

**Country Assessment**

**Jordan**

**12 September 2012**

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## Executive Summary

Jordan became a Member of the Bank in December 2011 and requested to become a recipient country of the EBRD. The report of the Board of Directors to the Board of Governors on the geographical extension of the Bank's operations to the member countries of the Southern and Eastern Mediterranean (SEMED) (BDS11-187(F)) and the related Resolutions Nos. 137, 138 and 139 of the Board of Governors, envision a three-phased approach to the geographical extension of the Bank's operations to the member countries of SEMED.

Consistent with this approach, on 13 March 2012, the Board of Directors approved the commencement of the first phase of activities in Jordan (technical cooperation and other similar activities).

In the second phase, the entry into force of the amended Article 18 of the Agreement Establishing the EBRD (the "Agreement") allows the Bank to start special operations in a member country which is not a recipient country, subject to the Board of Governors granting, for a limited period of time and under such terms as may be advisable, "potential recipient country" status to such member country. The amendment of Article 18 of the Agreement, as approved by the Board of Governors pursuant to Resolution No. 138, came into force on 22 August 2012.

Pursuant to the amended Article 18 of the Agreement Establishing the EBRD Jordan requested to be granted potential recipient country status on 12 July 2012. Consistent with the provisions of Article 18, a decision to grant potential recipient country status can only be made if the member is able to meet the political and economic conditions of Article 1 of the Agreement.

To inform the decision by the Board of Directors on whether Jordan meets the economic and political requirements, Management has prepared a report entitled "Jordan: Country Assessment and Operational Priorities" (attached). The report provides a political and economic assessment, including an analysis of Jordan's transition challenges.

Based on the attached report and the staff assessment, it is Management's view that Jordan meets the political and economic conditions of Article 1 of the Agreement. The assessment shows that:

- Jordan is committed to the principles of multiparty democracy, pluralism, and market economics in accordance with Article 1 of the Agreement Establishing the Bank. Over the past year and a half, Jordan has advanced a number of reforms that were undertaken amidst a significant deterioration in stability in neighbouring countries, which exposed Jordan to economic and security challenges. The application and pace of reforms have been uneven and challenges lie ahead. However, Jordan is moving in the direction of multiparty democracy and pluralism.
- Jordan is a country where the Bank can carry out its purpose and functions as set out in Article 1 and 2 of the Agreement, namely "to foster transition towards open market-oriented economies and to promote private and entrepreneurial initiative".

The report also outlines the Bank's proposed operational response to the transition challenges faced by Jordan, drawing on initial field visits and consultations. The following operational themes have been identified to guide the Bank's activities:

- Supporting sustainable energy through investments that promote energy efficiency throughout the economy, the development of new sources of renewable energy and Jordan's transition to a liberalised, sustainable energy sector;
- Direct and indirect financing of private enterprises in the corporate sector, with a focus on SMEs, improvements in the agribusiness value chain and energy and water use efficiency, aimed at boosting the creation of high quality jobs, including for women, and further developing a thriving private sector; and
- Promoting infrastructure reform and facilitating non-sovereign financing, where feasible, in order to develop efficient delivery of infrastructure services. Supporting PPPs and private sector participation in the infrastructure sector. The EBRD will also aim to support water and energy efficiency in the municipal sector.

These proposed operational priorities are consistent with the overall directions set in the context of the Deauville Partnership including the Economic and Social Programme prepared by the Jordanian authorities and described in their strategy paper "Jordan: The Way Forward" of September 2011. The pace and direction of the Bank's operational engagement will reflect the continuing economic and political reform environment in Jordan.

The EBRD has and will continue to cooperate with other IFIs,<sup>1</sup> the EU and bilateral partners, so that its operational priorities take full account of the activities of other IFIs active in Jordan. Taking note of the Deauville Partnership IFI platform, the EBRD will aim to create synergies, avoid duplication, and capitalize on the Bank's specific competencies, comparative advantage and transition mandate.

The EBRD has already been making considerable progress in the necessary preparatory work for operations in Jordan to start as swiftly as possible. The Bank has established a functioning office and is in the process of building a dedicated organisation and staff. With generous financial support from donors and from the Bank's net income, the Bank has initiated technical cooperation projects and project preparation activities. The Bank is confident that it can contribute its experience to bringing about economic transition in Jordan, while at the same time realising that it has a lot to learn and will have to adapt. The recent Transition-to-Transition conference, which was organised with the help of the authorities in May 2012, presented an opportunity to exchange views on needs and possibilities. All of this will allow for a rapid start of investments once all institutional requirements are met.

Accordingly I recommend that the Board of Directors:

- Endorse Management's conclusion that Jordan meets the political and economic conditions of Article 1 and that the Board of Governors should be asked to grant potential recipient country status to Jordan in accordance with Article 18 of the Agreement;
- Determine that the decision to grant potential recipient country status to Jordan should not be postponed until the next annual meeting of the Board of Governors and does not

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<sup>1</sup> Notably the EIB and other Deauville IFI Partners (AfDB, IFC, IsDB, AFESD, AMF, World Bank, OFID and IMF).

warrant the calling of a special meeting of the Board of Governors; and that, as a consequence, the decision should be made by voting without a meeting in accordance with Section 10 of the Rules of Procedure of the Board of Governors;

- Approve the attached draft Report of the Board of Directors to the Board of Governors, which includes a draft Resolution for adoption by the Board of Governors, and direct the Secretary General to transmit to each Governor the proposal relating to the adoption of such Resolution with a request that the votes of the Governors reach the Bank on or before 12 September 2012; and
- Confirm the proposed operational response to Jordan's transition challenges, noting that a Country Strategy will be prepared for consideration and approval by the Board of Directors once Jordan has been granted recipient country status.

## Country Assessment and Operational Priorities

Jordan, which became a Member of the Bank in December 2011, has requested to become an EBRD country of operations. Consistent with the respective resolutions and amendments to the Agreement Establishing the Bank (AEB), it is expected that the Bank would follow a three-phase process in helping Jordan become a recipient country for EBRD operations:

- (i) In the first phase, the Board of Directors were requested to approve the use of cooperation Funds in Jordan. This was done in March 2012.
- (ii) In the second phase, resources from the EBRD SEMED Investment Special Fund – the “SEMED ISF” – will be made available to finance investment projects in Jordan and other SEMED countries. The Board of Governors at the 2012 Annual Meeting allocated EUR1 billion from the Bank’s Net Income for potential drawdown by the Board of Directors to the SEMED ISF. Utilisation of these funds in Jordan will only be possible after the entry into force of the amendment to Article 18 and upon granting by the Board of Governors of “potential recipient country” status to Jordan.
- (iii) In the third phase, upon the entry into force of the amendment to Article 1 of the AEB, the Board of Directors and the Board of Governors would consider the granting of “recipient country” status to Jordan and therefore allowing the use of ordinary capital resources for operations.

This paper prepares for the utilisation of the SEMED ISF in Jordan under the second phase. In order for the Board of Governors to grant “potential recipient country” status to Jordan and approve use of SEMED ISF funds in the country, the Board of Directors will need to determine that Jordan meets the political and economic conditions of Article 1 AEB. This Country Assessment provides an analysis that aims to inform this judgement. In addition to providing a political and economic assessment, it also sets out updated operational priorities for the Bank, drawing on the Bank’s growing field experience.

### **1. Assessment of developments with regard to the political aspects of Article 1 AEB**

Over the past year and a half, Jordan has introduced several welcome political reforms, especially in amending the Constitution to strengthen political and human rights, establishing an independent Election Commission, issuing the Law for the new Constitutional Court and advancing a new election law. Looking ahead, to consolidate Jordan’s political reform process it will be important to hold free and fair municipal and parliamentary elections in accordance with new election laws, form a new government that reflects the results of the parliamentary election, effectively implement new laws and institutions enshrined in the Constitution and in this way further strengthen checks and balances in the political system.

#### **Representative and Accountable Government**

##### *Free, fair and competitive elections*

The political transformations that several Arab countries have undergone since the beginning of 2011 and the corresponding wave of demonstrations that a number of Jordanian cities

witnessed stirred a new phase of political reform in the country. In March 2011, the King established the National Dialogue Committee (NDC), which was tasked to put forward drafts for new Political Parties Law and Election Law. In April 2011, the King created the Royal Committee on Constitutional Review (RCCR) which subsequently recommended 42 amendments to the Constitution. The Government and the Parliament approved the new Constitution and it was authorised in a Royal Decree, but no public referendum was undertaken. So far, 40 amendments have been enshrined in law by Parliament. One approved amendment concerns the establishment of an Independent Election Commission, whose Head the King appointed in May 2012. In April, the Government presented to the Parliament the new Political Parties Law and the new Election Law. The Parliament passed the Municipal Election Law and the election is expected to take place in early 2013 under the supervision of the Independent Commission, and in June 2012, the Parliament passed the new Political Parties Law.

Jordanian citizens directly elect representatives of municipal councils and the lower chamber of the bicameral legislature. The conduct of past elections was questioned by international and domestic critics. Allegations of vote buying and an intimidating campaign environment, in addition to skewed laws that limited genuine competition, marred the 2007 parliamentary election. The conduct of the most recent parliamentary elections held in November 2010 improved. For the first time a significant number of domestic and international observers were permitted to monitor the process, including being present at a large number of polling stations.

Before the Election Law was amended, the parliamentary electoral system was based on the 1993 election law which is anchored on single non-transferable voting procedures of “one man, one vote”. However, the drawing of electoral districts created distortions and did not correspond to the demographic distribution in the country. Heavily populated, urban areas in which there are large concentrations of Jordanians of Palestinian origin receive a disproportionately low number of seats relative to their share of the population, while the sparsely populated rural areas where Trans-Jordanian tribes have a large presence received a disproportionately high number of seats. The new Law increased the seats allocated to large cities, mainly Amman, Zarqa, and Irbid, but it does not fundamentally change the disproportionate allocation.

The new Elections Law, passed in June 2012, provides voters with two votes, a vote to the electoral district and a vote for a national list. The new Law increases the number of parliamentary seats to 150, divided as 123 seats for the local electoral districts and 27 for the national political parties lists. The Islamic Action Front, a leading opposition party, and many opposition politicians have considerable reservations regarding the new Law. A number of international and local observers emphasise that the new Law does not address the under-representation of Jordanians of Palestinian origin.

*Representative government that is accountable to the legislature and electorate*

Over the past year and a half, the King appointed a number of governments. In March 2011, Marouf Al-Bakhit, a former prime minister with an extensive record in the security apparatus, formed a government. In October 2011, the King replaced him with Awn Khasawneh, a diplomat and international judge who had served at the International Court of Justice. In April 2012, Khasawneh resigned, and the King appointed Fayez Tarawneh, a former prime minister and Chief of the Royal Court to head a new government. Each Government has to submit to a vote of confidence to Parliament and continues to be subject to parliamentary oversight, however, the frequent changes of government by the King reduces its accountability to the legislature and electorate.

The Constitutional amendments significantly empower the legislature. The government can recommend that the King dissolves the Parliament, but then would have to resign within a week and its Prime Minister cannot be reappointed. There is now a time limit of four months that the country would not have a sitting Parliament; if that period elapses, the previous Parliament is automatically reinstated. Members of Parliament now have the right to refer allegations of misconduct by Government Ministers to the Attorney General, who in turn can issue charges and trials to be conducted by a panel of five judges in the Court of Appeal.

