**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

STRATEGY FOR JORDAN

As Approved by the Board of Directors at its meeting on 1 October 2014

TABLE OF CONTENTS

EXECUTIVE SUMMARY

This is the first country strategy for the Bank's SEMED region. Jordan, a country of operation since 1 November 2013 is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism, and market economics in accordance with Article 1 of the Agreement Establishing the Bank.

Jordan is a constitutional monarchy that, over the past three years, has undertaken significant political reforms against a backdrop of social, economic and security challenges resulting from regional turmoil and external shocks. Jordan's current Government was formed after extensive consultations between the Palace and the Parliament elected in Q1 2013 and is characterised as both reform-minded, and strongly supportive of private sector empowerment and inclusive development.

After reaching an average growth rate of 6.5 per cent in 2000-09, the economy slowed to an average of 2.6 per cent between 2010 and 2013. The on-going conflict in Syria has disrupted trade and resulted in an influx of over 600,000 registered refugees, putting a strain on public services and finances. In addition, natural gas imports from Egypt have fallen dramatically since 2010, requiring a switch to imports of expensive liquid fuels, and leading to a significant deterioration of Jordan's fiscal and current accounts. Output is expected to gradually pick up to 3.4 per cent in 2014, up from 2.9 per cent in 2013, supported by continued strong private consumption and stronger external demand.

The Bank's experience so far has highlighted various challenges in Jordan's financial landscape, namely a lack of tailored finance for energy efficiency and renewable energy investments across the economy, the need for substantial investment in the energy sector which often requires project finance structures unavailable in the local market. Conversely the broad availability of concessional finance mainly for public sector projects poses challenges to the EBRD's sustainable financing model.

Notwithstanding Jordan's relatively high level of development, there are significant cross-sector challenges to progressing to a sustainable market economy. In light of the Bank's analysis, the following three themes will form the core of EBRD's strategy in Jordan in the coming years:

- **Enhancing energy sustainability and energy efficiency:** supporting Jordan to meet growing demand while reducing the country's energy import dependence i.e. the development of renewable sources of electricity generation and the demonstration of the benefits of energy efficiency schemes for industry and households, as well as assistance for policy reform in the power sector.

- **Enabling dynamic, private sector-led, inclusive growth:** Through its investments, policy dialogue and TC the Bank aims to address low level of competitiveness, high resource intensity, lack of access to finance for SMEs, and substantial skill mismatches in order to boost the role of the private sector as the engine of economic growth and increased employment for the benefit of different population groups including women, the rural population, and youth.

- **Supporting greater commercialisation and private-sector participation in public infrastructure:** Capital investments combined with advisory services involving the private sector through transparent participation schemes are needed for physical improvements, as well as increased operational and technical efficiency, accessibility and availability of public services/ utilities.

The Bank's policy dialogue priorities are fully in line with the above strategy themes. More specifically, EBRD will strive to foster a conducive and sustainable investment environment for renewable energy and enhanced energy efficiency, to improve access to finance for micro, small and medium-sized enterprises e.g. through better legal protection of investors and corporate governance standards, as well as supporting modernisation, decentralisation, and corporatisation of municipal infrastructure and service provision.

This country strategy is the first one to follow a two-stage consultation and approval process with Management, Country Authorities and the Board. It is also the first one to include a results framework for each strategy theme, thus, articulating anticipated achievements more clearly over the four year strategy period. Progress will be tracked against these indicators and reported in regularly in the following manner:

- a mid-term CSRF review of country strategy implementation (i.e. two years after its approval), as part of the Country Strategy Updates (CSUs) followed by the final review at the end of the strategy period for reporting in the new strategy;
  a snapshot review of activities along the strategic themes to be provided on an annual basis in CSUs in-between years (first and third year of implementation).

1 OVERVIEW OF THE BANK'S ACTIVITIES TO DATE

1.1 The Bank's current portfolio

Jordan became a shareholder of the Bank in December 2011 and a potential country of operation in September 2012, when the Bank launched its first operation in line with the Country Assessment (BDS12-197). On 1 November 2013 Jordan became a country of operation. EBRD's portfolio as of April 2014 looks as follows:

EBRD Portfolio (€m) is fully allocated in the Private Sector (100 per cent): 30 April 2014

Sector Business Group	Portfolio	Operating Assets	ABV April 2014
Energy	73	50	0
FI	1	0	1
Corporate	88	0	59
Infrastructure	0	0	0
TOTAL	162	50	60

Source: EBRD Business Performance Navigator

As shown in the table above, the Bank's investments and current portfolio are fully allocated to the private sector and concentrated around energy efficiency and sustainability - starting with EBRD's landmark investment into an independent power plant (IPP4) designed to meet the substantial growth in peaking electricity demand. The Bank's US$80 million financing of the Abdali shopping and entertainment centre in Amman is equally centred on energy and resource efficiency - with 50 per cent of the financing being utilised for energy efficiency, water recycling and renewable energy measures.

The corporate sector financing and pipeline is currently strongest in Pharmaceuticals and Agribusiness and most projects also have a strong energy efficiency component, in particular in light of the recent and expected electricity price hikes. The recent signing (April 2014) of US$50 million with Jordanian Pharmaceutical company Hikma for instance focusses on improved energy efficiency as well as product innovation by financing the acquisition of intellectual property rights (IPRs) which are important to develop new sophisticated medicines at affordable prices.

Building on the small venture capital fund investment "Earlybird digital" in 2013 – EBRD sees further significant potential in the Information, Communication and Technologies (ICT) sector that needs equity/venture capital fund style support to grow. The two microfinance investments with Micro-fund for Women and FINCA demonstrate the significant financing gaps that exist for small MSMEs in Jordan and particularly those owned/led by women. Both of these loans are accompanied by technical assistance to build capacity to upscale lending to meet the growing needs of their best clients. In addition the Bank signed two trade facilitation programmes with local banks to foster interregional and global trade expansion of Jordanian importers and exporters.

1.2 Implementation experience and priorities emerging for future activities

The first EBRD investments highlighted a number of key features of the Jordan financial landscape, namely a lack of tailored finance for energy efficiency and renewable energy investments across the economy, the need for substantial investment in the energy sector with largely project finance structures that the local market is not offering but also the broad availability of concessional finance mainly for public sector projects that poses challenges to the EBRD's sustainable financing model. For the Bank's future activities, those challenges and opportunities are outlined in more detail below.

Energy and energy efficiency is the key theme running through most of the Bank's activities with both, the highest demand for the Bank's financing and the biggest potential to make a significant impact. Over the last three years Jordan has faced a crippling energy crisis due to (a) low energy efficiency, (b) the collapse of the supply of cheap gas from Egypt, (c) difficulties to meet rapidly rising demand, and (d) persistent subsidies, especially for residential consumers.

Notwithstanding a number of significant reform achievements of the government to date, this has resulted in growing pressures on the energy system, with occasional load shedding at times of peak demand, and a very high fiscal deficit as the government underwrites the gap between the cost of expensive energy imports and the end-user tariffs. Jordan thus, continues to face the challenge of reforming its energy sector.

Another serious challenge facing Jordan is the extremely limited water availability which, together with its steadily growing population, is intensifying the country's vulnerability to climate change. The 2006 UNDP Human Development Report classified Jordan as one of the ten most water scarce countries in the world. The Bank's technical assistance four year programme on "Reliable Quality Water in Jordan" is an important step to build capacity in the Ministry of Water and support overarching sector reforms alongside other international efforts.

Competitiveness is a key challenge for Jordanian corporates, both in terms of human capital as well as resource intensive production. The Government's National Employment Strategy and its associated Action Plan aim to address challenges in the labour market particularly with respect to the prevalent skill mismatches and the unequal access to employment opportunities faced by both women and younger people. The corporate investments hitherto undertaken by EBRD focussed to improve competitiveness through supporting innovation via direct investment as well as an investment into a digital Venture Capital (VC) fund vehicle to reach smaller early stage ICT companies. Both investments showcase to their respective sectors how innovation can support growth and competitiveness not only within Jordan but also in a regional context.

