Education and health services have been the focus of the human development agenda of the country. In a resource poor country such as Jordan, human resource development holds the key to future growth and spreading the benefits of such growth equitably. Jordan already spends relatively large amounts of public funds on education and health. Significant improvements have taken place. But better results are possible and necessary per unit of spending, while improving the access to such services further, particularly to the poor. Water is the other critical public resource that must be managed better. Jordan is one of the most water-stressed countries in the world. Efficient management of water, the most important environmental constraint to development, is critical and will require effective pricing and investment solutions and better public-private partnership.

Beyond these essential services, there are a large array of other public services and interactions that can and need to be improved---through civil service and administrative reforms, re-engineering of government institutions and decision making, decentralized public service delivery, and improvements in legal and judicial institutions. These reforms will be central to improve the delivery of core public services in Jordan.

Surveys and other sources have documented substantial costs imposed on the public (both households and firms) by outmoded and bureaucratic administrative procedures, regulatory rigidity, red tape and a generally weak service delivery orientation. Private investors, both foreign and domestic, view the administration as slow, cumbersome, and unresponsive; in particular they cite weaknesses in the judiciary. At the same time, recruitment into the civil service has reflected, in part, patronage and implicit socio-economic quotas, and promotion is insufficiently based on merit and performance. Total government personnel costs, including pension payments, are high, at over 16 percent of GDP, though more than half comprises wages and pensions for security personnel.

Jordan needs to modernize its public sector so that it does not become a drag on private sector development and delivers high quality public services. While the need for public

sector reform in Jordan is clear and the efforts ongoing, it is also being built on a reasonably solid base of good performance. Using widely recognized measures such as political stability, the rule of law, government effectiveness, the regulatory framework, control of corruption and voice and accountability,[1] Jordan consistently stands at the top of the region and near the top of countries in other regions at similar income levels (lower, middle income countries) – especially on measures for rule of law, government effectiveness, and the regulatory framework. Its position is relatively weaker on voice and accountability, however. When compared with developed countries like the OECD, there is room for improvement in public sector efficiency.

Improving the delivery of public services will enhance the quality of life of all. Otherwise Jordanians will pay a high price for inefficiencies, particularly by the poor, whose ability to access essential services needed to increase their human capital and climb out of poverty are compromised. Better overall public services will also serve to attract investors, both domestic and foreign and boost growth prospects and alleviate poverty. Finally, scarce government resources will be used more effectively.

Education and Health Services

Jordan has always placed human development at the top of its priorities. Alleviating poverty and improving the welfare of the population have been central in Jordan's development plans. Within human development, education and health were a focal point of His Majesty the late King Hussein and key in Jordan's development agenda. As a result education and health experienced significant improvements over the years, ranking Jordan as among the best performers in the MENA region. These priorities continue to be fundamental today. Despite past improvements, significant development challenges remain in both education and health sectors.

The demographic structure and dynamics place considerable demand on social services, particularly on education and health. Given the large numbers of young Jordanians (about 40 percent of the population is below 15 years old), the education system faces severe pressures to provide expanded services, while improving its quality. Similar challenges also affect the health system, where rapid population growth affects the demand for services, as well as the complexity of health management. Improving the quality and focus of the education system as well as the efficiency in providing health services are thus key issues.

The UNDP Human Development Report of 2000 states that Jordanians enjoy good living conditions and access to basic services. Moreover, Jordan has a strong base of social development, with important advances made in education and health care. Jordan's achievements in advancing human development have been significant. During the past 30 years, life expectancy at birth has increased from 47 to 70 years and adult literacy from 47 to 87 percent. Infant mortality fell by nearly 50 percent, and fertility rates are

[1] See Kaufmann, Daniel, Aart Kraay and Pablo Zoido-Lobaton, "Governance Matters II: Updated Governance Indicators for 2000-01."

declining, even if the annual natural growth rate is still high due to the increase in the number of women entering their peak childbearing years. Jordan's human development index (HDI)[2] has increased two and one half times, increasing from 0.296 in 1960 to 0.714 in 1999, placing Jordan in the 88th rank out of 174 countries evaluated by the UNDP.

Overall, Jordan's social indicators are better than the average of Middle East and North Africa (MENA) (Table 3.1), outperforming four regional countries, with more resources (Algeria, Syria, Tunisia and Iran) in provision of basic education and health services. However lack of access, particularly of the poor, is also reflected in some of these indicators, despite strong expenditures in education.

Table 3.1. Selected Human Development Indicators in Jordan and Comparator Countries

	Jordan		Comparable Groups	
	1970–75	1999	MENA 1993–00	Lower-middle income, 1993–00
Life expectancy (years)	60	70	68	69
Total fertility rate (births per woman)	8	4	3	2
Infant mortality (per thousand births)	49	26	44	32
Access to an improved water source (percent pop.)	..	96	89	80
Gross primary enrollment (percent of school-age pop.)	72	94	96	103
Male	79	94	103	105
Female	65	95	89	100
Gross secondary enrollment (percent of age group)	48	57	64	70
Adult illiteracy (percent of pop. 15 years and above)	39	10	35	15
Male	22	5	24	9
Female	56	16	46	21

Note: Data refer to the most recent year available during the period specified.
Source: World Bank, World Development Indicators (various issues)

Education. Jordan has emphasized the development of human capital with strong focus on the education sector, spending over the years about 5 percent of GDP per annum, and trying to maintain near universal access to basic education despite the high population growth. Jordan developed some years ago its Educational Reform Program (ERP) aimed at raising the quality of basic and secondary education. This program had, as its objectives, to develop students' cognitive skills so as to give Jordan the skills- and knowledge-intensive manpower base it needs. The objectives of the national educational reform were subdivided into seven national programs covering the following areas: (a) curriculum development; (b) textbook development; (c) teacher and supervisory staff training; (d) educational technology; (e) educational facility improvement; (f) vocational training expansion; and (g) educational research and development. The education program was intended to be cumulative over time, whereby later initiatives would build on foundations laid by earlier ones. In addition, implementation experience in each phase was systematically monitored and evaluated and the results used as feedback for modifications.

[2] The human development index is a composite index that measures a country's achievements in terms of life expectancy, educational attainment, and adjusted real income.

Jordan's PSET recognizes education as a cornerstone of development and an essential element to improve the welfare of its citizens. This is reflected in priority given to the sector in public spending. In 2001, public expenditures on education represented 5.6 percent of GDP and 17 percent of total government expenditures. The commitment to *Education for all* is reflected in the fact that 80 percent of total education spending goes towards basic education. Between 1990 and 2001, capital spending on basic education equaled JD395 million or US$550 million (on average, JD32 million or US$45 million per year).

Notwithstanding these efforts in education, outcomes are not as good as might be expected. Jordan ranks low in international scores in math and science. The learning culture is one of memorizing rather than learning to learn. Education spending is thus not used efficiently and for the poor access is limited, especially at higher levels of education. As mentioned above, the segmentation of the labor market indicates that the education system is not focusing on the right skills, thus the need to improve quality, modernize education and align the relevance of the curriculum to the skills being demanded by the labor market. Basic education needs to prepare people for work. Graduates of many programs, which lack relevance, are unemployed due in part to the skills mismatch. The new global economy requires that Jordan supports an education system, which promotes high-level thinking skills and prepares students to take on jobs. Improving the quality of the education is the key challenge the authorities face---to get more from the already quite high levels of public spending on education.

Jordan needs to transform the education system in order to meet the challenges of the knowledge economy. His Majesty King Abdullah's vision of Jordan as the Information Technology (IT) hub of the region emphasizes the importance of human development at the core of this vision. To participate fully in the knowledge economy, Jordan's education system must adequately prepare future workers and provide opportunities for the upgrading of skills of its current labor force. Lifelong learning needs to become a reality in the medium to long term. In the short term, early childhood education (ECE) opportunities need to be extended and gains at the basic education level must be consolidated. Secondary education needs to expand and the diversity of higher education opportunities further increase. Within the classroom, the application of knowledge must be promoted.

Cognizant of the importance of ECE, Jordan's policymakers have shown increasing support for programs targeted to young children. However, although kindergarten services cover 28 percent of Jordanian children, these services are mainly provided through the private or voluntary sector. Child care services for children under the age of 4 are even more limited. Where they do exist, they are scattered among the health and social support sectors. The difficulty currently facing Jordan's child advocates does not lie in convincing policymakers which steps are best for preschool children but rather in convincing them to identify a strategic road map for the Government's role in promoting ECE.

Health. The health system in Jordan performs relatively well in terms of overall access to services and outcomes (as measured by such indicators as infant mortality and life expectancy). However, Jordan spends over 9 percent of its GDP on health (3 percentage points more than other comparable countries). There are significant inefficiencies in the service delivery system. There is excess overall capacity as illustrated by a hospital occupancy rate of 63 percent and a lack of effective referral system. There are also inefficiencies in terms of inappropriate hospital use, management, procurement, storage, distribution, pricing policies, and the rational use of pharmaceuticals, which account for over one fourth of health spending and 2 percent of GDP. Passive acceptance of the status quo would likely result in a system with high costs, access gaps for vulnerable groups, wasteful excess capacity and poor value for money in terms of health outcomes.

The rapid growth in private sector health services suggests dissatisfaction with the services provided through the public sector and is leading toward a two-tiered system of care (those who can afford to pay go to the private sector while those who cannot are relegated to public sector facilities). About half of the health expenditures are privately financed and Government subsidies do not reflect ability to pay.

Jordan spends on health well in excess of most middle-income countries and even some western industrialized countries. While Jordan provides coverage for its poor and disabled, an estimated 20 percent of the population lacks formal coverage, and Government financing for health care could be better structured to reflect ability to pay. The largely unregulated private sector is growing, accounting for about 30 percent of service delivery capacity and about half of spending. The issues with respect to the private sector include: (a) the lack of coordination with the public sector and inefficient use of sector resources and (b) a two-tiered system of care that is evolving. There is a paucity of data on private health expenditures and insurance coverage.

The Government of Jordan has embarked upon a long-term reform program which will, for the first time, draw together all major players in the sector: the Ministry of Health (MOH), Royal Medical Services (RMS), Jordan University Hospital (JUH) and the private sector. The first phase of this reform, will focus on three areas: (a) containing growth in health expenditures; (b) assuring the efficient utilization of physical facilities; and (c) improving the delivery and quality of health care services. Building on this foundation, the second phase will likely be expanded to address equity (universal health insurance), quality (medical education, regulation of the private sector), management (in the context of civil service reforms) and cost-effectiveness (rationalizing the public/private mix).

Water Management

Jordan faces a water crisis. Shortage of water is the most critical environmental constraint to development in Jordan. As a result of its limited renewable and non-renewable water sources, Jordan is one of the most water-stressed countries in the world. Water scarcity is exacerbated by the country's topography and pattern of population distribution. While nearly 80 percent of Jordan's population lives in urban areas in the

central and northern highlands, most of Jordan's surface water sources are captured from lower elevations of the Jordan and Yarmouk Rivers. The Disi Fossil Aquifer, which will supply water for the greater Amman area in the future, lies close to the border of Saudi Arabia. Thus these features make it essential to pump water for municipal and industrial (M&I) uses to higher elevations, and/or over long distances (320 kms from Disi to Amman) implying significant investment and operation costs for the country, which place strong demands on the budget, now and in the future.

The main sources of water in Jordan are surface water, groundwater aquifers, and treated wastewater (Table 3.2). Surface water in the Jordan Valley is mainly used for irrigation, but also supplies the capital through the Deir Allah Pumping Station. Groundwater aquifers in the highlands (which are mainly used for irrigation) are overdrawn, and a market has developed for the sale of water to Amman and other cities via tanker trucks. Additional sources of water supply will come from the following sources: the Disi Aquifer for Amman; Al-Wehdah Dam (under construction); the Wadi Mujib Dam and Conveyor; the Peace Treaty with Israel; the exchange of freshwater from the Yarmouk River, wadis, and springs for treated wastewater of adequate quality for use in agriculture, between the highland cities and agriculture in the Jordan Valley; water saving by rehabilitation of, and reduction of physical losses in the water supply systems of large urban centers; and brackish and sea water desalination in some areas. There are recent moves to revive the Red [Sea]-Dead [Sea] Project involving large-scale water transfers to the Dead Sea to retard the latter's decline. Hydropower generation and additional water desalination will be a part of the revenue earning streams in the Project.