#### *Effective power to govern of elected officials*

In Jordan, the Hashemite monarchy is widely seen as the symbol of national unity and the guarantor of the preservation of the state. Though after the constitutional amendments, the King continues to be the country's ultimate power, these Amendments that limit the duration in which the Lower House of the Parliament will be in recess or dissolved, reduce the time in which the King is able to rule by royal decree, as well as reduce the ability of Government to pass laws without parliamentary approval. In Summer 2011, the King accepted the notion that the Prime Minister is to be appointed by the party that receives the highest votes in parliamentary elections, a significant development that is expected to take place after the next parliamentary election. The King retains the power to appoint and dismiss prime ministers; he also appoints the members of the Upper House of the Parliament, the Head of the Judicial Council, and the Head of the Election Commission, the latter based on the recommendations of the Prime Minister and the Leaders of the Houses of Parliament.

#### *Freedom to form political parties and existence of organised opposition*

The new Political Party Law puts prohibitions on any party formed on a religious, racial, or ethnic basis. This Law will not be applied retrospectively and as such will not have a material impact on the Islamic Action Front, a leading opposition party in the country. Jordan has 22 political parties, but apart from the Islamic Action Front and a few leftist parties, the country's party system is weak and fragmented, which is due in part to an election system that dis-incentivised the formation of strong political parties.

### **Civil Society, Media and Participation**

#### *Scale and independence of civil society*

Jordan has a varied and active civil society. Over the past decade, many associations have been formed in defence of human rights, women, and refugees. There has also been noticeable dynamism amongst university student unions, professional associations, and other groups.

Until 2008, the 1966 Law on Societies and Social Bodies that governed NGOs operating in Jordan allowed for significant governmental interference in the affairs of civil society organisations. The 2008 Associations Law (and its 2009 amendments) is an improvement. The Law establishes a Council made up of the relevant Minister and civil society representatives. The authority to dissolve associations is passed to a Council based on the recommendation of the relevant Minister. The Law retains the right to appeal. Associations are required to obtain clearance from the authorities before receiving any foreign funding.

#### *Independent pluralistic media that operates without censorship*

Jordan has a diverse and pluralistic media scene. Active and dynamic internet and digital communications have offered many Jordanians new ways of voicing their views and new routes for political participation. There have been positive changes in the laws governing freedom of expression. Most notably, the new laws transfer the jurisdiction under which cases involving journalists accused of “harming the internal and external security of the state” from the State Security Court to that of the civilian Amman Court of First Instance.

Jordan’s new Anti-Corruption Law, which was passed in April 2012, abolished the previous Law’s restrictions on freedom of expression whose application could have led to the imposition of fines on individuals, including journalists.

However, significant restrictions remain. The Press and Publications Law requires journalists to be “objective”, but it leaves the interpretation unclear and according to local rights advocates the state has used its discretion to prosecute several journalists under the loosely worded law. There are also credible reports of attacks against journalists by the security services. The law allows for criticism of the government, but continues to criminalise criticism of the King and the royal family. The 2010 Information Systems Crimes Law (dealing with cybercrime) has carried the prohibitions existing in the Press and Publications Law to the online sphere.

#### *Multiple channels of civic and political participation*

Over the past year and half, there has been an improvement in general political participation, openness in discussing internal politics, and wide interactions on various issues ranging from the new Laws presented to Parliament to various political, economic, and social reforms.

### **Rule of Law and Access to Justice**

#### *Separation of powers and effective checks and balances*

The Constitutional amendments consolidated the principle of the separation of powers, with broadened competencies entrusted to the legislative branch. The amendments provide for greater autonomy and authority for the Parliament and clarify the separation of powers between the government and the legislature. According to these amendments, the government will have to submit its programme to the Parliament for approval; if it is not secured, the government will have to resign. This strengthens the powers of Parliament and the system of representative government. The passing by the Parliament in June 2012 of the law to establish the Constitutional Court is another significant development. The Court will have sole discretion over the compatibility of legislation with the Constitution. The Judiciary now has sole discretion over determining the validity of election of members of the Parliament and in settling contestations. However, on balance the checks and balances in the system are in need of further strengthening.

### *Supremacy of the law*

In addition to creating the Constitutional Court, the constitutional amendments also curb the remit of the State Security Courts, limiting their scope to cases involving crimes threatening national security, of high treason, terrorism, espionage, money laundering, and drug trafficking. All other crimes are now required to be referred to civilian courts. These measures introduce a degree of specialisation and judicial oversight that increase the power and efficiency of the judiciary. However, a number of observers have expressed serious concerns of considerable influence wielded by the security forces and the use of excessive force in some cases.

### *Government and citizens equally subject to the law*

The constitutional amendments establish the Administrative Court, which will be an important layer of supervision over the public sector and the various administrative entities of the state. The Anti-Corruption Commission Law provides for wide investigatory powers, especially over financial and transactional issues. It also includes clear measures of transparency and speed, enhances the scope of coverage, includes whistle-blower protection, and is intended to strengthen the legal and operational mechanisms to combat corruption and ensure equality. Jordan has been witnessing a major anti-corruption campaign, where a number of senior officials have been arrested including a former Head of the General Intelligence Directorate. The Government has also introduced new measures to strengthen and improve the Audit Unit at the Ministry of Finance.

Relative to previous legislation, the new Anti-Corruption Law widens the scope of the Anti-Corruption Commission. However, many local and international observers still believe that the Anti-Corruption Committee has been given a relatively narrow mandate that limits its ability to investigate corruption at all levels. Also, in early 2012 the Parliament (elected in the 2010 elections) voted to suspend a number of high-profile investigations, a move that many local and international observers consider to be a protection of entrenched powers.

### *Independence of the judiciary*

The recent constitutional amendments entail notable steps towards creating judicial independence. Important administrative decisions affecting the judiciary, especially concerning appointments and promotions, are now transferred from the Ministry of Justice to the remit of the Judicial Council. The Judicial Council will now have the sole right over disciplinary actions over civil judges. Jordan has sought technical support from the Venice Commission in developing the judicial system, and especially the preparation of the rules of procedure and functioning by-laws of the Constitutional Court.

However, Jordanian judges are still appointed by royal decrees and the Judicial Council is headed by the President of the Court of Cassation who is appointed by the King. Also, the amendments and existing legislation leave the interpretation of “national security” largely open, which in practice means that political critics could be tried by State Security Courts.

## **Civil and Political Rights**

### *Freedom of speech, information, religion and conscience, movement, association and assembly*

Jordan has experienced an improvement in its overall political culture whereby political demands are now routinely expressed in all forms of media, the notion of political participation has strengthened, and there is a bottom up momentum for securing political rights. New political parties and activists groups are being formed.

Specific steps were taken. The Amended Public Gatherings Law was passed in March 2011, effectively legalising demonstrations. According to the new Law, only notification of the authorities – as opposed to approval – is required to hold a demonstration. The Jordanian authorities have requested support from the Council of Europe on building the technical capacities of the Interior Ministry in handling crowds and applying riot control measures, without using disproportionate force.

However, a number of international observers and human rights groups believe the Penal Code continues to place significant prohibitions on freedom of expression. Existing laws make it a criminal offence to criticise the King, and in some cases legal measures were taken against individuals voicing opposition to the monarchy. For example, a former Member of Parliament was arrested for proposing to abolish the monarchy and establish a republican system. He was subsequently released.

The authorities have held wide consultation on the 2010 Information Systems Crimes Law (dealing with cybercrime), a step that allowed a number of civil society organisations to voice their opinions on the draft law.

### *Political inclusiveness*

The constitutional amendments prohibit discrimination based on race, language, or religion. Jordan has a low ranking according to several indicators of gender equality, such as the UNDP Gender Equality Index and the World Economic Forum Global Gender Gap Index. However, there has been progress on introducing more rights for women in society, the workplace and in political life. Most recently, a 15-seat quota was introduced for women in parliament and a 25 per cent quota pertains for municipal councils, while the law calls for an increase in the number of female judges. In November 2010 nine women senators were appointed to the upper house. Jordan has signed the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), but enforcement is said to be uneven. Women do not have the right to pass Jordanian citizenship on to their children under the Nationality and Citizenship Law.

The legal framework enforcing equal rights for women in Jordan is improving, but there still numerous laws that would need to be amended according to the Jordanian National Commission for Women. Jordan adopted a new Personal Status Law that strengthens women's rights in divorces and introduces measures to combat violence against women, especially domestic abuse. There have also been a number of initiatives to economically empower women entrepreneurs in rural areas, which over time would result in increased labour force and political participation.

As noted above, the design of electoral constituencies does not correspond to the demographic distribution in the country, which a number of local and international observers believe does not result in equal political participation for all Jordanians.

## *Freedom from harassment, intimidation and torture*

The constitutional amendments in Article 8 specifically prohibit torture. Several developments over the past 18 months indicate a number of improvements in the legal system in Jordan protecting individuals and groups from discrimination. However, there remain significant levels of harassment for journalists and political activists. According to the European Neighbourhood Policy Country Progress Report, journalists were verbally and physically attacked and news websites were temporarily shut down.

A large number of demonstrations did take place in 2011 and 2012, and many continued and ended without obstruction from the authorities. However, a number of international observers have raised concerns regarding the absence of sufficient legal standards against torture and have reported on the use of excessive force used by the Interior Ministry and security forces against demonstrators and political activists.

International observers also had concerns that the Crime Prevention Law has allowed for administrative detention. However, this Law has now been amended. Jordan has acceded to The Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment. Trials continued before the State Security Court, whose procedures do not satisfy international standards for fair trial, according to a number of international observers. In 2012, the State Security Court charged a number of individuals who took part in demonstrations with subverting the system of government. The State Security Court Law is currently under review by the Legislative and Opinion Bureau and is expected to be submitted to Parliament by the end of August 2012.

There are also local and international concerns on the political rights of Jordanians from Palestinian origin and Palestinians who have been living in Jordan for decades. The past few years witnessed a large number of cases in which the nationality was withdrawn. In April 2011, a committee was established to restore nationality to some of those individuals, but the Jordanian National Centre for Human Rights estimates that this has benefited only a small proportion of those who had been affected by this measure.

## **2. Operational environment**

### **2.1 Macroeconomic context<sup>2</sup>**

Following a series of economic reforms since the mid-90s Jordan has managed to increasingly benefit from regional trade and foreign aid, both from the neighbouring oil rich Gulf countries as well as from advanced economies. Sustained growth during the 2000s allowed Jordan to come through the global financial crises with relatively comfortable overall public debt and international reserve levels – although with increasing twin fiscal and current account deficits. However, growth has not been sufficient to generate enough quality jobs, resulting in persistent structural unemployment of around 13 per cent. Highly skilled labour in particular has sought employment outside the country, mostly in oil producing countries of the Gulf Cooperation Council (GCC). This in turn has resulted in significant remittance inflows which were a partial buffer against rising oil prices.