SMEs form the backbone of the Jordanian economy; they represent over 95 per cent of businesses and are vital to address labour market challenges. In addition to a couple of trade facilitation programmes the Bank has signed two credit lines with microfinance institutions aiming at increasing access to finance for micro and small enterprises and intends to do more in the future.

The Bank targeted the issue of competitiveness and resources intensity in the agribusiness sector through conducting a joint EBRD-FAO conference on food security. By showcasing the best available technology and production techniques a joint report set out clear priorities for the private and public sectors in Jordan to improve value-added production while increasing resource efficiency.

The regional crisis – in particular the Syrian conflict that has been unfolding since 2011 and the tense political and security situation in Lebanon - have posed significant challenges on Jordan. An influx of over 600,000 Syrian refugees - estimates place actual figure at closer to 1 million - is adding to other refugee communities that the Kingdom has hosted from previous regional conflicts notably, the Palestinian and Iraqi refugees.

The increasing number of refugees, and their diffusion into society beyond the refugee camps, is putting significant pressure on the utilities and services available in certain parts of the country. This exacerbates the already significant gaps in scale and quality of services available in the large urban centres (mainly Amman, where circa 45 per cent of the population live) and several regional areas.

This has implications on the Government's decisions on investment allocation, including on public services' provision. Scarcity of water resources and access to water/wastewater infrastructure is a particular concern in this regard. Investments, technical assistance and policy dialogue described above in respect of water quality, energy efficiency and food security will therefore be continued and if necessary, scaled up by the Bank, where feasible.

2 OPERATIONAL ENVIRONMENT

2.1 Political Context

Jordan is a constitutional monarchy, with extensive powers allocated to the King. Following the 2011 Constitutional amendments, the House of Representatives has become actively involved in the process of choosing the prime minister. Since the adoption of the amendments, and following the January 2013 parliamentary elections, the Parliament has been exercising stronger oversight over the Government, including holding extensive debates on key policies and laws.

In the two years following the political events of Q1 2011, the King has appointed four different prime ministers, and the frequent government turnover has slowed the pace of political and economic reforms. This was exacerbated by the security challenges that the Syrian crisis – such as the rise and spread of extremist groups in the region - has imposed on the country. The current Government under Abdullah Ensour – with 18 months in office one of the longest serving - has undertaken significant steps on a number of reform fronts, including streamlining the public sector and governmental agencies, developing a coherent decade-long economic development plan, and others described below.

Despite the frequent changes in government, the turbulent situation in the region and the challenges related to handling a large number of refugees, Jordan enjoys relative political stability. This is reinforced through the support of several of its neighbours, in particular from the states of the Gulf Cooperation Council (GCC) that have pledged US$5 billion grants over a 5-year period for development projects in Jordan (2012-2017).

Although a range of views persist inside the Parliament and in the society regarding different aspects of the reform agenda (and especially the re-pricing of different energy sources), there is widespread support for progressing these reforms.

2.2 Macroeconomic context

The regional turmoil and external shocks described above are putting a strain on public services. The on-going conflict in Syria has disrupted trade and put a strain on public services and finances. Moreover, the severe disruption of natural gas inflows from Egypt since 2011 resulted in imports of expensive fuels and led to a significant deterioration of Jordan's fiscal and current accounts. The eroding policy space prompted the authorities to obtain an IMF loan through a three-year US$2 billion Standby-Arrangement in August 2012.

Economic growth has been sluggish in Jordan, slowing to an average of 2.6 per cent between 2010 and 2013 following a strong performance of 6.5 per cent in 2000-09. Growth has not been sufficient to generate enough quality jobs, resulting in persistent structural unemployment of around 12 per cent. Moreover, a significant proportion of unemployment is long-term in nature, with 38.2 percent of those unemployed in 2012 being out of a job for at least one year. The economic performance has softened mostly on the back of weak activities in mining, agriculture, and manufacturing. In addition, tourism has been adversely impacted while weak external demand and disruption to trade transport routes have put downward pressure on Jordanian exports.

Pressures on Jordan's external position remain elevated. The current account deficit deteriorated substantially to 15.2 per cent of GDP in 2012—an increase of 5 percentage points of GDP over 2011—primarily due to lower grants and significantly higher energy imports. Since then, however, an influx of grants from the GCC has helped ease the current account deficit during 2013 to reach 10 percent of GDP. It also helped rebuild foreign exchange reserves, which increased from US$6.6 billion (Dec 2012) to US$12.4 billion (Jan 2014). Nonetheless, pressure on the external balance remains elevated mainly due to subdued external demand and labour strikes in the mining sector adversely affecting exports of potash and phosphate. In the meantime, a worsening of the balance of payments has been partially prevented by a modest influx of FDI and remittances.

In response to mounting fiscal pressures over the past few years, the authorities have embarked on an IMF-supported fiscal consolidation plan. The program remains largely on track and has succeeded in narrowing the fiscal deficit (including grants) from 8.3 percent in 2012 to 5.5 per cent in 2013 (partly due to an influx of grants amounting to almost 3 percent of GDP). A reduction in the government's energy subsidy bill has freed up fiscal space to increase capital expenditures, which rose by 50 per cent in 2013. However, gross public debt, including publicly guaranteed debt has increased substantially over the past two years, reaching 86.7 per cent of GDP in 2013.

Looking forward, growth is expected to gradually recover with risks tilted to the downside, amid continued regional turmoil. Output is forecasted to pick up in 2014, supported by continued strong private consumption and stronger external demand.

2.3 Structural reform context

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, Canada, Turkey and the EU (including reaching an advanced status agreement with the EU in 2010). Jordan has one of the most open economies in the region, and has strong linkages with its neighbours in terms of trade, remittances, FDI, and tourism.

Energy sector reform is a high priority for Jordan, given the economy's energy intensity and its reliance on unstable supply sources. The Government has previously made significant progress with energy sector reform: the sector is fully unbundled, distribution is all private and generation has growing private sector participation. Further commitments have been made to tackle the country's high dependence on energy imports; notably Jordan's Energy Strategy has set a target to reduce energy consumption by 20 per cent by 2020. Electricity tariffs have been gradually raised since August 2013 are expected to increase further between now and 2017 according to plans published by Jordan's Electricity Regulation Commission. These tariff rises aim to bring the heavily indebted national electricity company (NEPCO) to cost recovery in line with Jordan's Energy Strategy (in 2013 the losses at NEPCO were estimated at 4.6 per cent of GDP). The government also prepared by-laws to help implement the 2012 Law on Renewable Energy, including a by-law on energy efficiency and on renewable energy pricing (see section 2.7).

Jordan has also made progress in financial sector reforms, including the development of an appropriate regulatory framework and supervision. The Central Bank has stepped up off-site monitoring of banks and has started introducing Basel III. However, the state's heavy reliance on bank lending has increased banks' sovereign exposures. Revisions have also been made to the corporate governance code, the securitisation law and the regulation on consumer protection. The country's first credit bureau has been licensed, and is envisaged to become operational in 2014. A new Islamic sukuk law (Islamic bonds), was approved in late 2012.

Jordan has made substantial progress in privatisation, reducing existing government ownership across most economic sectors (transport, tourism, electricity, and telecommunications). The recent conclusion of a high-level Privatisation Evaluation Committee – to which EBRD had nominated one member - also showcased the government's willingness to assess the privatisation process in a transparent fashion and benchmark it to international best practice. Special Economic Zones and Qualifying Industrial Zones have been established to host its offshore trade sector and attract investments into the ICT sectors.

2.4 Access to capital

The financial sector in Jordan is relatively well developed and has remained resilient throughout the financial crisis and the regional turmoil. 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 stand at B1/stable (Moody's) and BB-/negative (S&P).