Table 3.2. Uses and Sources of Water (1995)

Million m^3 per annum and percent

Uses			Sources		
Municipal	243	27.6%	Rivers	323	36.6%
Industrial	34	3.9%	Waste Water	58	6.6%
Agriculture	605	68.5%	Fossil Water	71	8.1%
			Groundwater	430	48.7%
			o/w overdraft	182	20 6%
TOTAL	**882**	**100%**	**TOTAL**	**882**	**100%**

Source: Minister of Water and Irrigation

Strategic Challenges

Aside from *water scarcity*, Jordan faces additional challenges in *institutional aspects* relating to water resource management, and the huge *financial requirements* of the Capital Investment Program for Water, and the operation and maintenance (O&M) of the water and wastewater network. Donor agencies have an ongoing dialogue with Jordanian officials regarding appropriate water sector reforms to improve the efficiency of the water and wastewater network. Faced with these challenges, the Government of Jordan has implemented several groundbreaking policy reforms, with the assistance of donor agencies, and has a future agenda to carry out further reforms, which will make Jordan a pioneer in the Middle East Region (MNA) in managing its scarce water resources.

Water Scarcity. The main challenges that face Jordan in the water sector are: the future water balance and water quality; irrigation and urban water use efficiency; groundwater overdraft; and wastewater treatment and use. Projections of the water balance for Jordan

show continuing water deficits through 2020, which require careful management of this scarce resource (Table 3.3).

Table 3.3. Water Supply and Requirements in Jordan, 1998-2020

Million m^3 per annum

Year	M&I Requirements	Agriculture Requirements	Total Requirements	Total Supply	Deficit
1998	342	863	1205	898	-307
2005	463	858	1321	1042	-279
2010	533	904	1435	1250	-186
2015	639	897	1536	1283	-254
2020	757	890	1647	1287	-360

Source: Water Sector Review Update, 2001

Jordan has less than 200 cubic meters (cu.m) of renewable freshwater availability per capita per year. This compares with the Middle East Region's average of 1250 cu.m per year of freshwater per capita (Table 3.4). Despite the rapid growth of the M&I sector, agriculture (which generates about 3 percent of GDP and 5 percent of employment) accounts for almost 70 percent of water consumption. Current water use in Jordan exceeds renewable supply, and the deficit is met by overdrawing of highland aquifers and the non-renewable Disi Aquifer [over 300 million cu.m (MCM) in 1998], leading to a falling water table and deterioration of *water quality*. The increase in projected water requirements is mostly due to growth in the M&I sector, which will more than double due to a rapid rate of population growth, a rising standard of living, and a rising share of industrial activity in the economy. Water requirements for agriculture will increase slightly, primarily as a result of the planned increase in cropping intensity in the Jordan Valley, while irrigated areas will remain nearly the same.

Table 3.4. Water Availability in Selected MENA Countries

	1960	1990	2025
	renewable resources per capita (m^3 per annum)		
Egypt	2251	1112	645
Israel	1024	467	311
Syria	1196	739	161
Jordan	**529**	**224**	**91**

Source: Jordan, Water Sector Review, Volume I.

Although irrigation conveyance and distribution efficiency in the pressurized network in the Jordan Valley is high, there is a considerable range to improve on-farm irrigation efficiency. Moreover, efficiency of the urban water system for M&I uses is low, and un-accounted-for-water (UFW) in the greater Amman network exceeds 50 percent due to an aging network and inefficiency in metering.

Groundwater aquifers in the highlands are overdrawn and abstraction needs to be reduced to ensure the long-term sustainability of aquifers and protect against salinization. In addition, the main fossil aquifer in Disi is used to irrigate cereal crops and fruit trees, and also to supply municipal water for Aqaba.

Finally, treated wastewater is re-used for irrigation, and the main wastewater treatment plant in Al-Samra near Amman is operating at 200 percent of design capacity, leading to inadequate treatment and high salinity. Furthermore, there is need for an overall strategy for wastewater treatment and use, including a regulatory mechanism for pricing and

allocation. Treated wastewater needs to be closely monitored to ensure its safety for use in agriculture and other uses.

The Government of Jordan has taken important measures to address these challenges. The Ministry of Water and Irrigation (MOWI) is currently preparing a Master Plan for water and wastewater resources, with the assistance of the German and Japanese aid agencies Gesellshaft für Technische Zusammenarbeit (GTZ) and Japan International Cooperation Agency (JICA). The Master Plan emphasizes the rapid growth of the M&I sector in the investment program, whose share in actual total water supply is projected to increase from 30 percent in 1998 to 52 percent in 2020. The Government has awarded a four-year performance-based Management Contract to a private company in 1998 for the operation of the water and sanitation system in the greater Amman area financed by a World Bank loan.

In irrigation, a pilot project has been initiated in the Jordan Valley to hand over O&M irrigation functions to water users. Efficiency of the pressurized irrigation conveyance and distribution system in the Jordan Valley will rise as more of the system is converted from open-channel to a pressurized system. In addition, on-farm irrigation efficiency will improve as more farmers convert to modern irrigation practices. Government policy also calls for a significant reduction in water abstraction in the highlands, mainly in agriculture: 90 percent of wells are already metered; the Government is considering volumetric charges for all water abstractions; groundwater monitoring has been transferred from the Water Authority of Jordan (WAJ) to MOWI; and a project has been completed with the US Agency for International Development (USAID) to implement a Groundwater Management Program through stakeholder participation in the Zarqa Basin. Wastewater available for reuse will increase nearly 3.5 times by 2020 as the Disi Conveyor Project goes online; a five-year Investment Program for Wastewater Treatment in the major cities has been prepared, and the main wastewater treatment plant in Al-Samra will be expanded and modernized by the private sector through a Build-Operate-Transfer (BOT) Project. Water quality standards have been re-assessed, and MOWI and the Ministry of Health (MOH) have a joint monitoring mechanism. Laboratories have also been upgraded and an early warning system for impurities is in place. Water quality in the Jordan Valley has to be closely monitored for possible downstream contamination from poor rural sanitation. Ongoing pilot projects and studies, supported by USAID, GTZ, French aid, and Canadian International Development Agency (CIDA), examine the options for use of treated wastewater in the Jordan Valley, growing salinity-tolerant crops, and on-farm water management. In addition, by requiring permits, progress has been made in controlling industrial effluent discharges into sewers.

The overriding objective of water resource management is to ensure the long-term sustainability of water supply (in terms of quantity and quality) for domestic water supply, industry, and agriculture. This requires continued emphasis in the investment program on M&I projects, ensuring that water for irrigation is not constrained below its present level, while at the same time capping the irrigated area at around its present level.

In the short-term (to end 2002), the Jordanian Government will consider the following measures: (a) the pilot project to improve irrigation efficiency in the Jordan Valley will be consolidated into an integrated program under the proposed Jordan Rift Valley Improvement Project; (b) continued efforts at metering groundwater abstraction in the

highlands, ensuring operational performance of the meters, enforcement of licensed quantities, volumetric tariffs, and stakeholder participation, need to be the focus in the future; (c) for both irrigated agriculture and M&I uses, demand management through raising water charges by WAJ and the Jordan Valley Authority (JVA) are on the agenda; (d) reducing UFW is the quickest and most cost-effective instrument for augmenting water supply in the greater Amman area, and the Government will consider expansion of Management Contracts for water and sanitation networks to other cities; (e) a strategy and guidelines, along with an action plan for treated wastewater re-use in agriculture and urban areas need to be formulated, based on ongoing pilot projects and studies; (f) regulations need to be expanded to cover industrial waste not discharged into sewers, regulations for the proper use of water tankers and household storage need to be strengthened, and a rural sanitation program in the Jordan Valley is needed; and (g) awareness campaigns on water conservation and quality issues will have to be strengthened.

In the medium-term (to end 2005), experience gained from the Zarqa Basin Project on strategies involving water users needs to be expanded into a national program for groundwater management. Any additional water should be made available for M&I use (except where this is not physically feasible), in which case it should be used to raise cropping intensity in existing areas, rather than increasing irrigated areas.

The Institutional Challenge. Institutional efficiency lies at the heart of water resource management. Improving the performance of water services is a strategic necessity, and strengthening the regulatory mechanism is critical. The main challenges that govern water resource management institutions are: restructuring the main agencies in the sector, WAJ and JVA; the role of MOWI; and the lack of an adequate regulatory framework for private sector participation in water resource management.

The three agencies responsible for water and wastewater resource management (MOWI, water resource strategy, planning, and development; WAJ, urban water supply; and JVA, irrigation), until recently had overlapping responsibilities for water resource planning and management. As a result, decision-making was fragmented and short-term in its outlook. WAJ and JVA independently proposed projects for the Capital Investment Program for Water, without any consideration for overall water availability or cost. The private sector had no role in urban water resource management, and farmers played no role in management of irrigation systems.

WAJ and JVA still lack full autonomy, and are overstaffed (except at the technical/managerial level), leading to low efficiency, and accumulation of financial deficits. JVA's mandate extends beyond water resource management in the Jordan Valley, and covers land management and tourism infrastructure, which taxes the human and financial capacity of JVA.

Water resource planning is concentrated in MOWI, with the participation of WAJ, JVA, and stakeholders. MOWI is probably the only agency in the region that has consolidated water management functions of water use in various sectors (M&I and irrigation). A National Security Council for Water has been established, with the Prime Minister as Chairman, and Minister of MOWI as Deputy Chairman, as well as five committees

(Policy, Quality, Irrigation, Dams, and Wastewater). In general, coordination of water management and stakeholder participation in MOWI decision-making has increased.

Other measures need to be considered by the Jordanian Government, but no action has yet been taken on them. These include: the restructuring of WAJ and JVA and increasing their accountability by introducing and monitoring performance indicators; strengthening management by contracting senior technical staff; and the possible downsizing of WAJ and JVA.

Experience in other countries shows that the best approach to improve efficiency in the water and wastewater sector is through the adoption of a commercial approach, increasing competition in the provision of services, and greater involvement of stakeholders. The Government of Jordan has already taken several steps to enhance the role of the private sector in water resource management. These include: awarding a private contract for the operation of the water and sanitation system in the greater Amman area; awarding a BOT Contract for the Al-Samra Wastewater Treatment Plant; and initiating a pilot project to hand over O&M functions of irrigation in the Jordan Valley to water user groups. As the role of private firms in developing and operating water sector infrastructure increases, the need for an enabling regulatory framework becomes more important to ensure compliance with quality standards, improving competition and consumer protection, provision of incentives to attract private investment, and establishing an efficient mechanism for water pricing.

In the short term, initial reforms in private sector participation need to be broadened to other cities and deepened through the following actions: (a) further private sector participation in water and wastewater management in the greater Amman area and other cities; (b) expanding/introducing the BOT and Build-Own-Operate (BOO) Contract approach for projects such as the Disi Conveyor, a northern conveyor, and wastewater treatment in Aqaba and the Jordan Valley; (c) expanding the pilot project in the Jordan Valley for water user groups to other irrigation areas and exploring the potential for private sector participation in water and irrigation services in the Jordan Valley; and (d) developing a regulatory framework for private sector participation in water supply and sanitation. In addition, JVA needs to focus on strategic aspects of water management in the Jordan Valley and divest retail irrigation services below pumping stations to water user groups or private entrepreneurs, and hand over regional development functions to other public institutions. JVA needs to modernize its accounting systems to improve efficiency and transparency of operations. Finally, JVA needs to review staff numbers and qualifications to identify the scope for restructuring and reduction, training, and/or redeployment of redundant staff.