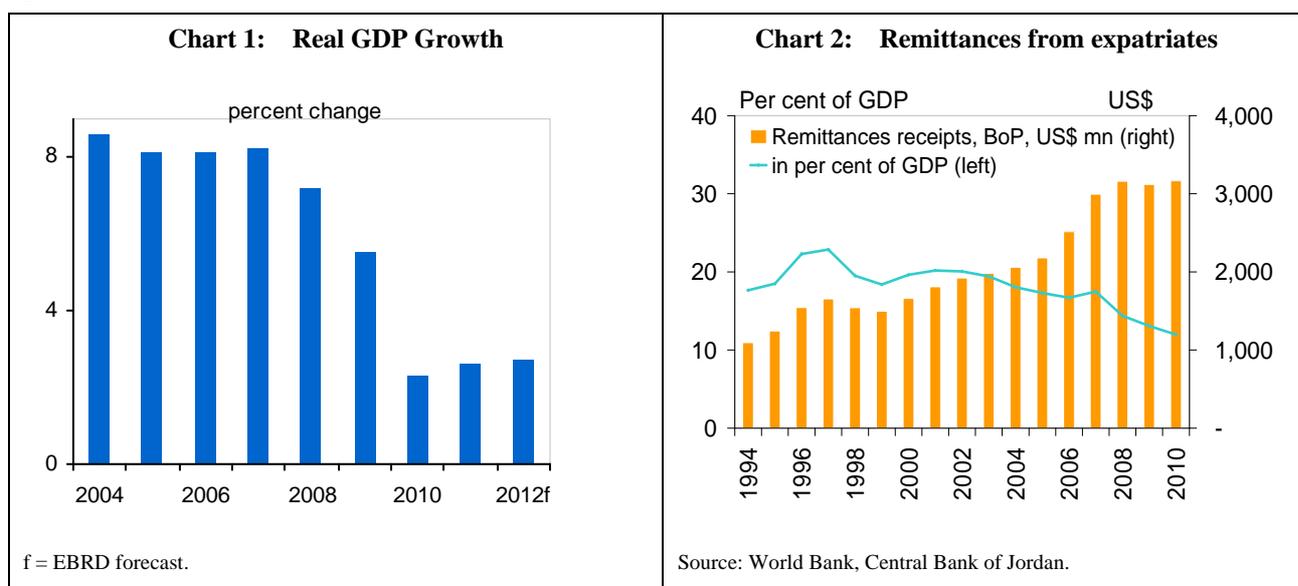
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<sup>2</sup> The source of the statistical data in this section is mostly from the Central Bank of Jordan.

Jordan's GDP growth was subdued at 2.6 per cent in 2011 as a result of the on-going regional political turmoil in particular in neighbouring Syria and continued high oil prices (see Chart 1). The on-going political turmoil in the Middle East (including Syria) has translated into depressed tourist receipts and FDI in Jordan. Tourist arrivals fell by 22 per cent in 2011, including a 16.7 per cent y-o-y drop in December alone. But industrial production has recently seen a pickup, growing by 5.5 per cent in February 2012 after falling by around 2.3 per cent in 2011. Inflows of capital also declined in 2011, with remittances falling by 4.2 per cent and FDI by 11 per cent compared to 2010. Unemployment rose to 12.9 per cent in 2011.

The external current account deficit widened to around 10 per cent of GDP in 2011, up from 7.1 per cent in 2010. Jordan's trade deficit widened by 21 per cent year-on-year to USD10.3 billion in 2011 since the increase in export revenue attributed to high commodity prices primarily for minerals such as potash and phosphate was more than offset by the increase in the import bill associated with higher oil prices. The country's energy bill increased substantially in 2011, mostly due to frequent disruptions to the gas pipeline from Egypt. On the positive side, exports remained strong in 2011, growing by 13.4 per cent, mostly because mineral exports are sold to high growth economies in the Middle East and Asia.

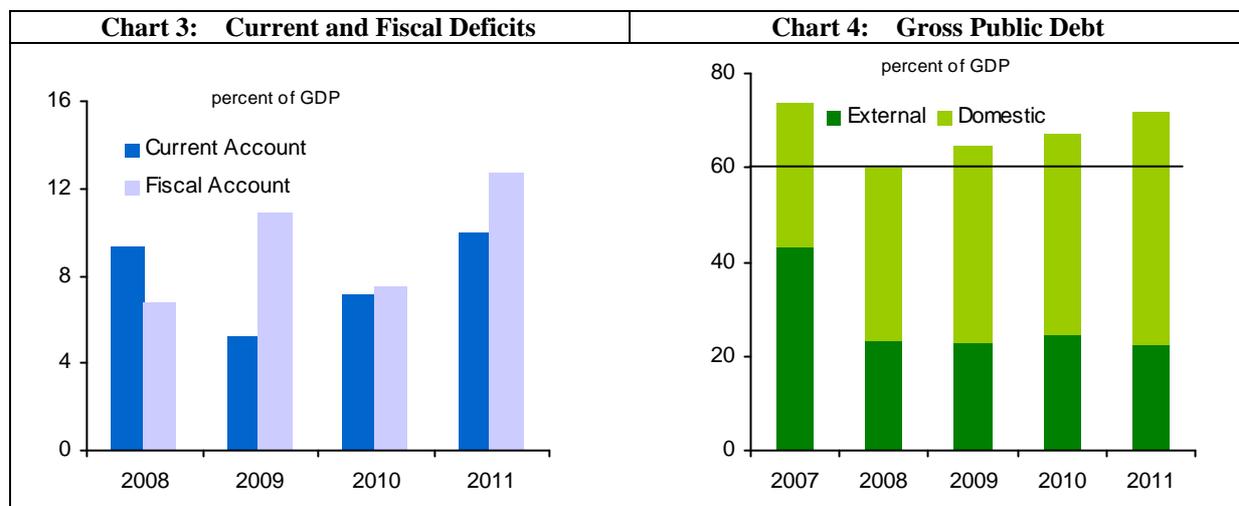
Jordan continues to face substantial fiscal challenges, with the budget deficit 6.8 per cent of GDP (or around 12.7 per cent of GDP excluding grants) in 2011. Weak economic activity has brought about a drop in revenues, while the government has responded to popular protests by increasing social spending (fuel subsidies and wages) and cutting taxes. Subsidies have almost tripled in 2011 to USD1.3 billion. The bulk of the subsidies were for the energy sector, with energy subsidies jumping from 1.3 per cent of GDP in 2010 to over 6 per cent in 2011. As a result Jordan accumulated substantial domestic and foreign debt in recent years, with total gross public debt reaching around USD18.8 billion at the end of 2011, or around 65.4 per cent of GDP, and thereby surpassing the self-imposed governmental limit set at 60 per cent of GDP. The IMF has estimated that Jordan's fiscal financing needs (excluding grants) will reach USD3.6 billion in 2012 and USD3.2 billion in 2013, with external



financing needs (excluding grants) amounting to USD4.9 billion and USD4.1 billion respectively.

In view of expected rising inflationary pressures, the central bank has continued to tighten monetary policy and raised its benchmark interest rates in February 2012. While annual inflation has been low at 4.4 per cent in 2011 y-o-y and continues to remain low, relative

price stability has been largely due to the absence of a pass through of international commodity prices to domestic prices using subsidies increasingly since January 2011. However, in view of a recent significant decrease in fuel and electricity subsidies as well as planned reductions in subsidies towards the second half of 2012, inflation is expected to pick up in 2012, hence the pre-emptive monetary tightening.



Growth in 2012 is forecast to remain moderate at 2.7 per cent. With the conflict in Syria expected to be protracted, the repercussions on tourism in Jordan will continue to be felt throughout the next year. Remittances are likely to remain strong especially since GCC economies are expected to perform well in 2012-13. But FDI will likely remain subdued exacerbating the shortfalls in the current account, which is expected to widen considerably, driven by increasing energy prices and unstable gas supply due to recurring pipeline disruptions.

Over the medium term Jordan’s small, open and energy dependent economy will remain vulnerable to external shocks as well as its worsening fiscal situation – both of which are likely to be amplified by the on-going regional political turmoil.

## 2.2 Structural reform context

The recent paper “Jordan’s Request for Country of Operations Status: Technical Assessment” (SGS11-322) contained a detailed assessment of the remaining transition challenges in Jordan. The text which follows highlights some of the main findings of the earlier assessment. An updated assessment will be available towards the end of the year.

Since its WTO accession in 2000, Jordan has made concerted efforts to open new markets through tariff reductions and signing a series of bilateral and regional trade agreements with the US, EFTA, Turkey and the EU (including reaching an advanced status agreement with the EU in 2010). In addition Jordan has made substantial progress in privatisation, reducing existing government ownership across most economic sectors (transport, tourism, electricity, and telecommunications).

Benefiting from early reforms in several areas of the business environment, the private sector has become an important engine of growth during the past decade. One example has been the establishment of Special Economic Zones and Qualifying Industrial Zones to host its offshore trade sector and attract investments into the ICT sectors. Yet economic reforms have not always been fully matched with reforms in corporate governance and transparency.

Jordan has also made significant progress in financial sector reforms, including through the development of an appropriate regulatory framework and supervision – with Basel 2 completed in 2009 and Basel 3 already partially implemented. Jordan’s position as a small regional ‘safe haven’ has helped build-up a high bank deposit base of about 100 per cent of GDP (higher than in any of the EBRD current countries of operation). At about 75 per cent, the loan-to-deposit ratio is small compared to most countries in the EBRD region. As a result, Jordanian banks are expanding their regional networks. The government has also announced its intention to seek private strategic investors for the Amman Stock Exchange.

While the government recognises the need to reduce energy import dependence as one of its priorities, it has made only limited progress thus far. The industrial sector remains very energy intensive and renewable energy accounts for less than 1 per cent of energy generation. Energy subsidies on the other hand have expanded substantially in 2011, with richer households accounting for a disproportionate share of total consumption. The decision in early 2011 to freeze fuel prices and to reverse an earlier reform to adjust prices according to an automatic monthly adjustment mechanism has, together with frequent gas supply disruptions from Egypt, resulted in a substantial drag on the budget. As a result, the government in May 2012 decreased subsidies on premium fuels, as well as diesel, kerosene and fuel oil, leading to a price increase for the popular 95-octane gasoline from JD0.775 to JD1 per litre as well as Octane-90 as of 12 June 2012 from JD0.62 to JD0.7 per litre. Electricity tariffs for major mining firms, telecommunications companies, hotels, banks and households consuming over 600 kilowatt/ hour have also been raised at the same time. The agricultural and small enterprise sector have been exempted from this increase, while mid-sized corporates will face a 5 per cent tariff increase and large industries (with the exception of mining) will face a 14 per cent increase with armed forces paying 10 per cent higher tariffs and TV, radio and satellite stations face a 24 per cent tariff increase.

In reaction to the events of the Arab Spring the authorities increased subsidies, public sector wages and social expenditures. Economic reform progressed cautiously with several important laws introduced through the summer of 2011, including a law easing the hiring and firing of workers and a new PPP law. In addition a new Secured Lending Law was passed, while a new Investment Law), a new Insolvency and Bankruptcy Law and Islamic Sukuk Law will be approved during the course of 2012. The government has also launched a JD 150 million Governorates’ Fund that will run in partnership with the private sector and civil society which is focussed on promoting inclusive growth (both job creation and poverty alleviation).

The government has announced a reform package presented under the Deauville partnership “The Way Forward – Country Action Plan,” which draws on the government’s Executive Development Programme 2011-13, the country’s medium-term socio-economic development plan. The key economic policies and programs focus on five areas:

- Improving governance including (i) the modernisation of internal control and external audit functions; (ii) enhancing transparency in the general budget process including the annual publication of the general budget; (iii) improving cash flow expenditure mechanisms and (iv) developing debt management capacities.
- Creating Employment and Income-Generating Opportunities; particular areas of government focus are (i) SME and start-up support; (ii) Venture Capital Program; and (iii) microfinance and poverty reduction.
- Competitiveness, Investment, and Private Sector Development. This area focuses on improving the legislative framework for both foreign and local investments.