Credit extended by licensed banks (85 per cent of which is in the form of loans and advances) grew by 6.2 per cent y-o-y at end-2013, down from 12.5 per cent a year prior, and reaching the lowest annual growth rate since 2010. The growth in 2013 was driven by lending to the private sector, which grew by 7.1 per cent y-o-y at end-2013, up from 6.4 per cent in 2012. The pace of growth has continued to stagnate in the first two months of 2014, with total credit growing by 4.2 per cent y-o-y at February 2014. Loans and advances rose from JOD15.2 billion at end-2012 to JOD16.3 billion at end-2013, partly reflecting the moderation in real economic growth. The FX share in total credit to the private sector remained low at 14 per cent in February 2014.

The banking sector remains highly liquid, with a loan to deposit ratio of 68.6 per cent at end-2013 (and declining to 65.8 per cent at February 2014). 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 23.9 per cent at end-2013. This is somewhat higher than the share of FX in loans and advances. Moreover, NPLs have witnessed steady declines over the last two years, showing signs of recovery from the financial crisis and reaching 7.4 per cent in the first half of 2013 (compared to 8.5 per cent in 2011), but still below their pre-financial crisis levels of 4.2 per cent (in 2008).

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 73 per cent of GDP in 2013, but, there is limited availability of private equity and finance for the SME universe.

The Local Currency and Capital Market Initiative in Jordan

Subsequent to the G-8 Finance Ministers' Meeting in Marseille in September 2011, the International Financial Institutions (IFIs) concerned, upon the request of the Arab Spring governments, jointly agreed on eight focus areas of activity under the Deauville Partnership, with the EBRD and the AMF have been tasked to lead the stream on the development of local currency capital markets in four transition countries: Egypt, Jordan, Morocco, and Tunisia. It was agreed that the IFIs will provide technical assistance support in a coordinated manner according to each institution’s mandate and expertise to help these countries deepen local capital markets.

Within this context, the assessment for Jordan’s capital markets was conducted in September 2012, with EBRD, AMF, the European Investment Bank, the International Monetary Fund and the World Bank covering the securities markets, and a broader spectrum of capital markets, including the banking sector and money market, investor base and market infrastructure. The visit was followed by capital market workshops in June 2013, November 2013 and March 2014 with key stakeholders including the Jordan Securities Commission (JSC), the Amman Stock Exchange (ASE), the Ministry of Finance (MoF), the Central Bank of Jordan (CBJ), the Social Security Investment Fund (SSIF), Depositary Corporation, local banks, local investment banks, Jordan Loan Guarantee Corporation, foreign banks, global custody service providers and local capital markets associations and the CFA society of Jordan.

At the workshop held on March 11th, 2014 in Amman, the Jordan Capital Markets Development Action Plan was presented with a comprehensive set of prioritized recommendations agreed upon with the Jordanian authorities and all key stakeholders towards the substantial transformation of the Jordanian capital markets. These recommendations were filtered and tailored during the workshops by key market players and regulators in addition to the background joint IFI capital markets assessment exercise and were consolidated to constitute an Action Plan. EBRD will now work with the authorities and other IFIs active in the sector to identify priority areas which fit EBRD’s specific mandate and complement ongoing activities in the sector.

An important additional factor to consider is the significant presence of other international financial institutions (IFIs) and donor agencies, as well as all major regional and bilateral organisations, partially driven by Jordan's geopolitical role. These institutions continue to be very active in providing substantial grants and subsidised project financing, having switched from broad based budget support over the last two years. Availability of concessional financing is a phenomenon that is not constraint to the usual public sector infrastructure projects but extends significantly further to the municipal and energy sectors as well as even the financial sector (in particular for SME programmes).

2.5 Business environment and legal context

The business environment in Jordan faces significant difficulties reflected by the fact that Jordan ranks 119th out of 189 countries in the World Bank's 2014 Doing Business ranking, lagging significantly behind Tunisia (51st) and Morocco (87th). Key obstacles remain in access to credit, as well as in enforcing contracts and protecting investors. In addition, policy uncertainty continues to hamper business decisions.

Access to credit is constrained especially for MSMEs and even more so for women-led business. This relates, to issues such as the difficulty accessing collateral and the scope of accessing credit information (both private and public) which is a primary factor behind Jordan's low score on the sub-index of the Doing Business ranking for 'access to credit'. Should the private credit bureau recently licensed become functional, along with public credit registries, Jordan would see a significant facilitation in access to credit and an improvement in its overall score.

Bureaucratic hurdles facing businesses remain burdensome, even with the streamlined procedures adopted by the Jordan Investment Board (JIB). Also, the competition authorities lack of independence (in case of the competition commission) or capacity for active enforcement, despite the improvements introduced to the competition law amended in 2011. At the same time, the mandate of the Anti-Corruption Commission under the Government's Anti-Corruption Strategy remains relatively narrow, with access to information being difficult especially for the tendering process of major public projects.

Meanwhile, legislation relating to corporate governance, secured transactions and public-private partnerships needs modernising. On a positive note, a draft investment promotion law, which sets up a one-stop shop for investors, as well as a new insolvency and bankruptcy draft law is awaiting parliamentary review. See Annex 5 for a more detailed assessment of the legal environment.

2.6 Social context

Despite growth in investment and GDP over the past decade, unemployment in Jordan has remained persistently high at 12 per cent, due in part to a rapidly growing labour force. The labour force participation rate is among the lowest in the world (40 per cent overall) with a significant gender gap as described below. It is particularly young people who struggle to find jobs, similar to other countries in the SEMED region. Almost 50 percent of the age group 15 – 24 years are unemployed and over 20 percent are not in employment, education or training. Unemployment is particularly high amongst graduates, especially female bachelor degree holders and many have to leave so as to find employment elsewhere, mainly in the

GCC countries. Furthermore, a large proportion of unemployment is long-term in nature; as of 2012, over 38 per cent of unemployed persons had been unemployed for over a year.

Reasons for these issues include: an employment system that protects existing employees in favour of new entrants, an insufficient number of available graduate level employment opportunities in the country as well as a decrease in the quality and focus of tertiary education which does not reflect the skill requirements of private sector employers. Education attainment levels in Jordan are the highest among the SEMED countries however, with little or no adequate career guidance, practical training and preparation for the job market, the progression routes from education into employment are weak. In addition, approximately 67 percent of Jordanian workers work in the informal sector, which is one of the highest rates across the SEMED region. These are mostly young males from poor backgrounds with little schooling.

Low labour force participation among women

With only 16.6 per cent women participating in Jordan's total labour force at Q4/2013 the level of female employment is very low even by regional standards and despite high levels of female education. This is attributed to strong social norms regarding women's and men's roles including high value given to the idea of women as care givers and negatives concepts associated with working women. Women are also substantially less likely to set up their own business, because of inheritance rights and divorce rights that favour men. Whilst women entrepreneurs are predominantly involved in SMEs in the service and non-durable manufacturing sectors, there are knowledge and confidence gaps reported by many women not believing that they have the necessary skills or expertise to start a business. The above suggests that they can be effectively targeted by the Bank's operational response planned within Theme 2.

The workforce in Jordan has a significant share of migrant workers (25 per cent), the majority of whom are from Egypt. These migrant workers now constitute almost 50 percent of employees in the private sector, up from 20 per cent only 10 years ago. With 90 percent having only primary school education, they are typically employed in low skill jobs in agriculture, construction, services and manufacturing in Jordan's special industrial zones.

The government has taken some positive steps to address the issues outlined above. As part of its National Agenda to reduce unemployment to 6.8 percent by 2017, it set out a National Employment Strategy (2011 – 2020) as well as an E-TVET (Employment, Technical and Vocational Education and Training) framework to introduce focused career guidance in partnership with private sector employers, an increased focus on employability and soft skills as part of the curriculum. While these measures are welcome, implementation still remains slow.

Within Jordan, regional disparities exist in terms of quality and access to services and resources, particularly water and food, which remain a key concern in rural areas. There are also large urban-rural gaps in access and quality of health services. In addition, access to land is limited, in particular for women, resulting in informal employment and constrained access to credit. As a result, competition for local jobs has increased substantially, as have overall levels of poverty, especially in rural regions, where almost a fifth of the population is classified as poor.