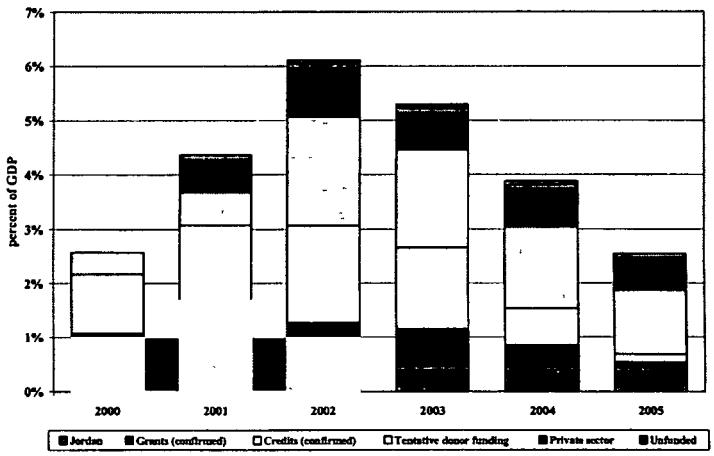
In the medium-term, water management agencies need to implement a Management Enhancement Program; authorities need to select an appropriate regulatory framework; and reassess the future role and restructuring of WAJ to take into account the increasing role of the private sector; and expand water markets for the voluntary transfer of water among users (from agriculture to urban uses).

The Financial Challenge. The main financial challenges in the water and sanitation sector relate to priorities of the investment program; financing of the investment program

by donors, the Government, and the private sector; and the financial viability of WAJ and JVA and cost recovery for urban and irrigation water.

Assigning priorities in the investment program is a contentious issue and implies sectoral water allocation. The investment program for the 2000-2005 period totals JD1.6 billion (US$2.3 billion), or about 4.2 percent of GDP per annum (Figure 3.1), and is front-loaded (planned investment would exceed 5 percent of GDP in 2002-2003). This puts tremendous pressures on the budget and makes the fiscal rationalization mention above a critical priority for Jordan. The investment program is ambitious in terms of its size, donor financing and budgetary constraints.

Figure 3.1. Investments in the Water



Irrigation and municipal water are subsidized in Jordan. This not only jeopardizes the financial viability of WAJ and JVA, but also provides little incentive for water conservation. WAJ incurred annual deficits in excess of JD35 million (US$50 million); consequently, it depends on Government transfers which average JD40 million per year, not only for debt service, but also to cover operating losses. Both the level and structure of the tariff, which are low and untargeted, need to be revised. JVA also depends on budgetary transfers to cover O&M costs, in addition to investment needs (the O&M cost, excluding depreciation, is 18 fils/m3, while JVA charges 15fils/m3, and collects 12 fils/m3, or 66 percent of cost). Accurate accounts are not available to determine actual revenues and expenditures of JVA.

The Capital Investment Program for Water has in large part been prioritized to emphasize M&I needs to reflect their contribution to the economy, but require large investment and operating costs.

Donor financing has been secured for 42 percent of the investment program, and an additional 31 percent has been tentatively identified from donors. The Government will fund about 11 percent, and the private sector is expected to finance 14 percent (2 percent not funded yet). It is expected that the private sector will fund projects similar to the first BOT project in Jordan, the Al-Samra Wastewater Treatment Plant.

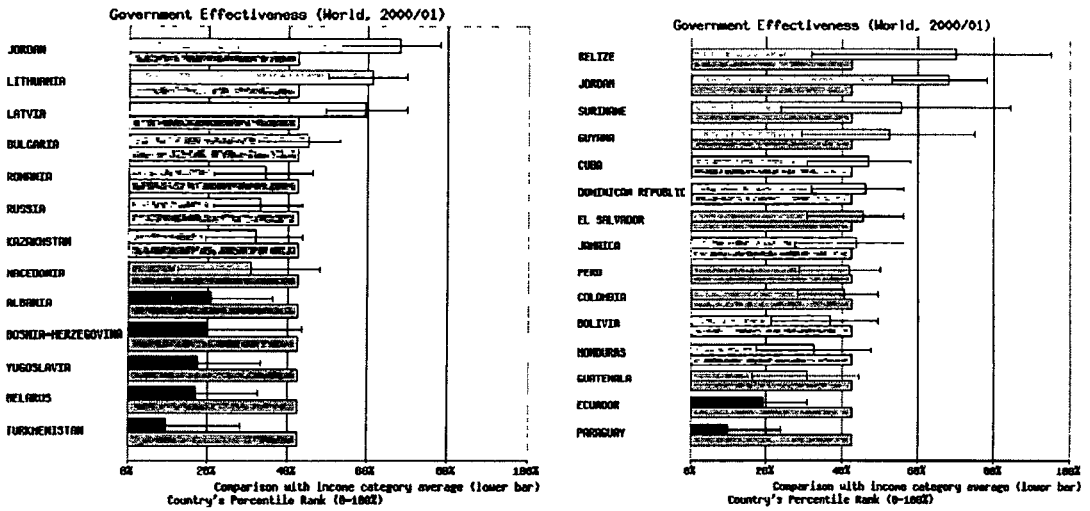
WAJ has increased water tariffs by an average of 12.5 percent in 1997, and the sewerage tariffs for Amman and Zarqa have increased by 12 percent in 1999. JVA has raised O&M charges from 6 to 15 fils/m3 in 1995. These charges represent progress, but are still way below cost, contribute to fiscal deficits, and do not provide adequate incentives for water conservation.

The structure and level of tariffs should be the main focus of MOWI. Tariffs need to cover the O&M costs of both WAJ and JVA, and the mechanism for revising tariffs should allow for more frequent but smaller increases. Further consideration should be given to the current WAJ's tariff and fee structures that encourage water conservation and increase revenues. Moreover, metering, billing, and collections need to be improved to raise efficiency and revenue. JVA needs to phase in a new tariff to recover at least its O&M costs. Furthermore, JVA needs to modernize its accounting system for efficiency and transparency. Annual reviews and updates of the investment program need to be carried out to reflect current realities on an ongoing basis. Private investment needs to be encouraged by expanding the BOT and BOO contract approach.

Public Sector Efficiency

Jordan's public sector performs well when compared to countries at similar levels of income along most dimensions of governance (Figure 3.2).[3] Jordan consistently stands near the top of lower, middle income countries – especially on measures for rule of law, government effectiveness, and the regulatory framework. Its position is relatively weaker, however, especially on voice and accountability when compared to countries in the same income categories that are not located in the region. In comparison to the MENA average, however, Jordan fares better on all governance issues.[4]

Figure 3.2. Jordan compared to lower middle-income countries in ECA and LAC

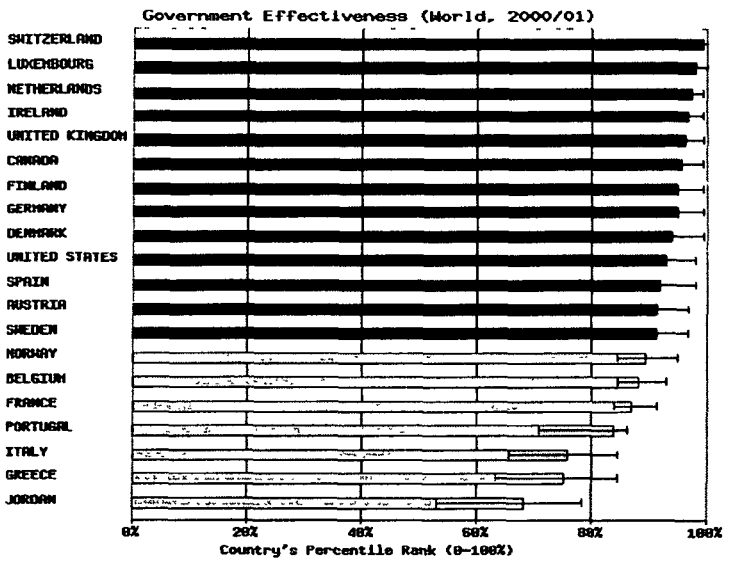


[3] World Bank Institute governance database.

[4] Jordan's rank varies according to specific indicators. In 'voice and accountability', Jordan leads the 18 MENA countries. In the realm of 'government effectiveness', Jordan comes third, behind Oman and Tunisia. In the 'regulatory framework' category, Jordan is also third, this time behind Bahrain and Tunisia. Concerning the 'rule of law' and the 'control of corruption' categories, Jordan is respectively sixth and fifth.

Although, clearly one of the best performers in its income group across the world, a comparison with OECD (Figure 3.3) countries indicates that Jordan still has some way to go. Public sector reform has been underway in Jordan for quite sometime. The sequencing of these reforms has, in the first stage, focused on devolution of the public sector in the economic sphere mainly through privatization. Despite the progress achieved in reducing the size of the public sector through privatization,[5] a large unfinished agenda remains. Given that Jordan is relatively a good performer in its cohort, it is poised to reap the benefits of reforms as long as it continues to prioritize the next set of reforms that will restructure the public sector to provide an enabling environment for private sector led growth and deliver services in core areas of responsibilities, effectively and efficiently. It should be noted that the ongoing reform of the public sector aims to raise government effectiveness to high-income country standards, by addressing, through administrative and judicial reforms, issues of transparency and accountability which while crucial for a well-performing public sector is an area where Jordan's performance is only average. Budgetary reform together with civil service reform also aims to improve service delivery and allow more efficient usage of the country's public sector assets.

Figure 3.3. Jordan compared to the OECD



Corruption. According to many external observers, corruption is low and efforts to control corruption in Jordan are notably better than the average for countries with similar incomes, a conclusion consistent with the CFAA and CPAR reports, and with an UNDP-commissioned review that corruption is not a major issue though nepotism or *wasta* is significant. Nonetheless, the Government established an Anti-Corruption Bureau in 1996 to help stop and prevent public corruption, and recent public administration reforms all move in the direction of reducing administrative discretion that is often the nursery for corruption and of holding civil servants more accountable to the public.

[5] Total government consumption as percentage of GDP was 26.6 percent in 1998, which while conforming to the MENA average, is high compared to other regions.

Key Issues Affecting Public Sector Efficiency

While civilian government employment[6] in Jordan is among the smallest in the region,[7] taken together with the military,[8] the Jordanian public sector has a higher ratio of public employment per capita than many other MENA countries except for the Gulf States, Egypt, Syria and Algeria, since civilian government employees constitute only half of the total public sector employment. Jordan's public sector wage bill (including the military) is high, compared to both the world average and that in the MENA countries, while the wage structure is very highly vertically compressed with estimates of vertical compression ranging from 4.3 to 5.8 times. Wages and salaries amount to approximately 12 percent of GDP,[9] which is significantly above the world average (5.4 percent of GDP) and as well as higher than most of the neighboring countries. This has resulted in excessive numbers of low skilled workers in the public sector. More importantly, while lower level staff compensation is noticeably higher than that in the private sector, compensation at the upper levels is much lower. Erosion of salary at the higher levels in recent years has made it difficult to attract and retain qualified higher level staff that has left to join the private sector or migrate to the Gulf countries.[10] For lower skilled workers' public sector jobs clearly pay better than private sector jobs and a large portion of the growth in public sector employment in previous years has been associated with recruitment in low-productivity jobs. Salaries need to be decompressed in order to retain higher level staff while keeping in mind that the high overall wage bill, discussed earlier already adds a certain rigidity to expenditures and should not be increased.

Centralization and rigidity of the control system appears to be one of the main factors hindering the Jordanian public sector's performance. Decision-making is largely confined to the cabinet and the highest rank of bureaucracy.[11] There is noticeable lack of decision-making in the bureaucracy, at all managerial ranks, except the very top. The public procurement system in the central government is highly centralized.[12] Financial reporting follows a system of controls that is based on multi-level reviews and committees that are

---

[6] These totals however do not include a potentially large number of foreign workers, mainly Egyptians. Estimates vary, but some put it as high as 120 thousand people.

[7] The Jordanian public sector employed over 242 thousand in 1998, equivalent to 5.8 percent of the population and 18 percent of the labor force.

[8] The active armed forces were estimated to employ 104,050 people in 1998. Paramilitary, such as the Public Security Directorate are estimated at 10,000, while the Civil Militia ("People's Army) another 20,000. Source: The International Institute for Strategic Studies The Military Balance Survey, 1998/1999

[9] Data taken from *Government Finance Statistics Yearbook*, IMF, 1999 and the Middle East North Africa Regional Live Database, The World Bank and Ministry of Finance.

[10] Jordanians hold important civil service positions in the countries of the region, especially in the Gulf, in a variety of occupations.