- Energy, Water and Key Infrastructure projects. Including a number of mega PPP projects such as the “Red Sea-Dead Sea” project and a nuclear power plant project.
- Regional and Global Integration, includes both plans to establish a Euro-Jordanian Free Trade Area by 2014 and Jordan’s interest in becoming a GCC member.

The forward looking government programme is not only very comprehensive addressing both regulatory and investment bottlenecks but also shows a clear focus on the private sector and on well-identified support from the international community. Aware of the limited fiscal space the programme aims to leverage private sector contributions in key areas and to ease direct foreign and local investment conditions as well as incentivising PPP schemes.

### **2.3 Business environment**

The business environment in Jordan still faces a number of difficulties and Jordan ranks 96<sup>th</sup> out of 183 countries in the World Bank’s Doing Business ranking, slightly down from 95<sup>th</sup> in 2011. While it compares favourably with Egypt (110<sup>th</sup>), it lags behind Tunisia (46<sup>th</sup>) and Morocco (94<sup>th</sup>). Key obstacles remain in the access to credit, which has substantially declined since last year, as well as in enforcing contracts and protecting investors. The problems regarding access to credit relate, among others, to the difficulty and scope of accessing credit information (both private and public). In addition, property related administrative procedures constrain growth in several sectors. Obtaining construction permits is both time-consuming and relatively costly (Jordan ranks 96<sup>th</sup> in the Doing Business survey), with an estimated cost of obtaining a permit amounting to 534 per cent of income per capita (compared to 54 per cent in OECD countries). For food production this effect is compounded by additional ownership laws constraining trade of agricultural land and land consolidation. Some of the legal deficiencies are however intended to be addressed through the reform package that has been submitted to Parliament. On the other hand, Jordan has made some progress in the ease of starting a business as well as trading across borders. The World Economic Forum ranks Jordan at 71<sup>st</sup> place out of 142 countries.

According to the 2011 Corruption Perceptions Index published by Transparency International, Jordan is ranked 56<sup>th</sup> out of 182 countries with a score of 4.5 (0-10 scale where 0 equals most corrupt), which compares favourably with other SEMED countries as well as, indeed, a number of EU member states.

### **2.4 Social context**

While Jordan has advanced economic reforms probably further than any other country in the SEMED region it still does not enjoy the full benefits of these reforms. Unemployment remains high and is again rising. This is in part due to the country’s rapidly growing labour force, but also due to skewed incentives to hire and work.

The labour market therefore poses one of the key challenges for Jordan, ranging from skill mismatches to brain-drain and high structural unemployment. Jordan has suffered from persistently high unemployment of an average of 14.2 per cent even during periods of high growth between 2000 and 2008. Figures stood at 12.9 per cent in 2011 overall, and 24.1 per cent among women. At 23.3 per cent women’s participation in the labour force is among the lowest regionally and globally (Chart 3). There is also inequality between rural and urban Jordan in terms of employment opportunities. In rural Jordan the main employment opportunities are confined to small scale manufacturing and agriculture whereas in the cities

there is a broader set of employment opportunities, especially for women. Furthermore (and similar to other countries in the SEMED region), unemployment is particularly high for graduates, which results from a decrease in the quality and focus of tertiary education combined with an insufficient number of graduate level employment opportunities and an employment system that protects existing employees in favour of new entrants. The structural changes introduced during the summer of 2011 may help to redress the latter issues.

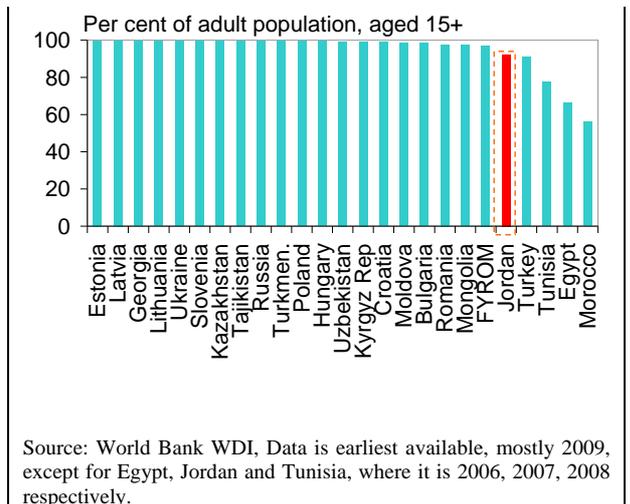
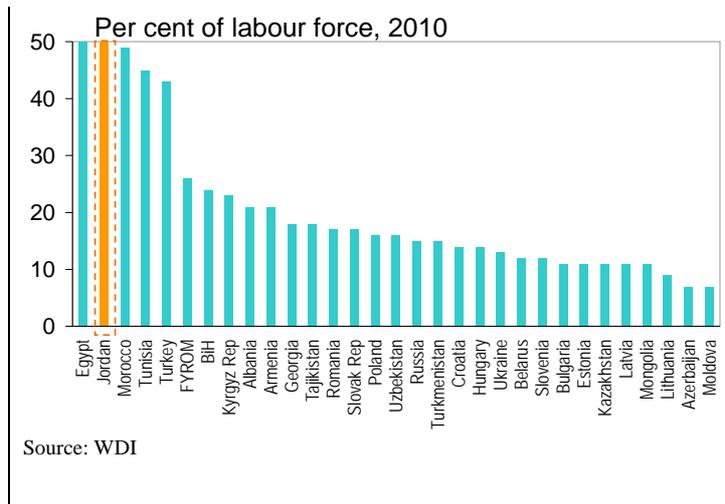
Overall education attainment levels in Jordan are the highest among the SEMED countries: over 40 per cent of the relevant population group are enrolled in tertiary education with a literacy rate of around 92 per cent of the population (Chart 4). In 2010, 11.3 per cent of the total resident population lived abroad, many of whom are tertiary educated. Skilled emigration has been encouraged in the past as part of Jordan’s open door policy and bilateral agreements for high-skilled migration were signed or renewed in 2009 with Qatar, the UAE and Bahrain.

A quarter of Jordan’s workforce is composed of migrant workers, the majority of which are from Egypt. Non-Jordanians with work permits were employed in agriculture (26.7 per cent), services (25.6 per cent) and manufacturing (19.9 per cent), typically in low-wage and low-skill jobs. Demand for low-skilled labour has also come from Jordan’s special industrial zones. The high share of tertiary educated citizens cannot be absorbed in the labour market and has left to find employment mainly in the GCC countries – resulting in a high share and dependency on remittances. The government has embarked on a number of programmes to tackle the skill mismatch, among them an education for employment foundation programme that provides training for young people that are more tailored to industry demands. The Government has additionally launched the National Employment Strategy and its associated Action Plan in order to address the unemployment challenge. The Government’s establishment of the Innovation and Competitiveness Council focuses on fostering those specific competitive sectors of the Jordanian economy that have the greatest potential for absorbing skilled university graduates.

The gender gap in the labour market is also higher than in the current EBRD region, but particularly prominent in the low skill strata of the population, with highly educated women finding employment primarily in the public sector. This is partially driven by the dominance of small SMEs in the private sector and limited transport options. A closer look shows that the gender pay gap (GPG) in Jordan is actually reverse for elementary occupations in the formal sector, where women earn slightly more than men for the same types of jobs. These estimates however do not include informally employed workers for which the GPG is likely to be higher. In 2009, Jordanian women in “professional” jobs earned 26 per cent less than men in the public sector and as much as 69 per cent less than men in private sector.<sup>3</sup>

<b>Chart 3: Female labour force participation: Gap between male and female participation in labour force, aged 15 years and older</b>	<b>Chart 4: Literacy</b>
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<sup>3</sup> However, this may partially reflect the type of the survey the data were collected with - an enterprise-based survey that does not include data on domestic workers employed by private households and that may have led to a significant overestimation of the average wage of women in elementary occupations.



## 2.5 Legal context

Since the 1990s, Jordan has aimed to encourage foreign and local private investment through legal reforms. The Investment Promotion Law No. 16 of 1995 and the Law No. 13 of 2000 constitute the general regulatory framework for local and foreign investment. They provide for a number of incentives applicable to foreign direct investment in sectors such as industry, agriculture, tourism, hospitals, transportation, energy, and water. However, reform progress has been slow and many initiatives have stalled for years before being adopted, for no clear reasons. This is a matter of concern, given the economic situation in Jordan and the need to move through reforms efficiently with the appropriate consultation process.

Over the last couple of years, the government has acknowledged the need to encourage the role of the private sector in infrastructure projects. This requires improving the legal framework for public-private partnerships (PPPs). A new PPP law has been drafted and is awaiting parliamentary approval. A PPP advisory unit operates alongside the Executive Privatisation Commission and the Privatisation Council. Criticism has been directed at the existence of more than one advisory body for the initiation and implementation of PPPs as causing an overlap in roles.

The EBRD priority to support SMEs development will require a number of legal and institutional reforms, in particular:

- The development of a credit bureau which will compile and distribute credit information (the current Central Bank registry is too limited).
- The adoption of a modern collateral law which will provide flexible rules for the taking of security over movable property
- The updating of the insolvency regime, providing for an efficient exit of non-performing businesses
- The strengthening of the corporate governance framework for all types of companies (limited liability companies, joint stock companies, listed companies, etc.).

Encouragingly, there appears to be on-going work in all these areas, supported by international technical assistance. The authorities have embarked on developing Jordan's National MSME Development Strategy (2013-2017) and associated Draft Law with technical assistance supported by the EU. A first draft will be available for review and discussion in a national conference planned for late October 2012. JEDCO is preparing a review and

assessment of all laws and regulations affecting SMEs in Jordan. The EBRD Legal Transition Team will establish contact with all stakeholders to better understand how these reforms are shaping up and whether the Bank's technical assistance could be additional and beneficial.

Special commercial courts were established in 2010 in order to enhance contract enforcement. Nevertheless, the 2012 Index of Economic Freedom refers to 'influence peddling' and lack of transparency as factors which undermine the fairness of dispute settlement in Jordan. Mediation is possible and is regulated under the Law of Mediation for the Settlement of Civil Disputes of 2003 as amended in 2006.

The EBRD Legal Transition Team is currently preparing a detailed assessment of Jordan's commercial laws which should be completed in Q4 2012.

## **2.6 Energy efficiency and climate change context**

Jordan faces serious climate change and environment challenges. It is a country with limited and depleting natural resources, a growing population, which relies on imports to meet household and industrial energy requirements. Jordan is among the most water-stressed countries in the world, a situation which is expected to worsen as a result of climate change. Groundwater wells are being exploited at unsustainable rates, and the water tables in the Jordan river and the Dead Sea area dropping at alarming rates.

The energy intensity of the Jordan economy stands at 0.21 toe/ 1,000 USD, which is the highest among the SEMED countries, and considerably above the levels seen in the EU or in Turkey. Energy consumption per capita is 1.26 toe. The transport sector is the most energy inefficient sector. Based on 2009 figures, it is estimated that by implementing energy efficiency measures in industry, as well as policies to promote sustainable energy uptake, national energy demand can be reduced by up to 20 per cent.