2.7 Energy efficiency and climate change context

Jordan had to import about 97 per cent of the energy in 2013, exposing the economy to international commodity price volatility. High energy demand with growth rates reaching 6.4 per cent between 2008 and 2020 amplifies this burden. At the same time, the country's energy use is inefficient, with intensity being around twice higher than the average energy intensity in the EU. In terms of renewable energy (RE) use, the Solar Water Heater (SWH) penetration in 2010 was 12 per cent. Hence, reducing energy import dependency by diversifying energy sources and increasing energy efficiency is a top priority.

On the regulatory front, a number of improvements were achieved in 2012 and 2013. First, the Parliament approved the Renewable Energy and Energy Efficiency Law which manifested a vital step forward to increasing the renewable energy generation capacity in Jordan. Investors are now able to develop renewable energy projects and propose those directly to the Government, as opposed to having to wait for a Government initiated tender. Second, the Government announced the Energy Efficiency (EE) bylaw which facilitated the establishment of the Jordan's Renewable Energy & Energy Efficiency Fund. Finally, the approval of the Jordan's National Energy Efficiency Action Plan (NEEAP) in June 2013 has set an ambitious target for the RE generation (10 per cent by 2020).

The scarcity of water in Jordan is another, major constraint that will be exacerbated by climate change. Jordan's Initial National Communication (INC) to the United Nations Framework Convention to Climate Change (UNFCCC) foresees that over the next three decades, Jordan will witness a rise in temperature, drop in rainfall resulting in reduced water availability. The Bank aims to address these substantial challenges within two of its strategy themes by:

- Addressing the demand-side in Theme 2 e.g. through financing and promoting the use of water-efficient technologies in the corporate sector, and
- The supply side in Theme 3 by improving efficiency of water and wastewater networks and public utilities.

3 STRATEGIC ORIENTATIONS

3.1 Strategic directions

Notwithstanding Jordan's relatively high level of development in comparison to the SEMED region and the progress achieved to-date in a number of structural reform areas, there are significant cross-sector challenges to progressing to a sustainable market economy. In light of the Bank's analysis of both challenges and demand factors, the following three themes will form the core of EBRD's strategy in Jordan in the coming years:

- **Enhancing energy sustainability and energy efficiency:** given the substantial challenges in the sector, there is a need to diversify energy sources, reduce losses, increase transmission and distribution capacity, support the liberalisation of the fuel distribution markets and promote a shift towards more energy-efficient production. Comprehensive tariff reforms are needed in the power sector to bring the state-owned single buyer NEPCO back to cost recovery and to reduce mounting arrears. Furthermore, the development of renewable sources of electricity generation and the demonstration of the benefits of energy efficiency schemes will be required.

- **Enabling dynamic, private sector-led, inclusive growth:** burdensome bureaucracy, high resource intensity, lack of access to finance for SMEs, and substantial skill mismatches have resulted in low competitiveness of the private sector. Through its investments, policy dialogue and Technical Cooperation (TC) the Bank aims to address these obstacles in order to boost the role of the private sector as the engine of economic growth and increased employment. This would in particular be expected from service-intensive sectors such as construction, tourism/ hospitality and ICT and shall benefit different population groups, including such relatively disadvantaged segments as women, the rural population, youth and refugees. In addition the Bank shall work with its clients to develop policies and practices that promote and facilitate employment opportunities for these groups.

- **Supporting greater commercialisation and private-sector participation in public infrastructure:** Public utilities and infrastructure projects face difficulties in attracting private capital and improving efficiency of service provision. EBRD investments are needed for physical improvements, as well as increased operational and technical efficiency, accessibility and availability of services for all population groups. Sound structuring of such investments with a view to involving the private sector through transparent PSP and maximising the sustainable development and transition impact of scarce public investment is a major challenge.

These strategic directions are in line with the objectives set forth by the Jordanian government in its *National Agenda 2006-2015* and the *Government Work Plan 2013-2016* as well as the new *Economic and Social Policies Framework 2015-2025 (new Economic Blueprint)* currently being developed.

3.2 Key challenges and Bank activities

3.2.1 Theme 1: Enhancing energy sustainability and energy efficiency

Transition challenges

- Institutional and financial barriers deter investments. The state-owned electricity transmission company NEPCO performs the duties of market operator and single buyer. Creating an effective wholesale market would provide more appropriate signals for new investment for increased generation and transmission capacity.
- The energy sector in Jordan faces a number of challenges, including heavy dependence on imported fuels, rising costs and interrupted supply of imported oil and gas coupled with high energy intensity and increasing electricity consumption growth. As a result, further diversification of energy sources and enhanced energy efficiency will be crucial for Jordan.
- Tariff reforms are required to bring NEPCO back to cost recovery. To this end, the government has committed to a sequence of tariff increases under the IMF stand-by arrangement, which will be a precondition for reducing financial losses at NEPCO. Significant balance sheet restructuring will also be required to address the accumulated payment arrears at NEPCO.
- A clear action plan is needed to meet energy efficiency and renewable energy targets (10 per cent of the country's electricity needs by 2020) and resolve regulatory uncertainty. This includes strengthening market regulations to provide appropriate incentives for better demand side management and developing a competitive incentive system for renewable energy.

Operational response

- The Bank will focus its investments on power generation projects that stimulate wider private sector participation, increase capacity in light of rapid demand growth, improve the efficiency of existing plants, and diversify energy sources. This will include in particular sustained support for Jordan's plan to develop a significant volume of renewable energy capacity (particularly solar and wind). Given the current near-zero level of penetration this represents a major challenge in mobilising the finance required to achieve a critical mass. The Bank will also support other opportunities to promote sustainable energy generation, such as small-scale decentralised power generation initiatives and projects based on bilateral private contracting.
- The Bank will consider investing in improving power transmission and distribution to support increases in capacity, additional renewable generation, reduction in losses, introduction of smart grid and metering and other demand side measures.
- The Bank will contribute to improving energy efficiency and resource efficiency across the whole economy, including by SMEs and households. In this context, EBRD will seek to provide dedicated financing to energy-intensive industries and companies and to engage with them on energy efficiency projects. It will also conduct capacity building with local commercial banks, either on a stand-alone basis, or in co-ordination with other IFIs (for instance through the Jordan Sustainable Energy Financing Facility – JorSEFF).

- Technical cooperation will be utilised to develop capacity for innovative products for example at local banks to finance energy efficiency and small scale renewable energy investments at the SME and household level. This will include capacity building both at the local bank level as well as at the SME level.
- The above investments will be supplemented by direct engagement with private sector high-energy intensive corporates, e.g. in the cement or steel segments, with a view to addressing energy efficiency challenges by individual projects as well as utilising SBS advisory services in order to increase energy efficiency practices in small and medium enterprises. The Bank will launch a new vehicle to support innovative, clean technologies in energy intensive private industries (FINTECC) in Jordan. These will be investments with a high demonstration effect, setting new standards for the country.
- In the oil and gas sector, the Bank will support private operators, in particular by improving energy efficiency. The Bank will also support new import infrastructure for oil and gas products in Aqaba (near to the new LNG terminal for example) to improve energy security and expanded storage, transportation and refining capacity to foster greater competition in the midstream and downstream sectors. Finally, the Bank will also seek to assist the indirectly state-controlled Jordanian refinery company in improving corporate governance and modernising its operations.

Policy dialogue and advice

- Considering the potential for renewable energy and enhanced energy efficiency/ resource efficiency, the Bank will focus its policy dialogue and technical assistance on fostering a conducive and sustainable investment environment in these areas. This will include policy dialogue, in close coordination with other IFIs and multi-/bilateral donors, with the energy regulator, respective Ministries and state-owned companies to:
  i. improve the clarity and effectiveness of the regulatory framework with a view to deregulate the oil distribution market including through price liberalisation and to support renewable energy investments (both large generation and small scale decentralised initiatives as well as corporate and household on-site solutions),
  ii. facilitate more innovative approaches to sustainable energy such as demand side response or wheeling arrangements to allow bilateral sales of renewable energy,
  iii. support public and private sector initiatives and awareness for more energy efficient solutions.

The Results Framework for Theme 1 is illustrated on the following page.