[11] This problem is not new nor is it confined to Jordan. A study of 52 executives from Jordan, Egypt, Kuwait, Lebanon, Saudi Arabia and the United Arab Emirates in 1980 demonstrated that out of a range of decisions comprising 7 that could be taken by the executives surveyed, 22 percent were likely to be their own, 55 percent a consultative decision, 13 percent a joint decision and only 10 percent based on delegation. See Farid Muna (1980), *The Arab Executive*, London: Macmillan.

[12] According to the Bank's CPAR " The system only delegates procurement authority to lower levels in the central government to award public contracts of relatively low value".

centered in high levels, follows rigid formats prescribed by detailed rules and regulations.[13] This centralized system of decision-making overburdens the relatively small pool of effective decision-makers.[14] The swift turnover of the Council of Ministers also interferes with the planning and control functions of line management. Delegation needs to be encouraged in order to improve performance with decisions being made at appropriate levels in order to be effective. The control system needs to move away from compliance to results.

Several reports testify to the existence of *wasta* or appointments on the basis of personal ties or patronage[15] in the civil service in Jordan. Since delegation to less-prepared managers is perceived to be fraught with risk, "ministers and prime ministers continue involvement in routine matters and are reluctant to send significant powers downward".[16] In addition as a result of senior appointments being made due to patronage, senior managers are under-prepared to assume a more pro-active role in decision-making. Planned reforms in the civil service where hiring is done on the basis of meritocracy will help to address this problem. The new civil service bylaw adopted in May 2002 containing provisions for meritocratic selection of senior managers together with the finalization of job descriptions for 58 public departments covering some 175,000 civil servants and a move to electronic posting of job openings as well as the pool of eligible applicants on line seek to address these issues.

It should be noted, however, that the incentive structure of the civil service does not encourage a service and performance culture. As discussed previously, salaries are noncompetitive, in addition to which jobs are secured and promotion is almost entirely by seniority.[17] In order to improve public sector performance, the incentives that drive this performance need to be changed.[18] Performance needs to be the criteria on which promotions are made in the civil service, rather than seniority. The lack of a performance culture in the civil service combined with a rigid control system leading to a proliferation of red-tape together with a dependence on mechanisms of public provision that have

[13] The Bank's CFAA (Oct 200, Pg2) reports that "financial reporting does not facilitate decision-making at various levels of government hierarchy, particularly in connection with the cost of the services provided by the Government and the linkage between the budget allocations and the targeted output of services."

[14] The CPAR, for example discusses the implications of this for the procurement system. As demands keep increasing, thus overburdening the centralized procurement system, exceptions are made to create special tender committees within ministries or autonomous authorities to handle procurement with unlimited authority over their projects even though they lack procurement experience and expertise.

[15] Since the eclipse of the Civil Service Commission, an independent body that appointed senior civil servants on the basis of merit and experience, Ministers now have more discretion to appoint their senior administrators on the basis of patronage.

[16] Dr. Jamil Jreisat's report on "Appraisal of Public Administration Reform in Jordan" on behalf of the German Technical Cooperation Project (GTZ), in December, 1997.

[17] Although, performance evaluations have been used in the past, for the non-highest levels of the civil service, the evaluations tended to be de-linked from actual performance, ascribing excellent performance to almost everyone.

[18] Although civilian government in Jordan is not overstaffed, the effects of previous non-meritocratic hiring means that obvious solutions such as redeployment in order to accommodate reorganization between and within ministries has a low potential for success in changing the performance of the public sector, unless incentives are changed.

continuing problems but remain unchanged is resulting in poor service delivery.[19] Reforms being undertaken now seek to establish a regular and more transparent system for evaluation and promotion of personnel with greater scope for dealing with unsatisfactory staff. Taken together with the approval of selective pay increases, especially for judges and health and education personnel, as well as the introduction of a new code of ethics for public employees adopted under the new civil service bylaw, seek to address the issue of a lack of incentives to perform that currently characterize the Jordanian public Sector. Publication of service directories in 25 (and soon to be 33) public departments (ministries as well as autonomous organizations) – which identify the available services, the time necessary for each transaction, the location of relevant offices, and the official cost of each service also seek to bring rapid improvements in service delivery which, if successful, should be replicated.

The existing system of checks and balances that can hold the public sector to be accountable needs to be allowed to fulfill its functions. External watchdogs in Jordan do not adequately fulfill their role. Although Jordan's constitutional monarchy differentiates the powers of each of the three branches of government, in practice, the executive branch dominates[20] over the other two branches, thus hampering oversight. In addition to expenditures, funds appropriation and allocation are exclusively made by the executive.[21] The Press and Publication Law contains provisions that are open to being used to restrict freedom of the press.[22] Around sixty percent of the newspapers and all broadcast media (radio and television) are government owned and operated by the Ministry of Information. Government officials frequently refuse to recognize NGOs or professional associations as independent agencies and require that they join government-based operations.[23] While the law maintains the independence of the judiciary, nonetheless,

[19] The Water Authority of Jordan (WAJ) has been a loss making entity from its inception and its annual deficit (net of depreciation and interest charges) alone exceeds 1 percent of GDP. Nearly 55 percent of water provided by WAJ is lost for a variety of reasons including theft and leakage. Similarly, over 45 percent of irrigation water provided by Jordan Valley Authority (JVA) is lost or unaccounted for mainly due to inaccurate metering, theft, and the agency's use of surplus water for flushing salt-build-up from the soil profile. Revenues from water sales do not even cover operations and maintenance (O&M) costs. The annual budget of JVA has averaged JD 16 million in recent years of which nearly JD 4 million is for recurrent expenses. Both water agencies in Jordan are substantially over-staffed, lack equipment and adequately qualified personnel, poorly maintain their equipment and have a low revenue collection due to improper enforcement. Policy and institutional changes are required to improve the service operation of both agencies. Information taken from Background Paper for Public Sector Review, 1999, World Bank.

[20] The executive branch of government has expanded its power base at the expense of the legislative and judicial branches.

[21] During the time-period when the National Assembly was not in existence the executive filled the vacuum, thus appropriating more power than granted under the constitution. In the last decade, the National Assembly has been reactivated. However HM King Abdullah has suspended Parliament since the second intifada commenced, citing the fact that discussions on the intifada was disrupting Parliament and little actual work was being done.

[22] The penal code, 1998/99 Press and Publications Law, the State Security Law, the Law for Protecting State Secrets and Documents, and the Contempt of Court law all contain provisions that may be used to restrict press freedom.

[23] The Jordanian Association of Certified Public Accountants, for example is not registered as an association. It is required to function under the umbrella of the government's audit bureau and has no power to censor or discipline auditors for professional violations which can only be reported to the government.

judicial authority is not exercised with complete independence from the Ministry of Justice. However, the Ministry has been drafting a law to transfer the remaining authority under the present system to the High Judicial Council, which if adopted would make Jordan's judiciary among the most independent in the Arab world. It is to be noted that judicial reform is high on the agenda of the Jordanians.[24] Although, the Audit Bureau is independent and reports directly to Parliament, it is forced to recruit from inside the civil service, since the salary scale is too low to attract trained specialists. Upon receiving training, many auditors leave for the better paying private sector.

Internal oversight acquires more urgency, when external oversight cannot function fully. However, internal oversight is hampered because of the system of controls as previously discussed and because of the lack of a process that evaluates the outcome of resources being used in the public sector. The system of controls, focuses on compliance rather than results and while strictly followed are nevertheless inadequate because they overemphasize the legal aspects of spending, instead of focusing their attention on enhancing the performance aspects of public agencies, and because the financial and administrative audit institutions lack true mandatory powers to make their decisions binding and obligatory.[25] Accountability in the budget process is also weak. The expectation that expenditure amounts maybe addressed later in the year, results in unrealistic budgets.[26] In addition, budget monitoring capacity is weak. In the past there has been no clear organizational arrangement for monitoring of total expenditure nor is there an adequate budget reporting system, to provide timely and accurate information with the same coverage and in the same format as the Budget.[27] A move towards a medium-term budget framework that provides a multi-year frame for the annual budget process is a move in the right direction. These reforms, should however, be cognizant of the complexity of the process involved and capacity requirements that are key to success. Reforms that slowly introduce the process of bottom-up sectoral medium-term expenditure programs with a results-oriented approach, starting with a few ministries is a more realistic way of addressing these problems.

---

[24] The MOP for the PSRLII identifies the following problems. "There still is inadequate predictability of judgments. The judicial process has yet to become fully efficient and the backlog of cases, while dealt with in a partial manner, is still a central issue. Others problems include the lack of transparency of judicial decision-making, the insufficient competency in matters of business law, broadly defined, the limited capacity to enforce judgments, the poor dissemination of legal information and the antiquated Ministry of Justice's processes and organization".

[25] The agencies also lack sufficient autonomy to insulate them from being influenced by the government agencies they are supposed to monitor (See CPAR 2001).

[26] A number of transfers between budget items during the year have also been part of practice in the past. This has been compounded by the ability of some ministries to obtain additional funds from the Minister of Finance during the year by way of advances which are not regularized or required to be repaid, at least until the following year or even later.

[27] The lack of timely information is also compounded by the delay in reconciling bank accounts, given that some appropriations (e.g. to Ministry of Defence and to most autonomous institutions) are paid by monthly transfer to ministry or institution bank accounts, which may be held in private banks. This lessens the ability to centrally monitor expenditure, and to assess the financial position of autonomous organizations requesting funding from the Budget.

The role of the Accounting Directorate[28] apart from approving and making payments of accounts has in the past been limited to preparing the historical financial statements, which differ from the Budget in their coverage and classification. Internal auditing is in the charge of the Ministry of Finance, which places internal auditors in the government units to act on behalf of the Ministry rather on behalf of the unit manager. The internal auditor's role is thus viewed as one intended to curb the manager's authority, as a result of which their suggestions get rejected by management.[29] Reforms that have eliminated redundant agencies involved in internal control and auditing directly address this problem and need to be built upon.

Conclusion

Efficient delivery of public services will improve the quality of life of all Jordanians, but particularly of the poor. Households and individuals will benefit from improve delivery of core public services (education, health, water) though more and better access, and increased quality. In addition, firms will benefit as an improved government will reduce institutional constrains. This will reduce transaction costs and increase certainty, thus fostering investment and growth.

Effective management of water resources, for instance, will be critical for development. Jordan has carried out significant reforms in the water and wastewater sector, and is among the pioneers in the field of water resource management in the Middle East. Reforms carried out so far are impressive. These reforms, however, need to be consolidated and deepened, and increasingly involve private investors and stakeholders in water resource management in order to improve water use efficiency as an essential ingredient in meeting the main long-term challenge, namely, making the most efficient use of its scarce water resources.

Public sector modernization in Jordan is timely and clearly needed, especially in light of the country's efforts at better integration into the global economy. Fortunately, it can be built on already reasonably solid base. The country has a reasonably well-functioning administration, a strong nucleus of committed high-level civil servants. The discipline and work ethic of government employees is better than in many developing countries.

Along the major components of good governance, Jordan consistently ranks near the top of countries at similar lower middle-income levels on measures of rule of law,

[28] Considerable resources are allocated to "pre-audit" of payments, to ensure that the Budget Law has been complied with. Apart from each ministry's financial controllers (who report to the Accounting Department of the Ministry of Finance), and internal auditors in each ministry, there is the Audit Bureau – the latter having around 550 staff. There is thus considerable duplication of this checking and many signatures are required before a payment can be made. However none has any explicit role in monitoring expenditure progress in relation to budget.

[29] In countries with advanced accounting systems, internal audit is 'an arm' of management and reports directly to the Chief Executive Officer of the entity. It is regarded as a review of the management process, effectiveness auditing being the most important of its duties

government effectiveness and the regulatory framework. Efforts to control corruption are significantly better than average, taking account of Jordan's income level. Its position is relatively weaker, however, on measures of accountability and participation. Accordingly, Jordan's public sector reform program aims at raising administrative effectiveness to higher-income country standards, by making use of the country's public sector assets while improving accountability and providing new openings for voice and participation[30].