Energy security is a serious concern since Jordan's energy resources are limited or practically non-existent and the country thus relies on imports for a large share of its oil and gas from relatively few sources. The main source of fossil fuel has been until 2011 the gas pipeline from Egypt whose operation has been severely disrupted over the past year. Jordan has since relied almost exclusively on import of liquid fuel at much higher prices. One of the main sources of energy imports is the gas pipeline from Egypt, which has witnessed many interruptions over the past years. The key challenges facing Jordan are therefore to diversify the supply of its energy, develop renewable energy sources, and increase energy efficiency.

In recent years, there has been increased interest in renewable energy and the government has set a target of acquiring 7 per cent of total energy needs from renewable energy by 2015. Jordan has recently introduced special legislations concerning renewable energy projects. However, discrepancy between capped retail prices and generation prices is a barrier to the introduction of an open market for electricity, and renewables in particular, and a disincentive for energy efficiency measures, while making NEPCO acting as single buyer dependent on state support and guarantees to cover for the fossil fuel price difference. This may not be reliable in the long run as the country is struggling with unsustainable public sector deficits and high debt levels. As a consequence, developers are also seeking long term PPAs with NEPCO, which may pose an increasing burden on the company and taxpayers if the pass-through of generation and system costs to customers will continue to be constrained. Poorly targeted energy subsidies and cross-subsidies undercut interest in energy saving, aggravate fiscal constraints and undermine competitiveness of financially viable industries. Adequate

policy and market frameworks for energy efficiency measures are virtually non-existent, which provides an opportunity for EBRD policy dialogue.

In addition, Jordan's climate change adaptation priorities are dominated by the pressing issue of water scarcity. Jordan is one of the driest countries in the world. Despite Government efforts to manage limited water resources and search for alternative supplies, the available water resources per capita are falling as a result of population growth and extremely low water prices, encouraging wasteful consumption, mainly by the rich consumers. Annual per capita water availability has declined from 3600 m<sup>3</sup>/year in the year 1946 to 145 m<sup>3</sup>/year in the year 2008 - far below the international water poverty line of 500 m<sup>3</sup>/year. Jordan's severe water scarcity is expected to be worsened by climate change. This is a major constraint on growth and development, as water is critical for productive sectors of the economy such as agriculture and tourism, as well as human health and social and economic development.

### 3. Strategic Orientations

#### 3.1 Transition Challenges

Jordan faces significant transition challenges in the sustainable energy, agriculture, manufacturing and services, transport, and municipal infrastructure sectors, namely:

- ***The sustainable energy sector has large transition gaps in practice, despite considerable structural reform.*** Jordan has made considerable progress in unbundling and corporatising its power sector and there is substantial private sector participation. However in practice there is limited competition under regulated tariffs which are not cost-reflective for the fossil fuel price. Consequently the sector is accumulating losses, principally in the state-owned transmission company. At the same time the government has made limited progress in promoting energy efficiency and only recently (May 2012) published a framework for support of renewable energy, which accounts for less than 1 per cent of production. These systemic issues exacerbate Jordan's high level of energy insecurity. Low diversification of imported fuels, rising prices of imported fuels and growing demand are putting increasing strain on the sector.
- ***The agribusiness sector suffers from large transition gaps along the whole food value-chain.*** The biggest challenge however is water efficiency and water quality for agricultural production, including productive utilisation of grey water, with two thirds of the total water supply being used for agriculture, often on low value crops. A lack of adequate specialised transport and storage infrastructure poses an additional constraint in moving up the value-chain and increasing export volumes.
- ***The manufacturing and services sectors suffer from productivity challenges in addition to the need for technological upgrading and modernisation.*** A further challenge is the lack of innovation, product development and diversification.
- ***In the municipal services sector there is a need to change incentives to draw in the private sector and address water scarcity and traffic congestion.*** Water distribution is inefficient, the tariff system encourages waste and the private sector is only starting to get involved. With more expensive sourcing such as desalination involving the private sector through transparent PPPs will be a key challenge. Urban transport suffers from high levels of congestion and a lack of substantial private investment.

- *The financial sector is comparatively well developed, but limited availability of private equity and finance for small and medium sized enterprises as well as start-ups is constraining some sectors*, in particular the fast growing ICT and related service sector. The regulatory framework is reasonably well advanced with the implementation of Basel 2 completed in 2009 and Basel 3 already under implementation. However, a private credit bureau is expected to be established only by the end of 2012 and the effectiveness of bankruptcy enforcement is low. There is a need to improve access to finance for SMEs and micro enterprises, particularly outside Amman.

### **3.2 The Bank's Priorities for 2012-2013**

In response to the transition challenges identified in Section 3.1 above and based on the work to date, the following operational themes have been tentatively identified to guide the Bank's activities in Jordan:

- Supporting sustainable energy through investments that promote energy efficiency throughout the economy, the development of new sources of renewable energy and alternative fossil fuel supply as well and Jordan's transition to a liberalised, sustainable energy sector;
- Direct and indirect financing of private enterprises in the corporate sector, including SMEs, improvements in the agribusiness value chain and energy and water use efficiency, aimed at boosting the creation of high quality jobs and further developing a thriving private sector; and
- Promoting infrastructure reform and facilitating non-sovereign financing, where feasible, in order to develop efficient delivery of infrastructure services. Supporting PPPs and private sector participation in the infrastructure sector. The EBRD will also aim to support water and energy efficiency in the municipal sector.

Within this overall set of priorities, the EBRD has begun identifying possible opportunities for assistance. The priorities will not only guide project selection for "second phase" funding through the SEMED Investment Special Fund but also for pipeline development with a view to the Bank's longer term engagement. The "Operational responses" in the following sections therefore cover a wider range of activities than can be expected to be completed over the SEMED ISF horizon. Under all operational themes, however, there are a number of concrete project leads which teams are developing in close consultation with the authorities.

#### *3.2.1 Cross-cutting Issues*

There are a number of cross cutting issues which will be given strong emphasis in implementing the proposed operational priorities. The Bank will apply its usual high standards in due diligence, integrity and transparency in all of its operations. Such standards are especially important while the country continues to build its institutions, which is reflected in the prominence CSOs as well as the authorities have placed on these issues.

In addition, the promotion of inclusive growth will be given prominence in the Bank's engagement in Jordan. As mentioned above, the country's main challenges are high youth unemployment, lower female participation in the labour market, rural-urban divides and low access to finance by female entrepreneurs. Initiatives are already underway at the bank to better understand the issues which adversely affect women's economic participation in Jordan and the other SEMED countries, through dialogue with academics, representatives of the

business community and partner IFIs working in the region (including at a recent conference held at the EBRD<sup>4</sup>). Specific opportunities and operational implications will be clarified once the Bank has gained more country specific knowledge and has finalised its new Gender Strategy. In addressing gender inequalities consideration will be given to a) working with financial institutions to increase access to finance for women borrowers, b) promoting equal opportunities in the work place and c) developing Corporate Social responsibility programmes to promote employment opportunities

### **3.3 Transition Challenges and Bank Operational Response**

#### **3.3.1 Supporting sustainable energy**

##### **Transition challenges**

Jordan's economy remains very energy intensive and the country relies almost exclusively on imported fuels.

- Jordan's power sector has been broadly commercialised and the private sector is involved in both distribution and generation. The state-owned transmission company performs the duties of market operator and single buyer. Nevertheless, the organisation of the energy sector is a major barrier to addressing Jordan's problems. Tariffs are not cost-reflective and leave the state-owned transmission company with significant losses.
- Despite good intentions on promoting energy efficiency, not much progress has been made thus far as there is limited availability of finance. A proposed government fund is not operational yet and commercial banks have not been active in providing targeted energy efficiency financing, and the sector's structure lacks incentives for greater efficiency.
- There has also been very little progress on developing Jordan's significant renewable energy potential, particularly in solar power, with a target of meeting 7 per cent of the country's energy mix by 2015 and 10 per cent by 2020 from renewable sources.
- The oil and gas sector in Jordan remains largely under state control with the government controlling imports, exploration and development of minerals and hydrocarbon deposits and the leasing of exploration and production rights.

##### **Operational Response**

The Bank can support Jordan in its transition to a more sustainable and secure energy sector through a range of instruments. In particular it can bring its experience in promoting effective sector reform, energy efficiency and renewable energy, combining policy dialogue with small and large scale finance. The Bank can also support adaptation to climate change by investing in improved water use efficiency in key sectors. A common theme running through the Bank's activities in this sector will be liberalisation and strengthening of the regulatory frameworks. The Bank would consider opportunities in several areas, including:

- Policy dialogue to support Jordan's legislative framework with regards to energy efficiency, climate change, and sustainable energy initiatives. This will include co-

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<sup>4</sup> Organised with Women for Women International

operation with other IFIs and multi-/bilateral donors on the implementation of climate finance funding in Jordan.

- Investments in electricity distribution companies, such as JEPCo, the largest electricity distribution company in Jordan, to support a reduction in losses and introduction of smart metering.
- Helping the country diversify its fossil fuel supply.
- Providing funding through private equity funds active in SEMED or as a direct investor to private energy companies, conventional and renewable, with the view of providing regulatory and political support to the developers and help Jordanian authorities develop mechanisms to ensure the financial viability of the electricity sector.
- Supporting the introduction of more efficient and sustainable power generation systems focusing on the development of decentralised power generation through renewable energy projects such as wind and solar (thermal and photovoltaics) at the same time.
- Investments in production and distribution of quality energy efficient and renewable energy technologies to create a reliable and affordable supply chain for those technologies.
- PPP projects targeting improvement of water supply energy efficiency.
- To address the current lack of capacity for SME lending, supporting sustainable energy financing facilities channelled through local banks and combined with technical assistance.
- Development of “green mortgage” products – mortgage loans to finance energy efficient measures.
- Direct investments in energy intensive manufacturing companies and agribusiness companies to reduce energy and water consumption and use waste and renewable energy.
- In the oil and gas sector, potential investment opportunities arise in particular from the urgent need to increase the role of the private sector, notably by supporting the government’s privatisation programme. In addition there may be scope to support the development of key infrastructure that brings greater diversity and liquidity to the sector, such as new interconnectors and additional storage and refining capacity.
- Studies to better understand household energy use and climate vulnerability, so that the Bank can help its clients to provide energy services to women and more vulnerable groups in Jordan.

### **3.3.2**      *Direct and indirect financing of private enterprises*

#### **Transition challenges**

The manufacturing, services and agribusiness companies in Jordan are all private, and phosphate and potash production is majority privately owned with a minority government participation. The economy is also relatively open with many free trade agreements in place. Nevertheless, there are remaining transition challenges which pertain to:

- The need to improve corporate governance and resource efficiency standards;
- The low value-added production of agricultural products, as most products are exported unprocessed;

- Aside from the institutional hurdles (e.g. the lack of a bankruptcy law and credit bureaus), MSMEs face challenges due to their lack of financial literacy and business plans, as well as the limited availability of targeted financing;
- The lack of certain specialised financial skills for more challenging or structured investments;
- Underdeveloped local currency and capital markets instruments;
- Insufficient diversification of financial intermediation;
- The underdeveloped nature of the private equity industry with only five small local fund managers, including one second generation fund, based in the country, while regional funds have not made any significant investments in Jordan mainly due to investment approach; however, the professionalized private equity sector currently faces the competition of non-structured local and/or Middle-East based family offices with different risk appetite.