Results Framework for Theme 1: Enhancing energy sustainability and -efficiency

#	CHALLENGES	OBJECTIVES	ACTIVITIES	INDICATORS [metric/ baseline]
i	Heavy dependence on imported fuels; high energy intensity across sectors	**To increase capacity of domestic energy generation, transmission and distribution including through network improvements and a diversification of sources**	▪ Investments in power generation (including renewables) –transmission and -distribution projects Financing and policy dialogue to support new import infrastructure and private operators in the oil and gas sector/ as well as related products e.g. Aqaba	▪ Increased energy generation/ transmission and distribution capacity through Bank-financed projects [e.g. MW installed/ baseline 0] ▪ *Increase in share of electricity generated from renewables in the country's overall fuel mix [Gov target 2020 = 10 per cent*]
ii	Institutional, financial, and knowledge barriers deter SE investments and the development of intermediated SE finance	**To introduce investment schemes and innovative products to finance energy efficiency measures and renewable energy projects**	▪ Direct investments in energy-intensive industries and companies (e.g. real estate/ construction) and RE developers ▪ Financing and capacity building provided with SEFF credit lines to the financial sector	▪ Energy savings (e.g. tons of oil equivalent) resulting from the Bank's investments [baseline 0]
iii	Need for structural reforms to support sustainable energy	**To effectively and efficiently contribute to progress in overall reform including through promoting the application of new laws and regulations**	▪ Policy advice/dialogue with the energy regulator, Ministry of Energy, in close co-ordination with other IFIs ▪ TC support to improve legal and regulatory frameworks for e.g. the oil distribution market, and to overcome barriers to EE/RE (again it might be too broad)	▪ Qualitative account of successful creation/strengthening of relevant legal and regulatory framework based on TIMS benchmarks and TC results [baseline N/A] ▪ *Δ ATC score for Sustainable Energy [baseline: TBC[1]]*

[1] E.g. by monitoring the change in numerical value of its sub-indicator: 'institutions, incentives and outcomes'

3.2.2 Theme 2: Enabling dynamic, private sector-led, inclusive growth

Transition challenges

- Competitiveness across industries and sectors needs to be raised. High energy intensity of the industrial sector has kept production costs high and has limited competiveness gains. As such, there is a need to improve energy and water-efficiency standards, specifically in the rural areas. In addition, Jordanian enterprises often face other problems related to restrictive labour practices, outdated HR policies and procedures, poor financial management, low productivity and lack of innovation and technology transfer. A persistent skill mismatch between educational outcomes and the skill requirements of the private sector poses an impediment to achieving a more inclusive growth specifically for young, female graduates who are seeking to enter the labour market. About a third of firms report an inadequately educated workforce as a major constraint to doing business. This is a particular concern in economically less developed regions outside of the major conurbations.
- Limited access to finance further constrains competitiveness and remains an important impediment to SME growth. There is limited availability of private equity and finance for SMEs. Lending to SMEs is particularly constrained by local banks, as there seems to be no real willingness to develop that segment. The practice of collateral-based lending puts small borrowers, women in particular, in a difficult position to access credit. Further challenges include lack of prerequisite financial literacy (such as the ability to develop a sound investment plan, basic knowledge on accounting) and management skills among SME entrepreneurs.
- Most corporates are private and family owned and suffer from low corporate governance standards. Excessive centralisation of management and lack of corporate governance is a common pattern at family-owned businesses. The lack of efficacy of corporate boards is cited as a significant impediment towards achieving greater corporate governance, particularly in large companies.
- Reforms to the business environment are needed. Doing business remains hampered by difficulties in enforcing contracts and resolving insolvencies, and in dealing with different layers of government bureaucracy.

Operational response

- The Bank will address these transition challenges both via direct investments as well as investments via partner banks to specifically reach MSMEs. The Bank will promote competitiveness through loans and direct investments in enterprises across the economy with a particular focus on the management of scarce resources, for example through promoting the use of efficient water- or energy-related technologies in resource intensive sectors such as agriculture and construction.
- Financing the MSME universe through financial intermediaries will be a particular focus, including debt and equity investments in financial intermediaries, training, capacity building, risk sharing and new product developments with partner banks, private equity and venture capital funds, insurance companies as well as microfinance institutions level.
- Engagement with institutional investors and capital market intermediaries could also be considered with a view to support both improved corporate governance for larger and more developed companies as well as the growth of the pension fund/ asset

management sector for the benefit of the entire entrepreneurial sector, regardless of its size.

- The Bank will aim to support innovative and export-oriented companies in sectors that foster competitiveness through more inclusive growth and sustainable employment opportunities and progression routes from training into employment. Sectors particularly conducive are ICT, construction, hospitality/ tourism and the general service sector. EBRD will continue to engage directly with smaller enterprises through LEF and similar frameworks.
- The Bank will support corporate governance improvements of smaller companies under the Small Business Initiative through both its SBS programme as well as investments to enhance financial literacy, business and investment planning. As EBRD gains experience in the country, it will also offer its integrated 'Women in Business' programme to support female entrepreneurs by both building the capacity and product range of partner financial institutions and with advice and assistance including in accessing finance, developing business skills and networks.
- Furthermore, the Bank will be providing advice on the development of a sustainable infrastructure of local business advisory services (with specific outreach to women led businesses) and to improve the innovation business environment through development of a robust private equity and venture capital ecosystem.

Policy dialogue and advice

- Considering lack of finance as one of the principal impediments to SME growth and competitiveness, the Bank will prioritise its policy dialogue and advisory services along a three pronged approach:
  i. The Bank will intensify its active policy dialogue with the financial sector including advisory services and capacity building at financial intermediaries, banks and microfinance institutions, with a special focus on MSME- and women-led businesses -related lending skills and "green" financing products.
  ii. Policy dialogue with the regulator could for instance focus on the planned integration of microfinance institutions under the supervisory umbrella of the Central Bank.
  iii. Together with the Arab Monetary Fund (AMF) the Bank co-leads and will actively pursue during the strategy period the joint initiative to comprehensively develop local currency and local capital markets in Jordan. In addition. the Bank will be working with all stakeholders to enhance investor protection, corporate governance, support streamlining of licensing procedures and build capacity and enforcement capabilities of the Competition Authorities.
- The Bank will continue to address the key competitiveness challenges in the agribusiness sector on water use and promote the improvement of quality and hygiene standards to enhance export opportunities, and streamlining trade and certification regulations through public-private dialogue (Private Sector for Food Security Initiative)
- Finally, the Bank will engage with relevant Ministries and other stakeholders to see if some of the employment restrictions on women working in certain sectors (such as factories) can be adapted and/or made more flexible to enable more women to enter the labour force.

The Results Framework for Theme 2 is provided overleaf.

Results Framework for Theme 2: Enabling dynamic, private sector-led, inclusive growth

#	CHALLENGES	OBJECTIVES	ACTIVITIES	INDICATORS [metric/ baseline]
i	Financial infrastructure and regulatory framework constrain access to finance and competition especially for the small corporate segment	**To support access to and diversification of small business financing including in local currency**	▪ Direct/ indirect financing of MSMEs through financial intermediaries, risk sharing, private equity, VC and MFI ▪ Policy dialogue/ TC for improved business regulatory environment and local capital markets (LC2)	▪ Total loans (# and volume) disbursed in institutions supported by EBRD MSME-related credit lines [baseline 0] ▪ Qualitative account of changes to relevant regulatory environment TIMS benchmarks and TC results [baseline N/A]
ii	Business activities and competitiveness are confined by low financial literacy, management skills, poor corporate governance and insufficient capacity for innovation and technology transfer	**To strengthen competitiveness through introduction of business-related skills, international management practice and good corporate governance aiming at demonstration effects across market segments**	▪ Direct and indirect investments (see above) ▪ Advisory services to individual companies (BAS and EGP) ▪ Policy dialogue and TC for improving competitiveness and export opportunities (e.g. food security initiative)	▪ # of clients with improved business performance reflected in relevant TIMS benchmarks and SBS results [baseline: N/A] ▪ # of clients that successfully introduce HR policies to promote gender equality in the workplace [baseline 0] ▪ Δ *Business innovation and sophistication index*[2] *[2014 baseline: 51st]*
iii	Need for increased and sustainable opportunities for employment in light of regional disparities, high youth unemployment and NEET[3] rates, mass influx of refugees and low female participation in	**To support employment opportunities through investments in private sector activities and raise awareness on equal access for different population groups**	▪ Investments in key-sectors conducive for employment e.g. ICT, tourism, agribusiness, transport, distribution and logistics/ services particularly in economically less advanced regions	▪ # of SBS clients reporting increased employment, by gender [baseline 0] ▪ *Δ inclusion gap sub-indicators on the relevant standards/ regulations[baseline: see Annex 4]*