Jordan's public sector reform program attempts to bring the public sector up to standards approaching those of high income countries, while addressing, through administrative reforms, issues of transparency and accountability. The reform is an effort to increase the effectiveness and quality of a broad set of public services. This is a long process already underway with the strong support of the World Bank.[31]

Adhering to the roadmap of the public sector reform proposals will increase the efficiency of the Jordanian public sector, improving the civil service, judicial and administrative structures of the government, while setting the foundation for solid budget management. This will reduce the drag the public sector imposes on the private sector and improve the prospects for further the development of the latter. Reform of the public sector will also increase efficiency in service delivery. Complementary measures will also be needed, in areas such as decentralizing government services and activities, especially to address local services for the poor, such as education and health. Better access of the poor to education and health services is needed since access is still below expectations and the quality of services is below that reached by affluent Jordanians.

An economy's efficiency, level of performance and comparative advantage are affected by the quality of the services provided by the government. Improving them and the way public institutions operate will reduce transaction costs and enhance the welfare of the population.

[30] The Key components of good governance are identified and discussed in the Bank's Board Paper "Governance and Development", 1992. Country rankings according to a variety of governance indicators are provided in Kaufmann, Daniel, Aart Kraay and Pablo Zoido-Lobaton, Governance Matters II: Updated Governance Indicators for 2000-01" (2002) http://info.worldbank.org/governance.kkz.

[31] Significant lending through a multi-year programmatic approach to support the reform of the public sector is taking place since 2001 through a series of public sector reform loans.

Chapter IV. Economic Outlook and Risks

Near-term Growth Prospects

As a small open economy, the external environment significantly affects Jordan. The global environment deteriorated sharply in 2001, particularly after the tragic events of September 11, 2001, but a recovery is expected to take root during 2002. This global cycle has the potential to depress Jordan's growth prospects below its capacity in the near term. The slower pace of world trade growth, subdued and selective foreign investor interest in emerging markets and the weak outlook of oil prices are the three key elements of the generally unsupportive external environment facing Jordan in the near-term.

Synchronized down turn in industrial countries and the bursting of the technology sector bubble decelerated the world trade volume growth by a record 14 percent in 2001 to one percent. It is expected to remain anemic at around 2 percent in 2002 and later rebound in 2003 to 8 percent. Though this world trade outlook points to a gloomy prospect for Jordan, there are three factors mitigating the adverse effects of this weak world trade growth on Jordan. First, though the global recession could depress demand for Jordanian exports, new opportunities have been created to improve Jordan's competitive edge through preferential trade arrangements with US. There are two channels for greater exports from Jordan to US: Qualifying Industrial Zones[1] (QIZs) and Free Trade Arrangements. In fact, exports from QIZs to US have been a major factor behind the dramatic rise in exports of 21 percent in 2001 in the face of slowest world trade on record since the oil crisis. A new Free Trade Arrangement with US has become effective in November 2001, which would progressively reduce tariff barriers faced by Jordan in the US market in four stages over the next 10 years. Second, The Euro-Med agreement ratified by Jordan in 1999, expected to be ratified by the last of remaining EU parliaments in the current year, carries significant potential for greater EU investment in Jordan and increased preferential exports of Jordanian industrial goods. Third, Jordan has declared the entire Aqaba governorate as a Special Economic Zone, effective from January 1, 2002 with a potential for foreign and domestic investors to operate in an area of lower business costs and preferential tax treatment for business income (5 percent versus 35 percent outside the zone) and selected personal consumption goods (7 percent versus 13 percent outside the zone).

Unlike world trade, the recovery in global private capital flows (bank loans, bond issues and portfolio flows) to developing countries is expected to be delayed beyond 2002 and become more selective, smarting from the successive financial crisis in East Asia, Russia and, lately, Argentina. In 2001 gross private capital flows to developing countries fell by

[1] Under the QIZ rules, export of goods from the qualifying zones which must originate with content from Israel (minimum 8 percent) and Jordan (minimum 12 percent) and 20 percent from either Israel, Jordan, Palestine or Qizs, enter the Unites States quota and duty free. In contrast, dynamic Asian exporters to US market still face MFA quotas until 2005 and tariff peaks up to 20 percent. A total of ten QIZs have been designated so far contributing to a total export of US$150 million in 2001.

nearly a quarter of the previous year's level to US$171 billion.[2] This diminished interest in emerging markets coupled with regional uncertainties could compel Jordan to rely more on official rather than private flows to bridge its financing gaps. The outlook on FDI flows to developing countries, less prone to cyclical swings and more sensitive to host country policies, point to a modest increase of 4 percent a year. With close to US$1.5 billion or more privatization potential in Energy, Mines, Airlines and Water sectors, a risk arising out of the placid outlook is that the pace of much needed foreign private investment in Jordan may not match the expectation of the authorities. However, official aid flows to Jordan, viewed as a strategic partner in the war on terrorism and the middle-east peace process is likely to compensate for the ebb of foreign private capital as, for example, US has indicated to double its aid to Jordan to US$250 million in 2002.

Weak demand and increasing non-OPEC supply capacity are expected to weigh down on oil prices keeping them at around US$20 per barrel in the next three years, down from the US$28 per barrel level of 2000. The weak oil prices are unlikely to support a boost in either demand for goods or workers from Jordan in the neighboring oil exporters. However, cheaper international oil prices could help Jordan to speed up the process of eliminating domestic price subsidies for petroleum products.

Domestic Policies and Medium-term Growth

Recent resilient growth over 4 percent in the face of global and regional weaknesses has been achievement hard won by a decade of resolute structural reforms and good economic management. Inflation has remained below 3 percent in the during 1997-2001 helped by the nominal anchor of the Dinar to the US dollar, current account balances have remained near balance or a small surplus over the same period and per capita GDP growth has been positive in the last two years (2000-01). Though the programmed fiscal deficit target slipped in 2001 (7 percent of GDP versus the revised programmed deficit of 6.8 percent), the authorities over performed in limiting expenditures[3] (as they have in the past), but the revenue target was missed because of "teething troubles" of implementing a new tax base for General Sales Tax and loss in non-tax revenues from mineral exports attributed to weak international prices. Active external debt management (Brady bond buy backs, negotiated swaps) has brought down external debt[4] to GDP ratio to 79 percent in 2001. The new Public Debt Law, enacted in 2001, seeks to eventually bind Jordanian external debt to a ceiling of 60 percent of GDP, a goal sought to be reached by 2006.

The near-term prospects for growth look better with growth moving higher in to the range of 5 to 6 percent, in part because of the special *non-debt creating* fiscal stimulus package-Program for Social and Economic Transformation (PSET)-expected to be implemented over the next five years. Inflation is expected to fall back to under 2 percent annual rate after a moderate increase in the current year because of increases in administered prices of petroleum products to eliminate subsidies. As the economy picks

[2] Net of amortization, the flows turned negative for the first time in 11 years to –27 billion US dollars
[3] Total expenditures as a ratio of GDP have been compressed by about 5% points in the last decade to 31%.
[4] Government and government guaranteed long-term external debt.

up momentum current account of balance of payments is expected to swing to moderate deficit after grants, staying under 1 percent of GDP. The need for government borrowing (after grants) is projected to gradually decline below 4 percent of GDP, in line with government's debt policy. However, a capital account financing gap at or above 2 percent of GDP is projected because of debt service obligations and the need to maintain reserves in line with targets agreed with the IMF. Table 4.1 presents the key macro economic variables underlying the medium-term projections.

Table 4.1. Medium-Term Economic Projections

	1991-95	1996-00	2001 (Prel.)	2002 (Prog.)	2003 (Projection)	2004
Real GDP (mkt. pr.) growth	7.2	3 1	4.2	5.1	6 0	5 8
Gross national savings/GNDI, cur. pr.	19 2	21.9	20.9	20 9	20 6	20 7
Gross fixed investment/GDP, cur. pr	29.3	25 8	25 9	26 5	26 3	26 6
Inflation (CPI), average for the period	4.2	2.8	1 8	3 5	2 4	1 8
Fiscal balance (central govt.), share of GDP						
Excluding grants	-5.3	-8.2	-7 0	-9.9	-10.1	-9 3
Including grants	-0 6	-4 2	-3.0	-4 1	-4 3	-3 9
Financing			3.0	4 1	4 3	3 9
Foreign (net)			1 2	2 0	0 9	1 5
Privatization (net)			-0.1	2.0	2 7	2 5
Domestic (net)			1.9	0 1	0 6	-0.1
Primary balance, including grants	4.9	0 6	1.4	0 0	0 1	-0 1
Fiscal revenues, share of GDP, percent	36.8	30.8	30.4	31 6	31 7	31 4
Fiscal expenditures, share of GDP, percent	35.7	35 2	34.2	35 7	36 0	35 3
Current account balance, including grants	-10 6	0.6	0 6	-0.3	-0.4	-0 8
External debt service on PPG/exports(gnfs)	18 9	22 9	19 7	20.3	20.6	19 7
External public debt/GDP, end period	102 0	91.8	79 4	76.4	71 2	66 4
Gross Domestic Debt/GDP, end period	19.5	20.1	21 9	20 3	19.3	17 8
Memo Items						
BOP Financing gap				2 2	2 9	3 6
Growth in exports, merchandise, percent	10 7	1 4	20.7	10 0	7 8	7 6
PSET spending, percent of GDP				2 9	3 7	3 5

Source: IMF and World Bank staff estimates.
Notes: PSET expenditures are included in fiscal expenditures shown.

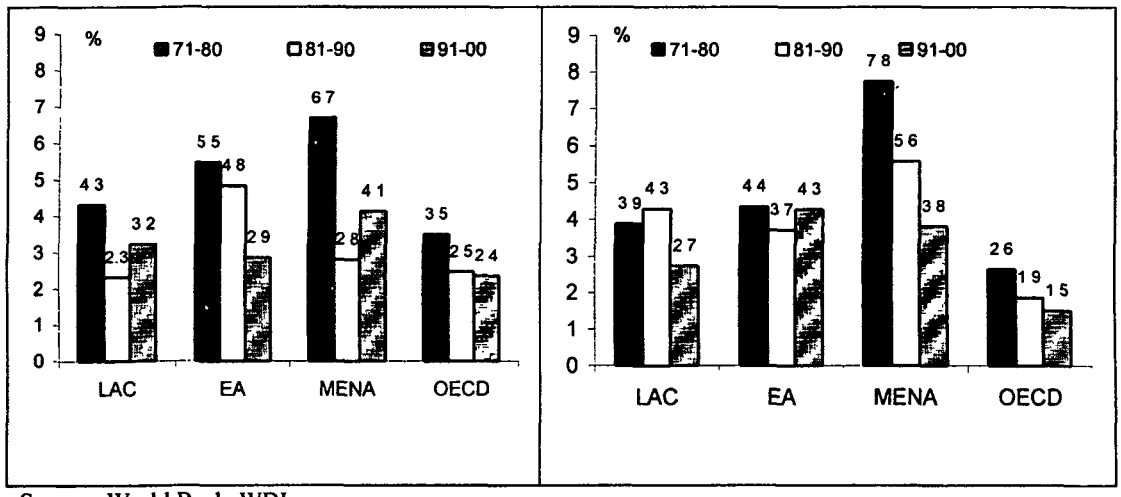
Living with Volatility

Due to its geographical location and to its limited natural endowments, the Kingdom of Jordan is constantly forced to do more than otherwise required to mitigate the impact of external shocks that affect the country.

Jordan, as with other countries in the region, has historically suffered from high volatility in output and other variables such as the external balances and consumption. In the 1970s and 1980s, output was more volatile in the MENA region than in the OECD, Latin

America or East Asia and the Pacific (Figure 4.1). Although aggregate output volatility has fallen in the 1990s, it still exceeds, by far, that of high-income countries, and the differences are even more pronounced for private consumption volatility.

Figure 4.1. Real GDP Growth (left) and Volatility (right), 1971-2000
(Regional medians)



Source: World Bank, WDI.