### **Operational response**

The Bank would consider opportunities in several areas, including:

- Direct financing of large and mid-caps and enterprises across sectors, including where appropriate through the Local Enterprise Facility, for example of family-owned companies that wish to improve corporate governance, internationalise their sources of finance or prepare for a possible listing on the Amman Stock Exchange.
- Investments throughout the agribusiness sector value chain in such areas as large scale farming, storage, logistics, processing and modern retailing to increase capacity and the range and quality of products available.
- Indirect financing of MSMEs through financial intermediaries, accompanied by transfer of specialist lending technology through TC. This could include credit lines to improve energy, water and other resource efficiency, including energy efficient buildings.
- Providing term finance to local banks for lending to MSMEs with either a risk-sharing component, or a first-loss cover to enhance the risk appetite of the banks.
- Undertaking equity investments in medium-to-small size banks, with the objective of creating an “MSME champion”.
- Supporting local microfinance institutions by providing long-term financing and technical assistance to improve their lending methodologies and increase their outreach.
- Further assisting MSMEs through the Business Advisory Services and Enterprise Growth Programme, to help clients improve their performance, competitiveness and managerial effectiveness. This support should enable MSMEs to better access finance through banks and /or EBRD funding.
- Facilitating development of capital markets and other financial intermediaries like private equity funds that have Jordan in their investment focus, insurance, leasing and factoring to channel debt and equity financing to private enterprises.
- Direct and indirect investments in high-tech and innovative companies to support the development of innovation systems and the knowledge economy in general.

#### **3.3.3 *Facilitating non-sovereign financing for municipal infrastructure and transport projects***

## **Transition Challenges**

- Institutional and regulatory reform, including decentralisation and commercialisation as well as establishing cost recovery tariffs;
- Promotion and expansion of private sector participation through various business models, including PPPs;
- Operational efficiency and service quality improvements through introduction of service contracts.
- Development of non-sovereign structures where feasible;

## **Operational Response**

The Bank is well positioned to help Jordan implement reforms in the municipal services sector: namely, increasing the role of the private sector and corporatising and decentralising municipal service provision to allow for sub-sovereign borrowing. In view of the limited capacity of the state to finance the development of key transport infrastructure, the Bank can support key reforms to encourage greater private sector participation and to identify non-sovereign and private sector opportunities. To meet the investment needs of the municipal and transport sectors, the Bank would consider opportunities in several areas, including:

- Promoting institutional and regulatory reform in the municipal sector – decentralisation and corporatisation of municipal services provision and establishing cost recovery tariffs will be key to development of non-sovereign financial solutions and increased private sector participation.
- Supporting commercialisation and modernisation of municipal infrastructure. The Bank will support investments in the water and wastewater sector (in particular operational efficiency, alternative energy solutions and desalination), urban transport, solid waste management and municipal energy efficiency.
- Supporting sector reform and commercialisation of national transport operators by complementing other IFI financing, including through selective sovereign structures where financing gaps exist (e.g. regional/rural roads with the necessary sector funding reform conditionalities), as well as non-sovereign structures where feasible.
- Supporting the development of private sector participation, including via financing of PPPs in the municipal and transport sectors. In the transport sectors this needs be done in the context of the overall transport strategy which aims at reducing the reliance on road and air links by supporting further railway network expansion and improvements to port infrastructure.
- The Bank will adopt a participatory and culturally appropriate approach so that the respective priorities of men and women can be reflected in the development and implementation of both infrastructure and municipal services.
- Where appropriate, the Bank shall work with municipalities and public sector entities, as well as PPPs, to promote equal opportunities in the work place, building upon its experience in Turkey.

### **3.4 Environmental and Social Implications of Proposed Activities**

**Supporting sustainable energy through investments that promote energy efficiency, the development of new sources of renewable energy and the transition to a liberalised sustainable energy sector.** Jordan's heavy reliance on imported energy resources coupled with inefficient use overall has both an economic and environmental burden. Much progress has been made in shifting to cleaner fuels in the energy and transport sectors but there is considerable scope for efficiency improvements. During environmental due diligence emphasis will be placed upon identifying resource efficiency opportunities (especially with regards to water and energy). Efficiency improvements will also provide benefits through pollution reduction, alleviating local pollution hotspots. The development of renewable energy resources will have obvious environmental and social benefits which will be characterised during the Bank's due diligence and potential greenhouse gas savings will be estimated. Potential adverse impacts will also be identified and addressed through use of the mitigation hierarchy. Proposed pilot work in Central Asia on household energy use and climate vulnerability, which will include a gender perspective, may provide lessons for how the Bank can help its clients to provide responsive energy services in Jordan.

**Direct and indirect financing of private enterprises with a focus on SMEs, agri-business, energy and water use efficiency.** Key economic sectors such as agriculture, chemicals industries, transport, retail and property present opportunities for resource efficiency improvements particularly with respect to water and energy use as well as pollution reduction. Whether investment is provided directly or through financial intermediaries, a key aim will be to ensure that environmental and social due diligence is undertaken to identify and address impacts and opportunities as well as ensure that clients have the capacity and commitment to manage their environmental and social performance in a satisfactory manner. Financial intermediary partners will be provided with training and assistance in this respect whilst recipients of direct finance will be assisted in the development of environmental and social action plans. Support will be given to financial institutions to increase their lending to and provide support to women entrepreneurs who want to start and grow SMEs, using technical assistance funds where appropriate. The Bank shall work with the SME sector to provide employment opportunities and promote good practice in working conditions. Technical assistance may also be used to promote equal opportunities in the work place for both men and women.

**Facilitating sub-sovereign financing for infrastructure.** Despite much progress in efforts to manage environmental and social issues since the Ministry of Environment was established in 2003, there remain significant challenges both environmentally and socially. A rapidly increasing population places pressure on land, water and energy resources especially in urban areas such as the Greater Amman Municipality. Transport is a significant source of pollution mainly due to aging infrastructure and vehicles. Unsustainable use of groundwater has led to declines in water quantity and quality; a situation which will most likely deteriorate further with climate change. Solid waste and wastewater management requires significant investment to address environmental and social issues. Through environmental and social due diligence the Bank will need to ensure that projects are structured to help alleviate these issues and impacts through meeting the Bank's Performance Requirements. Furthermore, attention will be paid to ensure that particularly vulnerable and socially marginalised groups are not disproportionately affected by any land acquisition and/or use. In developing municipal services efforts will be made, with the use of technical assistance funds, to understand the differentiated priorities and needs of women and men so as to both effectively address them and to ensure that both men and women can equally share in the benefits of the proposed investments.

The World Values Survey ([www.worldvaluessurvey.org](http://www.worldvaluessurvey.org)) notes that the Jordanian public has a positive attitude to environmental matters, with 51 per cent of respondents giving priority to

environmental protection even if it resulted in slower economic growth; a figure higher than in many other countries in the region. However, public participation and access to information lags behind international expectations (such as the Aarhus Convention). There is a diverse NGO sector which also enjoys a high degree of public confidence. The Bank, through its project-related stakeholder engagement and information disclosure requirements will encourage progress to continue; both in the public and private sectors.

### **3.5 Status of the Bank's Engagement via Cooperation Funds**

There are presently 18 donor-funded TC assignments in process in Jordan, including 11 regional SEMED assignments that represent €17.3 million of approved funding. These include the Food Security Initiative for the region, the implementation of SBS programme in the region, an expansion of the EBRD Italy Local Enterprise Facility and the Direct Company Assistance for agribusiness companies. The TC assignments also include 7 country-specific assignments representing €1.1 million of approved funding, including a Transport Sector Review, a Yarmouk water feasibility study, an Assessment of the Sub-Sovereign Financing Framework, a Sustainable Energy Initiative study, an Environmental and Social Assessment, and a Country Law Assessment.

In February 2012, EUR 1,4 million was approved from the SEMED Multi-Donor Account for the launch of the Small Business Support (SBS) in Jordan. This SBS supports economic transition by achieving enterprise change in viable MSMEs and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes, Enterprise Growth Programme (EGP) and Business Advisory Services (BAS).

Under the EBRD's agribusiness 'Direct Company Assistance' programme two Jordanian companies have so far been identified which could benefit from this TC programme, possibly leading to follow-on investments. The first TC project commenced in May 2012, with the second expected to start within the second half of 2012. In the coming months the teams will work on expanding the pipeline of eligible companies that could benefit from this programme. On the policy dialogue front, the Bank has signed a two-year work-programme on Food Security as part of the expansion of the EBRD-FAO framework agreement to SEMED. This is a programme that focuses on identifying key bottlenecks along the food value-chain in the SEMED countries, bringing together key stakeholders and expanding the Bank's successful EastAgri knowledge platform to SEMED ("MedAgri"). Currently, the team is considering various sectors which could be the focus of an in-depth food value chain analysis in Jordan. Particular attention will be paid to the water usage as part of the food value chain analysis.

The Bank will use external consultants to carry out a sustainable energy market demand study in the period June – September 2012, including an assessment of the market size for sustainable energy investments, identification of potential barriers to such investments, required reforms, and activities by national and multi/bilateral organisations. This will recommend priority areas and sustainable investment activities in each sector. TC assignments will also be carried out to develop a facility offering energy and water audits to private sector clients, principally in the agribusiness, manufacturing and services and municipal sectors. Selection of international and local consultants is underway. The TC will start in June 2012 and will be available for at least 2 years. Based on the demand and availability of fund the TC could be extended.

In the power sector, TC support has been sought to finance the preparation of the Bank's possible investment in JEPSCO, the largest electricity distribution company in Jordan. Assistance will also be provided to the regulator to elaborate a legal framework to support smart metering, tariffs incentives to improve network performance and loss reduction, decentralised power generation, demand side management and fine-tuning of the legal framework for renewable generation. TC for gradual transition from single-buyer model towards bilateral electricity trading and strengthening independence of sector regulator, and more transparent, market based pricing of energy and water may also be requested.

The Bank's priorities for TC in the municipal sector include project preparation work, including feasibility studies for specific projects such as investments in the Yarmouk Water Company (the consultant selection for the Yarmouk Water feasibility study preparation is currently underway). Reflecting the Bank's expertise in developing municipal sub-sovereign financing solutions, the Bank has launched a selection of a TC funded consultant for an analysis of the current fiscal framework and steps necessary to attract investments in the municipal infrastructure sector using sub-sovereign structures. The contract for this TC is under negotiations and the consultant is expected to be mobilised in June.

Technical cooperation in the transport sector is focused on a review and analysis of the investment opportunities in the private sector, particularly in the Port of Aqaba and with logistics service providers, where private sector participation is most evident, as well as selective sovereign opportunities to support sector reform in the transport sector as a whole and commercialisation of national transport operators.

#### **4. Access to domestic and international capital: private and public sources of finance**

##### **4.1 Access to capital**

The financial sector in Jordan is relatively well developed and has remained sound throughout the financial crisis and the regional turmoil due to sound regulation and supervision by the Central Bank. Banks in Jordan are very liquid and well capitalised, and have maintained their conservative lending practices. State ownership in the banking sector is limited to a holding of minority stakes, but even its larger share in quasi-banking organisations does not seem to distort the overall activities of the banking sector. Jordan's foreign currency ratings are stable at Ba2 (Moody's) and BB (S&P).

Credit extended to the private sector (83 per cent of which is in the form of loans and advances) grew by 9 per cent y-o-y at end-2011, down from a peak of 12 per cent in May 2011, and the pace of growth has slowed somewhat in the first quarter of 2012. Loans and advances rose from JOD 12 billion at end-2010 to JOD 13 billion at end-2011, partly reflecting the moderation in real economic growth. The FX share in total credit to the private sector remained low at 13 per cent in December 2011.