[2] Source: Global Competitive Index (World Economic Forum)
[3] "Not in education, employment, training" (NEET).

	the country's workforce		▪ Development of youth inclusion elements such as work based training opportunities ▪ Provision of technical and advisory services e.g. in the frame of the 'Women in Business' programme	

3.2.3 *Theme 3: Support for commercialisation and Private Sector Participation (PSP) in infrastructure*

Transition challenges

- Decision making in public utility companies remains largely centralised, and there is a need for further corporatisation and commercialisation of these companies to increase efficiency. In addition, performance based management arrangements are still at an early stage, and private sector participation remains low; financing structures are sovereign only.
- Improving the financial viability of public utility operations is a challenge. This could involve further reform of the tariff system and support for decentralised financing solutions as a complement to sovereign financing.
- Despite Jordan's extreme water scarcity, the water sector is highly inefficient. On the supply-side, water infrastructure is often inadequate, and utilities suffer from low operational performance coupled with steeply increasing water demand and overall scarce water resources. Water tariffs are also below cost-recovery levels and do not incentivise efficiency measures. There is an important energy-water nexus, as inefficient water use often incurs higher energy costs. In the water sector, no independent regulatory body exists, and tariffs are set by the cabinet of ministers. There is a need to revise the current regulatory mechanisms to improve service provision and increase efficiency, as well as to streamline policy and regulatory functions to eliminate responsibility overlaps between different state bodies.
- The transport sector remains overregulated which distorts private sector involvement. Greater private sector provision of services is needed via transparent Public Private Partnerships (PPP) in the road, airport and port sectors to modernise the transport system, including in operation and maintenance and logistics activities.
- Improving the country's port and airport infrastructure and road network as well as encouraging the development of logistics platforms and intermodal facilities will contribute to regional integration through linkages between the core transport network and less well connected areas as well as improving the country's access to international markets.

Operational response

- Focus of the Bank's investments in the infrastructure area will be on water and wastewater, urban transport, and solid waste management in order to improve customer responsive services, operational efficiency, a gradual shift towards cost recovery tariffs (taking into consideration affordability and access for more vulnerable households and groups), and to accompany the improvement in service quality and reliability as a result of capex investments. A special emphasis will be given to energy and water efficiency as part of the Bank's Sustainable Resource Initiative. In close coordination with other IFIs the Bank will encompass supply-side measures such as upgrades of water supply systems and also consider larger infrastructure projects such as desalination within the framework of a robust water efficiency strategy.
- The Bank will support alternative energy solutions including waste to energy and energy efficiency in public service provision including supporting investments into on-site renewable energy generation for public sector entities.
- The Bank will seek to support private sector participation across the municipal and transport sectors including via promoting and financing well-structured PPPs given

the recent PPP framework and legislation, complementing selective sovereign financing (noting the restricted sovereign debt capacity).

- With the public sector, and complementing other IFIs activities, the Bank will invest in supporting efficiency improvements in urban infrastructure, port infrastructure, sustainable and commercial railway network expansion and national transport operators, structured on a corporate basis or with private sector participation.
- Investments in the transport sectors will be done in the context of Jordan's new overall transport strategy (expected to be approved end 2014) which aims at reducing the reliance on road and aims particular at improvements to the port infrastructure.
- The Bank will support the development and modernisation of transport links between the core transport networks and less well connected and served areas, with a focus on road maintenance and safety, intermodal and logistics platforms.
- The Bank will work on the transport sector supporting further development of much needed basic infrastructure including airports, roads, railways or ports, with the view of expanding capacity and allowing the development of commercial operations as well as promoting financial sustainability, accessibility and private sector involvement.

Policy dialogue

- Complementing the Bank's investments the policy dialogue focus in the municipal sectors will be on:
    - Support for decentralisation, corporatisation, and modernisation of municipal infrastructure and service provision as well as the gradual shift towards cost recovery tariffs – while considering affordability and access to municipal services – both through policy dialogue with the authorities and targeted TC including for capacity building at the regulatory level.
    - Specifically, the Bank will continue supporting capacity building at the Water Authority of Jordan to achieve more private sector participation in the water sector via its four year programme on "Reliable Quality Water in Jordan" that was the first project funded by the Deauville Transition Fund back in December 2012. The Bank will also seek opportunities to assist the authorities on policy measures to incentivise better water efficiency such as tariff reform and programmes to increase public awareness of the issues.
- In the transport sector the Bank's policy dialogue efforts will prioritise:
    - Complementing other IFI activities the Bank will promote sector reform including commercialisation of national transport operators, supporting improvements to port infrastructure as well as railway network expansion.
    - In close coordination with multi- and bilateral partners the Bank will foster institutional capacity building and regulatory reform in the urban and national transport sector.

The Results Framework for Theme 3 is illustrated on the following page.

Results Framework for Theme 3: Support for commercialisation and PSP in infrastructure

#	CHALLENGES	OBJECTIVES	ACTIVITIES	INDICATORS [metric/ baseline]
i	Operational performance challenges to meet increasing demand with scarce resources coupled with a lack of demand side saving incentives	**To support operational and technical performance improvements in infrastructure e.g. increased efficiency, accessibility and quality of service provision**	▪ Direct investments in utilities and public service provision incl. water, waste water, urban trans-port; solid waste management and port infrastructure ▪ Implementation of the 'Reliable Quality Water in Jordan' TC program with the Jordan Water Authority (JWA)	▪ Improvement in efficiency and/or quality in service delivery e.g. reduction of water losses, realised by clients [TIMS, baseline N/A] ▪ # of investments or TC projects successfully tackling improved access to services for vulnerable groups e.g. women, refugees, rural population [baseline 0] ▪ 'Unit of excellence' is successfully operating at the JWA [TCRM, baseline 0]
ii	Poor management practice and insufficient incentives for better financial/ operational performance	**To contribute to increased corporatisation and commercialisation of infrastructural services including through PSP**	▪ Investments and parallel financing with other IFIs in public utility and transport operators ▪ TC implementation incl. advisory services, corporate governance/ management development and capacity building	▪ Successful introduction of PSP/ Corporate Development Plan / International Financial Reporting Standards [TIMS, baseline 0] ▪ Δ in financial performance of clients [baseline N/A]
iii	Lending constraints/ lack of decentralised financing solutions as well as insufficient cost-coverage of utility tariffs limit opportunities for investments	**To provide access to capital and promote innovative financial solutions to investment needs**	▪ Investments into selected, reform-committed public utility providers ▪ Policy dialogue including T2T and TC with relevant authorities (at central and local level)	▪ # of investment projects financed or facilitated on commercial terms by the Bank [baseline 0] ▪ Qualitative account of relevant regulatory changes resulting from EBRD activities [baseline N/A]

3.3 Potential risks to Country Strategy implementation

Successful implementation of the country strategy will necessarily depend on a number of factors outside the Bank's control. Some degree of political risk, for example, will always be present when the Bank's proposed actions or a portion thereof, are politically contentious, require consultation with legislative or judicial bodies, or are to be implemented over time. Likewise, internal and external economic conditions – such as prevailing foreign exchange regimes or the cost of importing energy resources – can rapidly change, thereby potentially altering dramatically the economic or fiscal rationale for certain measures. Purely technical hurdles to implementation can also arise that were not foreseeable when the program of action was designed. As best it can, the Bank will work to address and mitigate these risks through proactive and sustained engagement with the Government as well as other international partners on site.