Jordan is no exception: Its relatively small economy is heavily exposed and vulnerable to regional shocks. In fact, several factors tie Jordan's fortunes closely to those of the surrounding Gulf region. A large number of Jordanians work as expatriate workers in oil producing countries and their remittances can amount to almost a fifth of Jordan's GDP. In merchandise trade, close to 40 percent of Jordan's exports and 24 percent of imports are with neighboring Arab countries. Budgetary and other capital flows from the Arab world have, in the past, been quite significant. Tourism receipts account for more than half of Jordan's domestic exports, contributing to 6 percent of GDP, and receipts fluctuate closely with peace conditions and the perception of risk in the region. Because all four influences are volatile, Jordan faces very high volatility in GDP growth. As a result, between 1975-1999, Jordan's per capita GDP growth was the most volatile among a group of comparator countries in and outside the MENA region, almost twice the group average (Table 4.2.). Jordan's volatility was also the highest with respect to private consumption, private transfers, and terms of trade, and ranked among the three highest in all other categories.

The volatility and economic uncertainty comes at a high cost, in particular for the poor and economically vulnerable. Many households in Jordan are clustered around the poverty line. Households already living close to consumption subsistence level will in bad years be thrown into absolute poverty, often with long-term consequences. Moreover, the poor are generally the least able to smooth consumption over time and reduce exposure to risk. They lack savings, access to credit markets, and are often limited in their access to government services and safety nets, especially in rural areas.

High volatility is also costly from a macroeconomic perspective. Volatility has been shown to depress economic growth rates through various channels. Investment is dampened because of much greater uncertainty, productivity is lowered, and the country's capacity to attract foreign investment is limited by the volatility. In addition, volatility complicates macroeconomic management and pro-cyclical fiscal and monetary policies have a propensity to amplify its effects.

Table 4.2. Volatility in Jordan and Selected Countries
(Standard Deviation 1975-1999)

	Per-capita GDP	Private Cons.	TOT (weighted by trade ratio)	Investment Growth	Budget	Govt. Cons.	M1	Export Growth	Private Transfers over GDP	FDI over GDP
Chile	5.8	7 4	40.46	27.3	2.1	2.2	1.0	0.062	0.002	1.7
Costa Rica	3.6	5.1	121.98	18 2	2.2	1.1	3.6	0.071	0 003	0 6
Egypt	3.1	3.7	139.56	15.3	6.2	4.6	9.8	0.085	0 031	0.7
Morocco	5.1	6.0	72.66	16.2	4.5	2.0	..	0.106	0.010	0.3
Philippines	3 8	1.8	86 47	14.6	1.6	1.4	1.7	0.113	0.003	0.3
Tunisia	2.7	3.4	91.00	11.4	1 7	1.3	3.7	0.070	0.006	0.6
Turkey	3.9	5.6	22.97	17.1	2.2	1 8	4.9	0.079	0.006	0.1
Uganda	3.3	4.2	113.40	13.7		1.8	3.2	0.156	0.025	0.3
Venezuela	3 9	4.9	96.69	28.9	2.9	2 1	5.0	0.083	0.003	1.2
Jordan	**7.8**	**9.3**	**153.38**	**20.9**	**5.5**	**3.2**	**7.8**	**0.129**	**0.037**	**0.9**
Rank	**1st**	**1st**	**1st**	**3rd**	**2nd**	**2nd**	**2nd**	**2nd**	**1st**	**3rd**
Group Avg.	**4.3**	**5.1**	**93.86**	**18.4**	**3.2**	**2.1**	**4.5**	**0.095**	**0.013**	**0.7**
Group Med.	**3.8**	**5.0**	**93.85**	**16.7**	**2.2**	**1.9**	**3.7**	**0.084**	**0.006**	**0.6**

Source: The World Bank (2001), *Jordan - Sources of Growth*

There are several reasons behind the high fluctuations in Jordan and the region. First, countries in the MENA region remain relatively undiversified and dependent on a few export markets or commodities that often experience strong fluctuations in relative prices. Oil prices in particular have tended to cause sharp fluctuations in fiscal and external accounts, either through direct dependence on oil revenues or through strong linkages between oil producers and other countries in the region through trade, financial and labor flows, including workers' remittances. Moreover Jordan, as with other countries in the region, is subject to frequent droughts, which in turn produces sharp cuts in rural incomes and agricultural production. In addition, Jordan is affected by the unstable security situation, either directly, by association, or through the various economic linkages within the region. The security situation has affected the tourism industry, FDI prospects, trade and labor markets. For example, the Gulf war in the early 1990s had a negative impact on tourism, but also a strong effect on labor markets in Jordan through returning migrants.

External Political Environment. The external political environment of Jordan is also quite complex. Jordan needs to maintain good relations with Iraq, its principal trading partner and sole supplier of oil.[5] At the same time, however, Jordan must balance this

[5] Iraq supplies oil to Jordan on preferential terms equal to effective savings of about 5 percent of GDP.

relationship against its commitments and alliances with the West, particularly with the US. Simultaneously, Jordan needs to balance its relationship with Israel. Nonetheless, the lack of any perceived dividend from the 1994 Israel peace treaty, combined with high popular sympathy for the current *intifada*, creates internal tensions that are often difficult to contain and this, in turn, further complicates Jordan's relations with the wider Arab world.[6] In spite of these difficulties, Jordan represents a consistent force for peace and modernization in the region.

Risks

Despite the fact that Jordan is doing well in a period of great uncertainty, there are risks that the economy can face. These include the potential for regional instability, domestic political factors, external shocks and the macro vulnerability associated with the still high public debt and fiscal deficits.

Regional Instability. Unexpected turns in regional political events continue to be a major source of risk for Jordan. Though Jordan's economy has shown resilience to the intensification of Israeli-Palestine conflict, this may be tested in new ways. For example, if the conflict is allowed to deteriorate triggering yet another wave of refugee arrivals, social pressures could test the economy and polity. Also, foreign private investor interest may also dwindle in such a scenario. Jordan's economy is intrinsically linked with progress on the Middle East peace process. Improved prospects for peace offer Jordan opportunities for increased trade, greater mobility of labor and capital, and an improved environment for foreign investment and tourism. Similarly, the possible expansion of the war on terrorism to Iraq can also test the vulnerability of Jordan to its dependence on subsidized Iraqi oil (about 5 million tones of which Jordan received roughly half free and other half below market price). Estimates by the IMF suggest that a military action against Iraq could reduce fiscal grants by 4.5 percent of GDP, thus jeopardizing the fiscal stance, and widen the current account deficit to 4.5 percent of GDP over the medium-term. In the absence of a strong policy response the fiscal and current accounts deficits could become unsustainable.

Domestic Political Developments. Though the smooth transition in monarchy after the death of H.M. King Hussein in 1999 is an encouraging sign of the stability of domestic political system, the make-up of the new parliament to be elected in September 2002 may have implications for the structural reform process. The younger segment of males, whose unemployment rates have persisted above 20 percent despite reforms, have acquired voting rights under the new Election Law which lowered the voting age to 18. Unless the fruits of reforms are distributed more equally and immediately, the internal political strains may aggravate. H.M. King Abdullah and his advisers are keenly aware of this issue, and responded positively by announcing the stimulus package mentioned earlier.

[6] Syria, for instance, has been calling for Jordan (and Egypt) to sever its relationship with Israel.

External Shocks. Negative shocks from abroad (loss of export market, for example) have the potential to affect Jordan's economic performance. The ability of authorities to deal with negative real shocks from abroad is in part circumscribed by the policy of nominal anchor of the Dinar to the US dollar. This handicaps the ability to correct episodes of real exchange rate overvaluations swiftly because the alternative of working through real sectors is inherently a slow process. Jordan is also highly dependent on worker's remittances, grants and oil prices. While the country has steadily built up its foreign exchange reserves, these can dwindle quickly in the face of external shocks.

Deficits, Public Debt and Aid Dependence. The relatively large size of public sector debt is a potential source of vulnerability for Jordan. Though, as noted earlier, Jordan had recent success in lowering its external debt burden, its current fiscal stance is weak as it still depends on foreign aid (about 4 percent of GDP per annum) that is given largely for strategic reasons. If strategic interests shift unexpectedly, Jordan's donor interests may not continue, immediately stressing public programs and macroeconomic stability. Aid dependency will be increased with the spending associated with the PSET.

ANNEX 1. FISCAL SUSTAINABILITY

Fiscal sustainability is essential to maintain macroeconomic equilibrium. Given the large fiscal deficits (before grants) that Jordan faces, at 7 percent of GDP in 2001, and non-negligible after grants deficits as well, at 3 percent of GDP in 2001 is the country's fiscal stance sustainable? To answer this question, we did a fiscal sustainability exercise which indicates that the current fiscal stance is indeed sustainable as long as the Jordanian authorities achieve moderate to large increases in real GDP and continue to obtain concessional financing (low interest rates of public debt) and external grants (see Table A1). However, fiscal sustainability is by no means guaranteed, as there are some important risks that could jeopardize it. Moreover, a stronger fiscal effort is still needed to reduce the debt to GDP ratio, currently at around 96 percent of GDP.

Table A1. Required Primary Balance for Fiscal Sustainability
(percent of GDP)

Real growth rate (%)	Nominal interest rate (%)							
	5	6	7	8	9	10	11	12
3	-1 5	-0.6	0.3	1.2	2.1	3.0	3 9	4 8
3.5	-2.2	-1.2	-0.3	0.6	1.5	2.4	3.3	4 2
4	-2.8	-1.8	-0.9	0.0	0.9	1 8	2.7	3.6
4.5	-3.3	-2.4	-1.5	-0.6	0.3	1.2	2.1	3.0
5	-3.9	-3.0	-2.1	-1.2	-0.4	0.5	1 4	2.3
5.5	-4.5	-3.6	-2.7	-1.8	-1.0	-0.1	0.8	1.7
6	-5.1	-4 2	-3.3	-2.4	-1.5	-0.7	0.2	1.1
7	-6 2	-5.4	-4.5	-3 6	-2.7	-1.8	-1 0	-0.1

Note: The fiscal sustainability exercise assumes an initial net public debt level of 96 percent of GDP, steady state inflation of 2 percent and a monetary base level of 31 percent of GDP. Simulations are made over a grid of interest rates and read GDP growth to calculate the sustainable primary balance.
Source: World Bank staff calculations.

The main sources of risks include:

Declining external grants. Jordan receives a sizable amount of external grants both in cash and in kind, amounting to close to 5 percent of GDP. Budgetary grants in 2001 represented 4.2 percent of GDP. As a result, the primary balance (after grants) was in surplus at 0.5 percent of GDP rather than with a deficit of 3.7 percent of GDP. Fiscal sustainability, under current conditions, will be achieved with a primary deficit of up to 2.8 percent of GDP. External grants play a critical role in maintaining fiscal sustainability. Without them, the current fiscal stance will not be sustainable. While external grants are expected to continue, their presence is both a blessing and a curse, facilitating both the adjustment but at the same time creating a strong dependency on aid.

Higher cost of public borrowing. Jordan is fortunate that, despite high existing public debt, interest payments place a relatively low burden on the budget, at about 4.2 percent of GDP in 2001. This is mainly because most of the public debt is multilateral or bilateral and is on highly concessional terms. The effective interest rate facing the government is only about 5 percent, which is less than half the borrowing cost

on international or domestic markets.[1] If prospects for concessional lending diminish and if Jordan is pushed toward market-based rates, the cost of financing could increase significantly for Jordan, which would worsen the budget balances and the debt situation. A one percent increase in the assumed nominal interest rate would require a 1 percentage point increase in the fiscal balance to GDP ratio needed to maintain the current debt to GDP ratio.

Weak growth performance. The Jordanian economy finds itself in a low-growth trap. The average growth rate of real GDP between 1996-2001 was only 3.2 percent. Several factors constrain the growth performance, including exposure to external shocks, weak private investment, falling investment efficiency, and export competitiveness problems.[2] The benchmark scenario above assumes that authorities will be able to address these profound challenges sufficiently in order to substantially lift the steady state growth performance. However, despite the mild pick-up in growth rates over the last two-years, lifting growth rates to a steady state of 6 percent is still only in the horizon. Therefore, there is a plausible risk of steady state growth remaining low. A one percentage point drop in the assumed growth rates requires a 1.3 percentage point higher steady state fiscal balance to GDP ratio in order to maintain the same level of debt to GDP ratio.