The banking sector remains highly liquid, with a loan to deposit ratio of 73 per cent at end-2011. Deposits, which are largely in JOD, constitute the major source of funding, and are overwhelmingly from the resident private sector. The share of FX deposits in total deposits stood at a modest 22 per cent at end-2011. Although this is somewhat higher than the share of FX in loans and advances, the level is still comparatively low. However, NPLs have risen as

a result of the financial crisis, reaching 8.5 per cent in 2011 (compared to 4.2 per cent in 2008) but still lower than their level in 2003 at 15 per cent.

The loan and cash advances and deposits products in the banking sector are relatively sophisticated, however, some sectors have easier access to credit than others. Credit to the private sector reached 72 per cent of GDP in 2011. There is limited availability of private equity and finance for small and medium sized enterprises (SMEs) is constraining some sectors, and thus access to finance remains an important impediment to SME growth. Lending to SMEs by banks is particularly constrained by the lack of collateral as well as poor historical financial information. Other sources of commercial funding for SMEs, including private equity, are at an early stage of development. There are other institutional impediments to access to capital by SMEs, such as the lack of a credit bureau and the low enforceability of the bankruptcy law.

## **4.2 MDB finance and collaboration with other IFIs and donors**

Several international financial institutions (IFIs) and major regional and bilateral organisations continue to be active in Jordan. As repeatedly emphasised by EBRD Governors, it will be important to avoid duplication and competition and to ensure that any potential activity of the EBRD brings specific value-added based on its specific mandate and competencies. Field missions by EBRD staff over the past months offered numerous opportunities to meet with other IFIs and bilateral donors in Jordan.

This coordination process has been strengthened under the aegis of the Deauville Partnership, which was announced in May 2011 by G8 leaders<sup>5</sup>. The Partnership includes a “Coordination Platform” dedicated to (i) facilitating information sharing and mutual understanding, (ii) coordinating monitoring and reporting on the implementation of the Deauville Partnership, and (iii) identifying opportunities for collaboration on financing, technical assistance, and policy and analytical work.

The Deauville Partnership has launched several important initiatives, including a Private Sector Development Initiative, led by the IFIs, aimed at fostering a competitive private sector, including developing local capital markets, addressing skills mismatches, and providing technical assistance for public-private partnerships. In order to improve the policy environment for SMEs IFIs are also jointly preparing an assessment of the conditions for SMEs to generate jobs and growth, which will include recommendations for further action and guide concrete actions by transition and donor countries in the area of SME development.

- Under the umbrella of the Private Sector Development Initiative, the EBRD and the AMF are co-leading a joint initiative to comprehensively develop local currency and local capital markets. Several IFI missions to the transition countries are planned for H1 and H2 2012, which will be used as a key assessment mechanism. Based on the assessments, recommendations will be developed together with country authorities and private sector participants. The aim is to complete the initial needs assessment and issue

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<sup>5</sup> Countries in the Partnership currently include the five Partnership countries (Egypt, Tunisia, Jordan, Morocco, and Libya), the G-8, Saudi Arabia, the United Arab Emirates, Kuwait, Qatar, and Turkey. The International Financial Institutions include the African Development Bank, the Arab Fund for Economic and Social Development, the Arab Monetary Fund, the European Bank for Reconstruction and Development, the European Investment Bank, the Islamic Development Bank, the International Finance Corporation, the International Monetary Fund, the OPEC Fund for International Development, and the World Bank. The Organization for Economic Co-operation and Development is also a Partnership member.

recommendations for most countries by mid/late 2012, after which options for technical assistance will be considered.

In addition to these broad-based efforts, the EBRD is also heavily coordinating its activities in the region with the EIB, AFD and KfW in the framework of the EU Neighbourhood Investment Facility. The Bank is also participating in a donor coordination initiative which involves all multilateral and bilateral agencies, which have their offices in the country. The EBRD signed Memoranda of Understanding with several MDBs as well as, of course, making amendments to the one with the EIB. Overall the MoUs confirm the complementarity of EBRD and the other institutions and the shared intention to use their skills and experience to advance their respective mandates.

IFI financing slowed down in 2010 and has been virtually on hold since April 2011 as the country reached the indebtedness ceiling set by its Public Debt Law (60 per cent of GDP). The Medium Term Fiscal Framework (MTFF), aimed at lowering the budget deficit, does not allow any further public borrowing. As a result, the only significant IFI activity that has taken place recently is in the private sector. Table 1 highlights the indicative commitments made by various institutions.

The EBRD will bring its particular expertise in private sector financing, which is seen as a key priority by the government. The EBRD's activities will build on its business model. This business model includes mandate, institutional and operational attributes such as, inter alia, its transition focus, respect for additionality, capacity to evaluate, structure, mitigate and take debt and equity risks, experience in supporting local (less experienced) and smaller businesses, ability to support different ownership models, and ability to intervene directly at company level to promote high quality standards in areas such as governance.

**Table 1: Summary of the activities of IFIs in Jordan**

	<b>Portfolio</b>	<b>ABV</b>	<b>Forecasts</b>	<b>Main sectors of activity</b>	<b>Private sector operations</b>
<b>World Bank (IBRD)</b>	USD329 m in IBRD Loans, Trust Fund Grants & Guarantees	FY09: USD140 m FY10: USD302 m FY11: USD476 k FY12: USD254 m	USD500 - USD650 m under the new Country Partnership Strategy FY12-FY15 ( Board discussion January 2012)	Urban Development, Transport, Energy  Education & Environment.  Supporting reforms	N/A
<b>IFC &amp; MIGA</b>	USD658 m in 16 companies as of end-April 2012  MIGA = USD4.1 m gross in 2 projects	USD141 m in FY11; USD165 m in FY12 ytd	Expected annual commitments around USD100 m over the next three years  MIGA: expect to commit ~USD200m over next three years	Financial markets, transportation & warehousing, chemicals, and power. Advisory services activities include PPPs.  MIGA: Infrastructure	Private sector only  MIGA: same, plus can cover sovereign borrowing in support of private projects.
<b>EIB</b>	EUR934 m since 1978, of which EUR500 m since the launch of FEMIP in 2002	EUR81 m loan and EUR5 m equity in 2011; no project in 2010; one private loan in 2009 (for EUR165 m)	Expects to commit some EUR300 m over three years	Private and public sectors; Water (33 %), Industry (20 %), Energy (16 %), Transport (14 %)	48% of signed loan exposure is in the private sector
<b>IsDB</b>	USD1 bn	USD114 m was approved in 2010 including USD 104 m in Business Insurance and USD10 m in Trade Ops. USD90 m in Business Insurance was approved in 2011. So far no public project financing is proposed by Jordan because of its debt ceiling.	Focus on non-sovereign financing (including PPPs) – no proposal is received yet.	Infrastructure, Energy, Health, Social Sector.	100% Private sector for the time being

	<b>Portfolio</b>	<b>ABV</b>	<b>Forecasts</b>	<b>Main sectors of activity</b>	<b>Private sector operations</b>
<b>Arab Fund for Economic and Social Development</b>	USD373 m (for total projects signed of USD1.7 bn)	USD108 m loan to be signed for the expansion of an existing power plant.	USD400 m during the period 2011-2013	water, health, infrastructure, and electricity	One USD15 m loan for a glass coating factory
<b>AMF</b>	EUR112.5 m	2 loans in 2010 for EUR67 m		Provide financial assistance to correct balance of payments disequilibria and implement structural reforms towards the modernization of financial systems	
<b>OPEC Fund (OFID)</b>	EUR69 m	No lending activity in 2010-2011		Health and agricultural sector	
<b>AFD</b>	EUR396 m (since 2006)	EUR1.6 m in 2011	EUR200 m yearly for the period 2011-2013	Water, energy, urban development, social and economic development	EUR88 m

# Annex 1: Selected Economic Indicators

Jordan	2006	2007	2008	2009	2010	2011	2012
							<i>Projection</i>
<b>Output and expenditure</b>	<i>(Percentage change in real terms)</i>						
GDP	8.1	8.2	7.2	5.5	2.3	2.6	2.7
Private consumption	...	...	...	...	...	...	...
Public consumption	...	...	...	...	...	...	...
Gross fixed capital formation	...	...	...	...	...	...	...
Exports of goods and services	...	...	...	...	...	...	...
Imports of goods and services	...	...	...	...	...	...	...
Industrial gross output	7.6	-1.9	-3.0	3.6	-5.1	2.2	...
<b>Labour Market<sup>1</sup></b>	<i>(Percentage change)</i>						
Gross average monthly earnings(annual average)	-1.5	27.9	-1.4	-0.4	-3.5	-4.0	...
Real LCU wage growth	-11.7	21.8	-9.6	-3.0	-9.1	-7.0	...
	<i>(In per cent of labour force)</i>						
Unemployment rate (end-year)	14.0	13.1	12.7	12.9	12.5	12.9	...
<b>Prices</b>	<i>(Percentage change)</i>						
Consumer prices (annual average)	6.3	4.7	13.9	-0.7	5.0	4.4	5.8
Consumer prices (end-year)	11.6	5.1	9.1	2.7	6.1	3.3	10.0
<b>Fiscal Indicators</b>	<i>(In per cent of GDP)</i>						
Central government balance (excl grants)	-7.0	-7.9	-6.8	-10.9	-7.5	-12.7	...
Central government revenues (excl grants)	29.6	29.9	28.1	24.8	22.7	20.5	...
Central government expenditure	36.6	37.8	34.8	35.7	30.4	33.2	...
Central government debt	76.3	67.6	54.8	57.1	61.1	65.4	...
<b>Monetary and financial sectors</b>	<i>(Percentage change)</i>						
Broad money (M2, end-year)	14.1	10.6	17.3	9.3	11.5	8.1	...
Credit to the private sector (end-year)	26.9	15.2	15.9	4.7	7.8	9.0	...
	<i>(in per cent of total loans)</i>						
Non-performing loans ratio	4.3	4.1	4.2	6.7	8.2	8.5	...
<b>Interest and exchange rates</b>	<i>(In per cent per annum, end-year)</i>						
Local currency deposit rate (savings, weighted avg)	1.0	1.1	1.0	0.8	0.8	0.7	...
Foreign currency deposit rate	...	...	...	...	...	...	...
Lending Rate (weighted avg, loans/advances)	8.6	8.9	9.5	9.1	9.0	8.7	...
Interbank Rate (weighted average)	6.5	5.1	4.6	2.6	2.2	2.9	...
Policy Rate (Rediscount Rate)	7.50	7.00	6.25	4.75	4.25	4.50	...
	<i>(JOD per US dollar)</i>						
Exchange rate (end-year)	0.71	0.71	0.71	0.71	0.71	0.71	...
Exchange rate (annual average)	0.71	0.71	0.71	0.71	0.71	0.71	...
<b>External sector</b>	<i>(in per cent of GDP)</i>						
Current account	-11.5	-16.8	-9.3	-5.2	-7.1	-10.0	...
Trade balance	-33.6	-37.7	-32.6	-26.3	-25.7	-28.8	...
Merchandise exports	34.6	33.5	36.1	26.8	26.6	27.6	...
Merchandise imports	-68.1	-71.2	-68.7	-53.1	-52.3	-56.4	...
Foreign direct investment	23.5	15.3	12.8	10.1	6.3	5.1	...
Gross reserves, excluding gold (end-year)	44.6	44.1	38.9	48.1	48.6	39.0	...
External debt stock	93.6	88.5	63.3	61.2	63.1	59.1	...
Public external debt	48.6	43.3	23.3	22.9	24.6	21.9	...
Private external debt	45.1	45.2	39.9	38.3	38.6	37.2	...
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	5.1	4.7	6.2	7.6	7.4	6.6	...
<b>Memorandum items</b>	<i>(Denominations as indicated)</i>						
Population (end-year, million)	5.600	5.723	5.850	5.980	6.113	6.249	...
GDP (in millions of JOD))	10,675	12,131	15,593	16,912	18,762	20,477	...
GDP per capita (in US dollars)	1,906.3	2,119.8	2,665.5	2,828.1	3,069.2	3,276.8	...
Share of industry in GDP (in per cent)	19.5	21.7	24.2	21.2	20.1	20.9	...
Share of agriculture in GDP (in per cent)	2.6	2.5	2.4	2.7	3.0	2.9	...
FDI (In million of US dollars)	2,512.7	1,859.1	2,005.7	1,713.3	1,172.1	1,043.0	...
External debt - reserves (in US\$ million)	9,887.3	10,609.7	9,797.9	10,291.7	11,918.4	12,252.4	...
External debt/exports of goods and services (per cent)	122.4	114.8	79.2	94.5	98.1	93.8	...
Broad money (M2, end-year in per cent of GDP)	132.2	128.6	117.4	118.3	118.9	117.8	...