General risks that are faced by EBRD - as well as other stakeholders in Jordan - relate to political stability and perseverance to implement required reforms. The current Government installed in 2013 has enjoyed relative 'longevity' in comparison to the frequent government turnovers in the years before. Continuity will be crucial for a successful implementation of structural reforms. For instance in **Theme 1** the envisaged electricity tariff increases do not enjoy unanimous support throughout the society but will be a pre-condition to advance the transition to a sustainable economy. Another risk within the same theme is the uncertain energy imports from Egypt with potential negative implications on both, the energy security as well as the state budget.

The business environment in Jordan, and thus the private sector development – **Theme 2 -** is exposed to significant risks emerging from the unrest in Syria and the region. For instance Agribusiness exporters suffer enormously from the closure of their main export route to Europe and need to increase value-added, find new export arrangements or even new export markets for their products. Furthermore, the growing number of refugees is exerting pressure on labour markets as the refugees compete with Jordanian nationals (and other migrant workers) for jobs. Social tensions are likely and highlight the need to create inclusive and sustainable employment opportunities. Those in turn require a notable improvement in business' access to finance e.g. the effective establishment of the credit information bureau and an improved legislation including on insolvency.

Another serious challenge is the extremely limited water availability which, together with Jordan's steadily growing population and the large number of refugees - is intensifying the country's vulnerability to climate change. Scarcity of water resources and access to water/ wastewater infrastructure is a particular concern in this regard and will be addressed by the Bank through investments in water-saving technology across the economy and notably the infrastructural **Theme 3**. In addition, the Bank's technical assistance on "Reliable Quality Water in Jordan" is one way to mitigate this risk alongside other international efforts.

An important risk factor for EBRD's specific sustainable financing *modus operandi* is the significant presence of other IFIs and donor agencies, coupled with substantial grant-funded support that has switched from broad based budget support to project financing. This will be a continued challenge for the Bank working on the basis of sound banking principles, seeking transition impact and introducing cost-sharing schemes for technical assistance especially in the area of energy/ infrastructure financing as well as provision of credit lines/ SME support.

3.4 Environmental and Social Implications of Bank Proposed Activities

The Bank's Environmental and Social Policy and Performance Requirements will apply to all projects carried out in Jordan. The Bank will work closely with clients on developing Environmental and Social Action Plans with the objective of mitigating potential negative impacts and ensuring compliance with Jordanian national standards and the applicable EBRD Performance Requirements.

The most pressing environmental issue facing Jordan is the substantial imbalance between water demand and available resources that results in over-pumping of aquifers, municipal demand undersupply, and restrictions to agricultural irrigation, as well as decreased base flow, degradation of wetlands, and rising groundwater salinity. To help addressing these issues, the Bank will promote the introduction of resource-efficient technologies where possible and relevant in its projects, particularly in its investments in infrastructure services, energy, and agribusiness.

Where investments are located in Jordan's pockets of poverty and/or high unemployment rates, EBRD will work with its clients to maximise the benefits in terms of access to employment and/or services, especially for those who are vulnerable. Environmental and social due diligence will be designed to ensure that vulnerable groups - who might be disproportionately affected by a project - are identified and adequate mitigation measures be put in place.

Stakeholder engagement will be designed and carried out to so as to maximise participation of men and women and those groups who might otherwise not have a voice. Working conditions is also an important consideration for all projects and the Bank will work with clients and sponsors both to implement labour conditions (wages, working hours, training, equal opportunities, etc.) and a safety culture in line with the Bank's policy requirements in addition to promoting good international practice where possible.

3.5 Cooperation with other MDBs and Donors

Given the political role of Jordan in the region and the substantial interest from the international community to support the Arab Spring countries, a close coordination of international actors was initiated. Effective coordination as well as cooperation among all stakeholders is indeed crucial to avoid duplication and capitalise on the different strengths of each institution.

Certain areas such as energy and water have been identified by a number of institutions as priorities. Still, the Bank's engagement is focussed on private or public sector stakeholders and/ or pertaining to investments or policy dialogue (incl. technical assistances and legal advice). In line with its mandate and modus operandi, EBRD is seeking to leverage individual and joint activities to induce transition impact and related reform measures by co-financing, co-operating or complementing key projects in energy, municipal services and transport as well as financial institutions, private equity and venture capital funds.

EBRD has for instance cooperated effectively with the **US Overseas Private Investment Corporation (OPIC)** in financing Al Manakher Power Plant (IPP4) Project. The project was co-funded by a US$170 million loan from OPIC and jointly owned by AES Corporation and Mitsui and Co. Ltd. Moreover, EBRD worked closely with IFC and OPIC on conveying the final points of the lenders on the first solar photovoltaic power purchase agreement (PPA) to the government and are looking into co-financing a number of the larger solar PV projects with OPIC, PROPARCO and others in the renewable energy sector.

With a view to its grant-financed activities related to policy dialogue and advice, the Bank is actively participating in the **Deauville Partnership** which was announced in May 2011 by the G8 leaders to harmonise IFI cooperation. 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 the Middle East and North Africa Transition Fund offering TC grants for policy and institutional reforms, and a Private Sector Development Initiative, led by the IFIs, aimed at fostering a competitive private sector, including developing local capital markets, addressing skill mismatches, and providing technical assistance for public-private partnerships.

In addition, the EBRD is closely coordinating its activities in the region with the EIB, AFD and KfW in the framework of the **EU Neighbourhood Investment Facility (NIF)** both in the country and at respective headquarters. The Bank will continue to closely coordinate with the **World Bank,** which has in March 2014 approved aUS$250 million to promote transparency, accountability and job creation in Jordan, in order to ensure synergies where possible in the area of private sector-driven growth (Theme 2). Finally, the **Gulf Cooperation Council** (GCC) is currently the largest provider of grants in Jordan and the Bank will continue its close contacts and dialogue with GCC.

Annex 7 provides an overview on the available grant financing for Bank activities in Jordan.

ANNEX 1 – POLITICAL ASSESSMENT

Jordan is committed to and applying, albeit unevenly, the principles of multiparty democracy, pluralism, and market economics in accordance with Article 1 of the Agreement Establishing the Bank. Although there has been progress in democratic reform, significant further steps are needed and challenges lie ahead.

In the past three years Jordan has undertaken several welcome political reform steps, including conducting the first parliamentary election after the amendments made to the Constitution in 2011, the appointment of a Prime Minister through a consultative process between the elected Parliament and the Royal Palace, establishing an independent Election Commission, issuing the law for the new Constitutional Court and passing a new election law. Jordan has advanced these reforms against a backdrop of significant deterioration in stability in neighbouring countries, which exposed the country to social, economic and security challenges. Further improvement in the legal framework for securing political and human rights and freedoms in the Kingdom are needed, for example as regards to the election law and the universality of representation.

Free Elections and Representative Government

Jordan held well-administered parliamentary elections in January 2013, even though the largest political party in the country boycotted the election because of its rejection of the 2012 election law under which the election took place. Following the parliamentary election, the Prime Minister was selected through a consultative process between the newly elected Parliament and the Royal Palace. The Parliament has actively exercised its supervisory, monitoring, and legislative role, though the King retains significant powers under the Constitution and checks and balances in the system could be strengthened further.

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 at that time, 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 a new political party's law and a new election law. In April 2011, the King created the Royal Committee on Constitutional Review (RCCR) which subsequently recommended 42 amendments to the Constitution, almost all of which were adopted by the previous Parliament. The Government and the Parliament approved the new Constitution and it was authorised in a Royal Decree, but no public referendum was undertaken. An independent Election Commission was established and its Head was appointed in May 2012. The previous Parliament passed a new municipal law, a new political party's law, and a new election law under which the January 2013 parliamentary election took place.