Insufficient fiscal tightening. The revised fiscal program envisages a 3 percentage point improvement in the overall balance (excluding grants) by 2006. The focus of the fiscal adjustment would be on the expenditure side, with government expenditure as a share of GDP falling by almost 2 percentage points over this period. However, the risk that the proposed tightening of government expenditures may not take place cannot be discounted. About 70 percent of the current government expenditure goes to wages, pensions, interest payments, and military spending – all of which have proven to be relatively inflexible in the past. In particular, pension expenditures have increased at a worrying rate of over 9 percent per annum since 1995. The deficit of the pension system is 4 percent of GDP and could potentially add significantly higher pressures on the deficit if previous trends are maintained. Pension reform is the single most important policy issue to improve the fiscal stance.

Declining seignorage revenues. There is a conceivable risk that assumptions about demand for the Jordanian Dinar remaining robust may not play out. Under the benchmark scenario, the monetary base to GDP ratio is projected to remain at its existing level of 31 percent, as a result of which seignorage revenues are projected to be significant (about 1.5 percent of GDP in the steady state) despite low expected inflation rates. The authorities currently have credibly pegged the JD against the dollar. However, if at any time the public deems this peg not to be credible—in response to either external or policy shocks or simply shifts in risk perceptions—then demand for the JD could weaken sufficiently to cause a drop in the monetary base or/and an increase in the inflation rate. A lower monetary base would hurt the sustainability situation via lower

[1] The yield on Jordan's Brady Bonds stood at 10.9 percent as of Nov. 1, 2001. The commercial bank lending rate was 11.8 percent as of end-2000.
[2] "The Hashemite Kingdom of Jordan: Sources of Growth," World Bank report, 2001.

seignorage, while higher inflation would weaken Jordan's creditworthiness and increase the cost of financing for the government if the government were to move to market-based financing.

Table 1. Sectoral Origin of Gross Domestic Product
at Constant 1985 Prices, 1996–2001

	1996	1997	1998	1999	2000	Prel. 2001
			(In millions of Jordanian dinars)			
Agriculture	203	186	210	148	158	160
Mining	120	135	138	142	140	145
Manufacturing	547	606	662	694	735	771
Electricity and water	104	110	113	120	125	128
Construction	286	263	218	234	238	265
Trade and services	537	565	484	508	551	576
Transport and communications	605	615	731	778	814	860
Government services	706	729	743	767	818	832
Other services 1/	928	973	1,013	1,040	1,065	1,104
Real GDP at basic prices	4,034	4,180	4,310	4,431	4,643	4,839
Net indirect taxes	689	700	718	751	748	353
Real GDP at market prices	4,724	4,880	5,028	5,182	5,391	5,616
			(Annual percentage changes)			
Agriculture	3.5	-8.5	13.0	-29.3	6 4	1.0
Mining	1.4	13.1	1.8	2.8	-1.3	4.1
Manufacturing	-7.9	10.8	9.3	4.9	5.8	4.9
Electricity and water	5.1	5.9	2.6	6.6	4.0	2 2
Construction	-3.7	-7.9	-17.0	7.0	1.9	11 1
Trade and services	5.5	5.2	-14.3	5.0	8 6	4.4
Transport and communications	8.9	1.6	18.8	6.4	4.6	5.6
Government services	2.7	3.2	1.9	3.3	6.6	1.7
Other services 1/	2.7	4.9	4.1	2.7	2.4	3 7
Real GDP at basic prices	1.9	3.6	3.1	2 8	4.8	4.2
Net indirect taxes	2.9	1.6	2.5	4.7	-0.4	3.9
Real GDP at market prices	2.1	3.3	3.0	3.1	4.0	4.2
			(Sectoral contribution in percent)			
Agriculture	0.2	-0.4	0.6	-1.4	0.2	0.0
Mining	0.0	0.4	0.1	0.1	0.0	0.1
Manufacturing	-1.2	1.5	1.3	0.8	0.9	0.8
Electricity and water	0.1	0.2	0.1	0.2	0.1	0.1
Construction	-0.3	-0.6	-1.1	0.4	0.1	0.6
Trade and services	0.7	0 7	-1.9	0.6	1.0	0.5
Transport and communications	1.3	0.2	2.8	1.1	0 8	1.0
Government services	0 5	0.6	0.3	0.6	1.1	0.3
Other services 1/	0.6	1.1	0.9	0.6	0.6	0.8
Real GDP at basic prices	1.9	3.6	3.1	2.8	4.8	4.2

Sources: Department of Statistics; and Fund staff estimates.

1/ Comprises finance, insurance, real estate and business services; community, social, and personal services; nonprofit services to households; domestic services of households; and an imputed bank

Table 2. National Expenditure Accounts at Current Prices, 1996–2000

	1996	1997	1998	1999	Prel. 2000
	(In millions of Jordanian dinars)				
Total consumption	4,657	4,960	5,478	5,348	5,964
Government	1,204	1,313	1,367	1,387	1,503
Other	3,453	3,648	4,111	3,961	4,461
Gross fixed investment	1,445	1,325	1,190	1,354	1,532
Government	543	497	544	733	...
Other	902	828	646	621	...
Change in stocks	52	-3	36	98	98
Gross domestic expenditure	6,155	6,282	6,703	6,800	7,595
Net exports of goods and non-factor services	-1,243	-1,144	-1,093	-1,033	-1,603
Exports	2,597	2,533	2,516	2,505	2,507
Imports	-3,840	-3,677	-3,609	-3,538	-4,110
GDP at market prices	4,912	5,138	5,610	5,767	5,992
	(In percent of GDP)				
Total consumption	94.8	96.5	97.6	92.7	99.5
Government	24.5	25.5	24.4	24.0	25.1
Other	70 3	71.0	73.3	68.7	74.5
Gross fixed investment	29.4	25 8	21.2	23.5	25.6
Government	11.1	9.7	9.7	12.7	...
Other	18.4	16.1	11.5	10 8	...
Change in stocks	1.1	-0.1	0.6	1.7	1.6
Gross domestic expenditure	125.3	122.3	119.5	117.9	126.7
Net exports of goods and non-factor services	-25.3	-22.3	-19.5	-17.9	-26.7
Exports	52.9	49.3	44.8	43 4	41.8
Imports	-78.2	-71.6	-64.3	-61.3	-68.6
Memorandum items:					
Gross domestic savings	5.2	3.5	2.4	7 3	0.5
Net factor income from abroad (in millions of Jordanian dinars)	-112	-47	-6	-9	95
GNP at market prices (in millions of Jordanian dinars)	4,800	5,090	5,604	5,759	6,088

Sources: Department of Statistics; and Fund staff estimates.

Table 3. Central Government Fiscal Operations, 1997–2001

	1997	1998	1999	2000	Prel. 2001
	(In millions of Jordanian dinars)				
Budgetary revenue and grants	1,620	1,681	1,771	1,783	1,903
Budgetary revenue	1,395	1,478	1,572	1,534	1,638
Tax revenue	798	859	884	962	1,020
Nontax revenue	597	620	688	572	618
Foreign grants	225	203	199	249	265
Budgetary expenditure	1,775	2,044	2,000	2,018	2,101
Current expenditure	1,488	1,685	1,636	1,722	1,776
Of which: interest	238	237	271	298	264
Capital expenditure	287	314	299	289	326
Net lending	-1	45	65	7	0
Budget balance, before grants	-380	-566	-428	-484	-463
Privatization account spending	0	0	0	-20	-42
Net change in non-treasury accounts 1/	26	29	27	-28	10
Overall fiscal balance before grants	-354	-537	-402	-532	-495
Overall fiscal balance after grants	-129	-334	-203	-283	-230
Financing	165	416	179	461	230
Foreign (net)	95	95	95	95	95
Net loans	-151	-161	-66	-138	-43
Loans	166	94	197	53	202
Repayments	317	255	263	192	244
Debt rescheduling/restructuring 2/	246	256	161	233	137
Budgetary privatization receipts	3	0	0	426	-6
Domestic (net)	68	321	84	-60	142
Banking system	-78	461	126	-38	178
Nonbanks 3/	146	-140	-41	-22	-37
	(In percent of GDP)				
Budgetary revenue	26.9	26.2	27.3	25.6	26.2
Foreign grants	4.3	3.6	3.4	4.2	4.2
Budgetary expenditure	34.2	36.2	34.7	33.7	33.6
Budget balance before grants	-7.3	-10.0	-7.4	-8.1	-7.4
Overall fiscal balance before grants	-6.8	-9.5	-7.0	-8.9	-7.9
Overall fiscal balance after grants	-2.5	-5.9	-3.5	-4.7	-3.7
Primary balance	2.1	-1.7	1.2	0.2	0.5
GDP at market prices (JD millions)	5,193	5,643	5,767	5,992	6,260

Sources: Ministry of Finance; and Fund staff calculations.

1/ The net change in non-treasury accounts corresponds to the statistical discrepancy between the budget deficit measured from above-the-line and the financing data

2/ Includes change in deferred payments.

3/ Includes the change in the float.

Table 4. Outstanding Gross Domestic Government Debt, 1998–2001

	1998	1999	2000	Prel. 2001
	(In millions of Jordanian dinars)			
Treasury bills and bonds	238	330	480	740
Banking system	184	319	412	629
Central Bank of Jordan	4	4	0	0
Commercial banks	180	315	412	629
Nonbank	54	11	68	111
Development bonds	156	137	172	160
Banking system	80	74	85	69
Central Bank of Jordan	26	22	16	7
Commercial banks	54	52	69	62
Nonbank	76	63	87	91
Loans and advances	613	422	468	361
Banking system	588	401	391	351
Central Bank of Jordan	509	322	272	272
Commercial banks	79	79	119	79
Nonbank	25	21	77	10
Total central government domestic debt	1,007	889	1,120	1,261
Banking system	852	794	888	1,049
Central Bank of Jordan	539	348	288	279
Commercial banks	313	446	600	770
Other holders	155	95	232	212
Own-budget agencies	112	135	83	108
Total central government and own-budget agencies domestic debt	1,119	1,024	1,203	1,369
	(In percent of GDP)			
Treasury bills	4.2	5.7	8.0	11.8
Development bonds	2.8	2.4	2.9	2.6
Loans and advances	10.9	7.3	7.8	5.8
Total government domestic debt	17.8	15.4	18.7	20.1
Own-budget agencies	2.0	2.3	1.4	1.7
Total, including own-budget agencies	19.8	17.8	20.1	21.9

Source: Central Bank of Jordan.

Table 5. Monetary Survey, 1997–2001

(In millions of Jordanian dinars)

	1997	1998	1999 1/	2000	2001 Mar	Jun.	Sept	Dec.
Net foreign assets	2,267	2,375	3,003	3,852	3,886	3,934	4,048	3,992
CBJ	2,272	2,001	2,425	2,848	2,799	2,700	2,701	2,651
Deposit money banks	-5	374	579	1,004	1,087	1,234	1,347	1,341
Net domestic assets	3,310	3,652	3,744	3,582	3,652	3,778	3,691	3,874
Claims on government (total, net)	498	1,052	1,157	1,071	1,115	1,225	1,205	1,275
Claims on government (net, general budget) 2/	598	1,033	1,199	1,174	1,209	1,298	1,265	1,336
Claims on municipalities and local governments	0	1,106	0	0	0	0	0	0
Claims on Social Security Corporation	0	1,033	0	1	0	0	2	0
Claims on nonfinancial public enterprises	425	303	308	317	314	308	300	284
Claims on financial institutions	129	71	78	80	76	76	81	79
Claims on the private sector	3,535	3,873	4,062	4,244	4,373	4,562	4,663	4,724
Other items (net)	-1,277	-1,647	-1,862	-2,130	-2,226	-2,392	-2,561	-2,488
Of which capital and reserves	1,148	1,271	1,411	1,516	1,511	1,575	1,554	1,583
Broad money	5,577	6,026	6,748	7,435	7,538	7,712	7,739	7866
Currency	988	953	1,107	1,240	1,188	1,232	1,204	1202
Deposits	4,589	5,074	5,641	6,195	6,350	6,480	6,535	6664
Demand deposits	773	809	831	963	1,022	1,180	1,142	1167
In Jordanian dinars	655	661	671	787	835	981	907	917
In foreign currency	118	148	160	176	187	199	235	250
Time and savings deposits	3,816	4,265	4,810	5,232	5,328	5,300	5,393	5497
In Jordanian dinars	3,095	3,280	3,687	3,825	3,881	3,841	3,789	3926
In foreign currency	721	985	1,123	1,407	1,447	1,459	1,604	1571
Memorandum items								
Total resident deposits in foreign currency	839	1,133	1,283	1,583	1,634	1,659	1,839	1821
Ratio of foreign currency deposits to total deposits (percent)	18 3	22.3	22 7	25.6	25 7	25 6	28 1	27 3
Velocity of end-of-period money stock	0 93	0 93	0 85	0 75				0.79
Velocity of average money stock	0 97	0 96	0 90	0.78				0 81
Velocity of Jordanian dinar money	1 10	1 15	1.06	0 95				1 03

Sources: Central Bank of Jordan, and Fund staff estimates

1/ Reflects revised classification of public sector institutions (see EBS/99/180, Appendix VI)
2/ Including deposits of the United Nations Compensation Commission

Table 6. Balance of Payments, 1997–2001 (concluded)

(In millions of U.S. dollars)

	1997	1998	1999	2000	Prel. 2001
Financing	-274	119	-622	-929	100
Increase in net foreign assets (-) 6/	-704	-180	-926	-1198	-185
Central bank	-456	355	-637	-665	290
Commercial banks	-248	-535	-289	-533	-475
IMF (net)	111	23	39	-11	-13
Purchases	133	32	75	20	39
Repurchases	22	9	36	36	51
Arab Monetary Fund (net)	27	10	-14	-17	1
Exceptional financing	293	267	279	297	297
Debt rescheduling 7/	296	227	244	200	204
Change in deferred payments	-4	39	32	0	0
Debt relief from debt swaps 8/	...	...	3	97	93

Source: Data provided by the Jordanian authorities

1/ Remittance from Jordanians working abroad.