<sup>1</sup> Figures do not include emigrant workers abroad.

## Annex 2: Small Business Support

The Small Business Support Team (SBS) supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of sustainable infrastructures of local business advisory services. This is achieved through two complementary programmes: the Enterprise Growth Programme (EGP) and Business Advisory Services (BAS). EGP focuses on substantial managerial and structural changes and supports the introduction of international best practice to SMEs by engaging experienced international executives and industry experts as advisers. BAS enables MSMEs to access a diverse range of consulting services by facilitating projects with local consultants on a cost-sharing basis.

In February 2012 a two-year funding was approved from the EBRD SEMED Multi-Donor Account to launch SBS operations in Jordan.

### MSME environment in Jordan

Jordan heavily depends on SME activity to drive its economy. About 98 per cent of all businesses in Jordan are classified as SMEs; they account for almost 70 per cent of created jobs. Two-thirds of Jordanian MSMEs have less than 19 employees.

#### *MSME challenges*

A major challenge for MSMEs is access to finance and this is due to conservative/administrative policies and lack of dedicated MSME products at the banking side and financial illiteracy at MSME side. The size of the local market is another challenge for Jordanian MSMEs. Exporters selling mainly raw material or semi final products to European corporations are facing tough competition. Underdeveloped value chain is more pronounced in the agribusiness sector and is a major area of concern for export-oriented MSMEs, the State and other stakeholders. In addition, enterprises have limited access to local and export markets and the business environment faces regulatory distortions.

MSMEs also face a number of internal challenges constraining growth. Excessive centralisation of management and lack of corporate governance is a common pattern at family-owned businesses. Jordanian enterprises often face other problems related to the lack of skilled labour, outdated HR practices, poor financial management, low productivity and lack of innovation and technology transfer.

#### *Infrastructure of MSME support*

**State Policy and governmental support:** support organisations in Jordan include a number of governmental agencies with regional outreach, lead by the “Jordan Enterprise Development Corporation” (JEDCO). JEDCO with the support of many donors has initiated and carried out many programs that have contributed to the promotion of SMEs.

**Donor support:** IFIs have been active in Jordan since the 90’s and have been supporting its economic growth. The EU and USAID are the largest donors in private sector development. IFC, GIZ, UNIDO, AFD and JAICA are also engaged under different programmes.

**Private sector support:** The private sector is also supporting SMEs as demonstrated by the strong presence of equity funds and angel capital. A number of associations and federations are active in the field.

#### *Jordanian consultancy market*

The management consultancy profession in Jordan is one of the most advanced in the region. It is characterised by a number of consultancy companies in the area of accounting, financial, economic, legal and technical studies and they are mainly located in Amman. The range of consultancy services available in the market is wide, however not necessarily covering the specific needs of smaller businesses. The growth of consultancy market in Jordan has been largely dependent in number and variety on the availability of funded Business Development Support (BDS) programs for the private sector. Jordanian consultants have been able to acquire business in the GCC countries, where the assignments have a more sophisticated nature and of higher returns, making their own local market less attractive for them. There is a professional Institute of Management Consultancy that is internationally certified. The technical skills and know-how available locally are good, but not mobilized towards satisfying the demand of local MSMEs

#### **Small Business Support Operational Response**

SBS is commencing operations in Jordan with a focus on visibility activities to raise awareness about the potential benefits of accessing advisory services. Operations are expected to start from the capital city and then extend coverage to less-developed areas. SBS recognizes the barrier to economic growth represented by the low participation of women in employment and by the high level of youth unemployment, particularly in rural areas of Jordan. The Team aims for its programmes to help address these and other cross cutting issues, such as energy and water efficiency, once a good operational level is reached.

The main areas of focus include:

- Increasing efficiency and productivity of enterprises
- Improving management practices of managers
- Promoting corporate governance and transparency, especially to family owned businesses
- Improving the quality of advisory services
- Developing the consultancy market especially in the rural regions
- Strengthening the existing infrastructure and contributing to the institutionalization of the business advisory market.
- Supporting larger agribusiness companies under the joint EGP-Agribusiness direct industry assistance
- Promoting energy efficiency and water conservation interventions
- Contributing to the policy dialogue between the bank and the stakeholders

### *Banking linkages and project preparation*

- SBS is working closely with ICA sectors especially Agribusiness, M&S, ICT and PE
- Project preparation for the agribusiness team through the joint EGP/AGRI programme.
- Coordination with Private Equity to support their potential “Equity Funds” partners by supporting enterprises in which they have stake.
- Coordination with the FI team by referring MSMEs to partner banks, and raising awareness among MSMEs on the new financing products and instruments which FI has supported.

### *Business Advisory Services*

BAS projects will support MSMEs in areas that respond to the challenges identified, focusing on:

- Strategy development and performance management techniques
- Market analysis, planning and strategy
- Organizational development and HR management
- Introduction of IFRS/Budgeting/Financial planning systems
- Introduction of costing systems
- Management information systems
- Operational planning/Quality management/ Certification
- Supply chain management
- Product development

### *Enterprise Growth Programme*

EGP will be implemented with the aim of demonstrating SBS approach and methodology in assisting high potential SMEs to their next level of growth. Special focus will be given to the priority sectors; agribusiness, textile and apparel, ICT, engineering and electrical feeder industries. Larger agribusiness companies will benefit from the EGP-Agribusiness joint framework designed to improve value chain inefficiencies and prepare them to receive financing if need be.

### *Market/Sector Development Activities*

The SBS will conduct market and sector development activities to support the achievement of the overall goals.

- Visibility and dissemination in cooperation with major representative bodies of Jordanian enterprises; such as JEDCO and its affiliate programmes and regional centres, the SME Association, the AMCHAM
- Working with the Jordanian IMC and support their activities for the certification and promotion of management consultancies.

- Support to and development of existing local institutions engaged in serving MSMEs (mentioned earlier), by providing advice on introducing innovative business development services.

#### *Coordination*

- Working in line with the governmental strategies through close coordination with the Ministry of Industry and Trade, and the Ministry of Planning and International Cooperation, being the authorities in SMEs strategic leadership.
- Cooperation and coordination with the official SME Development Agencies and programmes; JEDCO and its affiliate programmes and regional centres.
- Coordination with the active IFIs and donors

## **Annex 3: Gender Profile Jordan**

### *Gender Inequality and Human Development*

According to the UNDP's Human Development Report 2012, Jordan's Gender Inequality Index (GII) in 2011 was 0.456, which ranked the country on the 83<sup>rd</sup> out of 187 countries. The GII is a new index for the measurement of gender disparity and is a composite measure which captures the loss of achievement, within a country, due to gender inequality, and uses three dimensions to do so: reproductive health, empowerment, and labour market participation. Jordan's Human Development ranking is 95 out of 187, indicating that there are higher levels of gender quality than would have been expected.

### *Education*

Girls' and women's participation in education is quite close to that of boys' and men's, especially with respect to secondary and tertiary education. According to the 2009 World Development Report (WDR), the net enrolment in secondary schools for girls is slightly higher with 83 per cent compared to 80 per cent for boys. However, women outnumber men in tertiary education as well with 43 per cent women being enrolled compared to 39 per cent men.

### *Labour participation and gender pay gap*

According to the WDR of 2012 the majority of employed women (88 per cent) work in the service sector while 10 per cent work in industry with the remaining 2 per cent in agriculture. The WDR argues that women's economic opportunities may be reduced due to some legal restrictions such as prohibiting women from working during the night, although there may be other views on this issue. Under Article 19 of the Personal Status Law, a woman can stipulate in the marriage contract whether she wishes to obtain further education and/or work, furthermore, the husband cannot object to his wife being in employment if she was already employed before they married.

There is paid maternity leave for women, but this is only for a period of 70 calendar days. UN Data shows that 23 per cent of women are employed as opposed to 24 per cent being unemployed. However, this is not a good indicator of women's participation in the labour market, because employment in the informal economy is not taken into consideration and there is much evidence to show that women tend to cluster in informal, low paid and low prestige sectors. Inequalities in terms of employment opportunities are significant between rural and urban Jordan, especially in rural areas where women have few alternative employment opportunities to agriculture.

Generally the gender pay gap is 45 per cent but it is particularly high in certain sectors such as in manufacturing where the gap between what a man and a woman earns is 69 per cent.

### *Entrepreneurship, access to finance and credit*

Women have the same legal rights as men with respect to access to finance and credit. However, women face a significant disadvantage connected to the collateral required to

secure a loan. It is less likely for women to own assets and more often the husbands' support is needed to acquire a loan. Although, there are several small loan and microfinance programmes, that specifically encourage women's economic participation, it is not common for women to be entrepreneurs. Data shows that only a small portion of 4 per cent of Jordanian entrepreneurs are women.

The women's economic opportunities index (WEO) of the Economist Intelligence Unit ranks Jordan 81<sup>st</sup> out of 113 countries. However, when countries are grouped according to income levels, Jordan is ranked 18<sup>th</sup> amongst the lower middle income countries.

### *Inheritance and property rights*

The Jordanian legal system is based on both the French civil code and the Sharia (Islamic code), with some influence of local tribal traditions. The judicial system incorporates both religious and civil courts, with the Sharia court having jurisdiction in matters related to marriage, divorce and inheritance. Jordanian law provides women with equal access to property and to use, administer or dispose property. Women also have the legal capacity to enter into financial contract without the approval of their husband/guardian. As reported in the WDR it is customary for property to be in the husband's name and property ownership by women is rare. In the event of divorce the women have no legal right to acquire it.

According to Jordanian law, women may inherit from their father, mother, husband or children and, under certain conditions, from other family members. Their share is generally smaller than that to which men are entitled. Female heiresses typically inherit only half as much as male heirs. Social practices that deprive women of their right to inheritance are prohibited under the Personal Status law; however, it is often the case that women waive their inheritance rights in favour of a male relative.

### *Participation in politics and decision making*

Women's political participation is secured by law; they can vote and participate in the politics. The new Election Law provides a 15 seat quota for women in Parliament and 25 per cent quota for women in municipal councils. Increased participation of women in the judicial system is being supported by the government by a programme to fast-track women judges, with the aim of reaching a 15 per cent target of female judges.