2/ Includes transfers from foreign private aid organizations and transfers from/to abroad by Jordanians.

3/ Transfers from the United Nations Compensation Commission to Jordanian's awarded compensation for losses and damages in relation to the Gulf war.

4/ Includes estimated transfer of savings held abroad by Jordanians and debt forgiveness

5/ Includes estimated re-transfer of money to the WBGS, which was once remitted by Palestinian workers abroad and deposited at banks in Jordan.

6/ Excludes changes in the liabilities of the CBJ to the IMF.

7/ Cost of cash buy-back operations and the face value of debt amortized through swap operations.

8/ Difference between face value and the cost of debt swap operations.

Table 7. Merchandise Imports, 1997–2001

	1997	1998	1999	Prel. 2000	Sep 2001
		(In millions of U.S. dollars)			
Food and live animals	761	751	683	747	733
Beverages and tobacco	23	33	38	47	53
Raw materials	118	125	119	146	149
Petroleum and petroleum products	541	355	450	718	702
Oil products	131	101	156	143	114
Crude oil	410	254	311	526	544
Volume (1000 barrels)	25,044	25,850	25,621	27,571	28,389
Unit price (in U S. dollars per barrel) 1/	16	10	12	19	19
Oils and fats	137	81	63	56	54
Chemicals	477	488	471	493	534
Manufactured goods	625	615	552	696	934
Machinery and transport	1,148	1,096	1,022	1,313	1311
Other manufactures	209	247	255	255	288
Other imports	61	38	64	125	93
Total imports (customs), c.i.f.	4,102	3,828	3,717	4,597	4,844
Of which non-oil imports	3,560	3,470	3,249	3,860	4,142
Total imports (BOP), c.i f. 2/	4,099	3,826	3,699	4,577	4,812
		(Annual percentage changes)			
Food and live animals	-21 3	-1.4	-9 0	9	-2
Beverages and tobacco	37.4	40.0	17.1	23	12
Raw materials	-9.5	5 6	-4.8	23	2
Petroleum and petroleum products	3.1	-34.4	26.7	60	-2
Oil products	-17 7	-23.2	38.7	-8	-20
Crude oil	12.1	-38.0	28.3	69	3
Volume (1000 barrels)	4.2	3.2	-0 9	8	3
Unit price (in U.S. dollars per barrel) 1/	7.8	-39.9	23.3	58	0
Oils and fat	31.4	-40.5	-22 6	-11	-4
Chemicals	2 8	2.3	-3 5	5	8
Manufactured goods	-13.5	-1 7	-10.2	26	34
Machinery and transport	3.1	-4.6	-6 7	28	0
Other manufactures	-5 0	18.0	3.2	0	13
Other imports	125.8	-37.2	65.3	97	-26
Total imports (customs), c i.f.	-4.5	-6.7	-2.9	24	5
Of which· non-oil imports	-5.5	-2 5	-6.4	19	7
Total imports (BOP), c.i.f. 2/	-4 4	-6.7	-3.3	24	5

Source: Data provided by Jordanian authorities.

1/ Unit price of oil imports by Jordan, all of which is supplied by Iraq.

2/ Adjusted for imports by the non-residents (mostly by embassies and multilateral agencies).

Table 8. Merchandise Exports, 1997–2001

	1997	1998	1999	2000	Prel. 2001
		(In millions of U.S. dollars)			
Domestic Exports	1,505	1,476	1,482	1,524	1,907
Phosphates	190	197	162	128	130
Volume (1000 metric tons)	4,367	4,563	3,633	3,196	3,606
Unit price (US$/metric ton)	44	43	45	40	36
Fertilizers	135	146	110	84	86
Volume (1000 metric tons)	597	660	524	460	503
Unit price (US$/metric ton)	226	222	210	184	171
Potash	139	157	178	195	195
Volume (1000 metric tons)	1,419	1,486	1,665	1,881	1,896
Unit price (US$/metric ton)	98	106	107	104	103
Other	1,042	975	1,032	1,117	1,495
Fruit and vegetables	129	151	110	101	133
Miscellaneous manufactures	285	316	359	443	783
Chemicals	338	310	387	405	400
Miscellaneous	290	199	177	167	179
Re-exports	330	327	349	375	386
Total exports	1,836	1,802	1,832	1,899	2,293
		(Annual percentage changes)			
Domestic exports	2.6	-1.9	-0.5	2.8	25.1
Phosphates	6.0	3.9	-17.6	-21.0	1.6
Volume	0.4	4.5	-20.4	-12.0	12.8
Unit price	5.8	-0.7	3.5	-11.1	-10.0
Fertilizers	-26.0	8.3	-24.3	-23.8	2.4
Volume	-21.9	10.6	-20.5	-12.2	9.3
Unit price	-5.3	-1.9	-4 8	-12.5	-7.1
Potash	-21.5	13.2	12.8	9.7	0.0
Volume	-18.9	4.7	12.0	13.0	0.8
Unit Price	-3.3	8.0	0.7	-2.6	-1.0
Other	12.2	-6.3	5.8	8.2	33.8
Fruits and vegetables	11.5	17.1	-27.0	-8.4	31.7
Miscellaneous manufactures	3.7	10.9	13.6	23.4	76.7
Chemicals	18.6	-8.2	24.8	4.7	-1.2
Miscellaneous	14.6	-31.5	-11.0	-5.6	7.2
Re-exports	-5.7	-1.2	6.8	7.4	2.9
Total exports	1.0	-1.8	1.6	3.7	20.7

Source: Data provided by the Jordanian authorities.

Table 9.Direction of Trade, 1997–2001

	1997	1998	1999	2000	2001
	(In millions of Jordanian dinars)				
Domestic exports, f.o.b.	1,067	1,046	1,051	1,081	1,352
Arab countries	554	466	427	431	543
Saudi Arabia	141	104	100	92	95
Iraq	142	106	80	100	161
United Arab Emirates	55	58	62	48	59
Other	216	312	382	410	494
European Union	78	69	61	35	50
United States	5	6	9	45	164
India	99	117	181	172	147
Japan	13	10	11	9	10
Other European countries	13	10	8	5	12
People's Republic of China	14	12	25	33	30
Other countries	292	356	329	351	396
Imports, c.i.f.	2,908	2,714	2,635	3,259	3,435
Arab countries	683	522	569	774	821
Saudi Arabia	103	102	107	106	111
Iraq	364	236	296	484	485
United Arab Emirates	18	22	26	35	42
Other	198	162	140	149	183
European Union	947	888	835	1,074	1,089
France	101	105	102	124	132
Germany	292	266	256	375	315
Italy	172	134	108	119	113
United Kingdom	140	138	124	124	124
Others	242	245	245	332	405
Japan	148	159	164	128	124
United States	275	258	259	322	280
Other European countries	195	195	172	174	190
People's Republic of China	72	72	84	39	59
Other countries	588	621	551	748	872

Table 10. Outstanding Public External Debt, 1997–2001 1/

(In millions of U.S. dollars)

	1997	1998	1999	2000	2001
Total external debt	7,111	7,622	7,861	7,182	7,059
Medium- and long-term debt	6,634	7,153	7,363	6,719	6,626
Arab countries	354	355	307	306	375
Bilateral loans	45	45	0	0	0
Funds	309	310	307	306	375
Industrial countries	3,970	4,045	4,144	3,938	3,766
Bilateral loans	2,192	2,194	2,330	2,055	1,846
Export credit guarantees	1,778	1,851	1,814	1,882	1,919
Other countries	33	33	33	39	39
International banks 2/	682	899	910	522	462
Multilateral institutions	1,841	2,125	2,322	2,253	2,317
IMF	427	469	498	463	433
World Bank	762	818	914	893	995
Other multilateral	652	838	910	896	889
Leases	182	165	146	124	101
Short-term debt 3/	50	50	0	0	0
Memorandum item:					
Total external debt/GDP (in percent)	101.9	96.3	96 6	85.0	80 0

Source: Ministry of Finance.

1/ Public and publicly guaranteed external debt, end-of-period.
2/ Includes par and discount Brady bonds, the principal payments of which are fully collateralized. Excludes the holdings of resident commercial banks.
3/ Nonresident holdings of treasury bills.

Table 11. Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1994-00	M. East & North Africa	Lower-middle-income
POPULATION					
Total population, mid-year *(millions)*	1.8	2.6	4.9	295.6	2,046.0
Growth rate *(% annual average for period)*	3.7	3.9	3.1	2.0	1.0
Urban population *(% of population)*	55.3	64.1	74.2	58.6	42.4
Total fertility rate *(births per woman)*	7.5	6.1	3.7	3.5	2.1
POVERTY					
(% of population)					
National headcount index	..	..	11.7	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNI per capita *(US$)*	..	1,990	1,720	2,040	1,140
Consumer price index *(1995=100)*	23	52	114	110	149
Food price index *(1995=100)*	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	36.4	..	..
Lowest quintile *(% of income or consumption)*	..	..	7.6	..	..
Highest quintile *(% of income or consumption)*	..	..	44.4	..	..
SOCIAL INDICATORS					
Public expenditure					
Health *(% of GDP)*	..	..	..	3.4	2.7
Education *(% of GNI)*	3.7	6.8	6.8	5.2	4.7
Social security and welfare *(% of GDP)*	..	..	..	..	..
Net primary school enrollment rate					
(% of age group)					
Total	79	63	68	87	99
Male	84	62	67	90	100
Female	73	65	68	83	99
Access to an improved water source					
(% of population)					
Total	..	89	96	89	80
Urban	..	100	100	96	95
Rural	..	65	84	80	69
Immunization rate					
(% under 12 months)					
Measles	..	39	83	91	87
DPT	..	53	85	92	87
Child malnutrition *(% under 5 years)*	17	..	5	..	11
Life expectancy at birth					
(years)					
Total	..	66	71	68	69
Male	..	64	70	67	67
Female	..	67	73	69	72
Mortality					
Infant *(per thousand live births)*	49	38	26	44	32
Under 5 *(per thousand live births)*	71	42	31	54	40
Adult (15-59)					
Male *(per 1,000 population)*	0	0	156	183	192
Female *(per 1,000 population)*	0	0	118	152	133
Maternal *(per 100,000 live births)*	..	..	79	..	..
Births attended by skilled health staff *(%)*	..	75	97	..	..

CAS Annex B5. This table was produced from the CMU LDB system. 06/26/02

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

IMAGING

Report No.: 24425 JO
Type: ER