The Independent Election Commission supervised the preparation process for the 2013 parliamentary election, which included registering over 2.3 out of 3.6 million eligible voters. For the first time ever in the Kingdom, voters were allocated to specific polling stations in a clear and transparent way. Also for the first time, the Election Commission formally invited the European Union to observe the parliamentary election. The EU observer mission reported that the elections were well-organised and administered, despite "serious inadequacies in the legal framework affecting the universality of voter participation and equality of votes"[4]. This refers to the drawing of electoral districts which create distortions and does not correspond to the demographic distribution in the country. Heavily populated, urban areas in which there are large concentrations of Jordanians of Palestinian origin are allocated 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 are allocated a disproportionately high number of seats. The 2012 law increased the seats allocated to large cities, mainly Amman, Zarqa, and Irbid, but it did not fundamentally change the disproportionate allocation.

The election law increased the number of parliamentary seats to 150, divided between 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 had considerable reservations regarding the law, and as a result boycotted the 2013 parliamentary election.

The new Government, formed in March 2013, is working to amend the elections law and political party's law in close consultation with Parliament, political parties, CSOs and different associations.

In August 2013, Jordan held municipal elections under the municipal election law passed in 2012. Key opposition parties boycotted the elections.

Separation of powers and effective checks and balances

The 2011 Constitutional amendments enshrined the principle of the separation of powers, with broadened powers entrusted to the legislative branch. The government will now 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 government can recommend that the King dissolves the Parliament, and it must resign within a week. The Prime Minister serving in that government 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. This is a significant development given that Jordan in the past had extended periods without a sitting parliament. 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.

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, given the still significant powers retained by the King, as indicated below, overall the checks and balances in the system are in need of further strengthening.

[4] European Commission, European Neighbourhood Policy (ENP) Country Progress Report, Jordan, March 2013.

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. After the constitutional amendments adopted in 2011 the King continues to be the country's ultimate power, though the amendments limit the duration in which the Lower House of the Parliament can 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.

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. Since 2011, the King has appointed four prime ministers. The appointment of the current Prime Minister through a rigorous consultative process with the Parliament is a significant step towards the effective power to govern of elected representatives of the people.

Since the election of the new Parliament, the Members of Parliament have exhibited active supervisory and monitoring powers over the Government.

Civil Society, Media and Participation

Political freedom has widened significantly in Jordan over the past three years. Media is largely free and varied representing very different ideologies and political points of view. On the other hand, civil society organisations continue to face significant regulatory challenges, for example in respect of the existing Associations Law.

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 and civil rights. There has also been noticeable dynamism amongst university student unions, professional associations, and other groups.

The 2008 associations' law (and its 2009 amendments) was passed after consultations with several local associations. Several local and international CSOs operate in Jordan, including in the field of human rights. The National Council for Human Rights is active across many areas and its reports are often strongly critical of the authorities.

The Associations Law passed in 2012 gives the Government the right to dissolve associations, prevent many activities (such as mergers and partnerships), and allows the Government to appoint an auditor to examine the finances of associations at any time and for any reason. The Law requires associations to inform the Ministry of Social Development of all board meetings, board decisions, and to disclose board members' names and details. Associations are also required to seek security clearances for board members. The law, however, gives associations the right to appeal governmental decisions. The law requires CSOs to obtain clearance from the authorities before receiving any foreign funding; the Government retains the right to reject such funding.

However, there are strong reservations regarding the associations' law amongst NGOs, who maintain that it allows for governmental intervention in and control of the activities of CSOs operating in the country.

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. To a large extent, independent print and broadcast media operate freely in Jordan. 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.

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 law. The Law gives the Government the right to reject any broadcasting license. There have been credible reports of attacks against journalists by the security services.

The September 2012 amendments to the press and publication law generated strong criticisms from local media professionals and CSOs. The Law gives the Government the right to define websites as electronic publications and as such extends publishing laws to the online sphere. The law requires such electronic publications to register with the Government, including mandatory membership to the Jordan Press Association. The law also makes the owners of electronic publications liable for comments made on their websites, a provision that could encourage self-censorship. In June 2013, dozens of websites were closed after this law came into effect.

Multiple channels of civic and political participation

Over the past three years, Jordan has witnessed significant improvements in political participation, openness in discussing internal politics, and wide consultation on issues ranging from the new laws presented to Parliament to various political, economic, and social reforms. Campaigns for the January 2013 parliamentary election included direct criticisms of the governing system and political elites in the country. There has been extensive media coverage, in print, broadcast, and online, for these campaigns.

Freedom to form political parties and existence of organised opposition

Jordan's political environment is active with various ideologies and political orientations vying for power and representation. In 2012 and up to the 2013 parliamentary election, the number of registered political parties increased from 18 to 23. The 2012 political party's law removed the requirement for founding members of parties to obtain security clearances, a significant step in empowering political forces. The law also introduced a requirement for a diverse geographical representation from the country's governorates among founders. It diluted the role of the Interior Ministry in the process of registering political parties by replacing it with an inter-governmental committee. The law also gives only the Supreme Court the right to dissolve a political party if it deems that its activities violate the law.

One of the Kingdom's largest political parties, the Islamic Action Front, boycotted the January 2013 parliamentary election. However, the Parliament includes several parties and blocks that form an organised and powerful opposition.

Rule of Law and Access to Justice

The Constitution and the emerging political system separate the legislature and the judiciary from the executive. Several laws and policies were adopted to combat corruption. There remain significant concerns, for example the possibility of trying civilians in front of military courts.

Supremacy of the law

In addition to creating the Constitutional Court, the 2011 constitutional amendments also restrict the jurisdiction 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, some human rights groups have expressed serious concerns of influence wielded by the security forces and the use of excessive force in some cases. In a number of cases in 2012, the Public Prosecutor continued to refer civilians to the State Security Court, contrary to the 2011 Constitutional Amendments.

Independence of the Judiciary

The 2011 constitutional amendments took notable steps towards creating judicial independence, including through the creation of the Constitutional Court. Important administrative decisions affecting the judiciary, especially concerning appointments and promotions, are now transferred from the Ministry of Justice to the remit of the Higher Judicial Council. The Judicial Council now has 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 Higher 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.

Government and citizens equally subject to the law

The 2011 amendments to the Constitution ensure the equality of all citizens and state institutions before the law. The amended Constitution also subjects the government to the purview of the legislature. Since the formation of the government after the January 2013 elections, the parliament has actively supervised and monitored the government.

Effective policies and institutions to prevent corruption

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 issues. It also includes clear measures of transparency and speed, whistle-blower protection, enhances the scope of coverage, includes, and is intended to strengthen the legal and operational mechanisms to combat corruption and ensure equality. Jordan also completed a National Anti-Corruption Strategy that includes a specific action plan targeting loopholes and specific practices to improve transparency and accountability, especially in public administration and contracting.

The Anti-Corruption Committee has been given a relatively narrow mandate that could limit its ability to investigate corruption at all levels. The March 2013 EU Implementation of the European Neighbourhood Policy in Jordan Progress Report recommended that Jordan fights corruption which "undermines the country's political, economic, and social development." In its December 2013 Corruption Perceptions Index Transparency International ranked Jordan 66 out of 176 countries[5]. Jordan's ranking slipped in 2013 relative to 2012, when it was ranked 58th.

Civil and Political Rights

The situation for civil and political rights has improved significantly over the past two years. However, freedom of expression faces threats and there are concerns regarding ill treatment by security forces.

Freedom of speech, information, religion and conscience, movement, association, assembly, and private property

Jordan has experienced significant improvements 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. As was clear during the campaigning for the January 2013 parliamentary election, political discourse was free.

The amended public gatherings law was passed in March 2011, effectively legalizing 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 begun working with 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.
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. Existing laws also prohibit "offending religious beliefs" and "stirring sectarian strife".

Several journalists were prosecuted at the State Security Court. A number of activists were arrested and charged with "unlawful gathering", "subverting the system of government"

[5] Transparency International, Corruption Perceptions Index (CPI), December 2013.

and/or "insulting the King". Several NGOs have also claimed that there are restrictions on freedom of speech at university campuses.

In April 2014, amendments were made to the 2006 Anti-Terror Law, which significantly expand the definition to terror to include acts "meant to create sedition, harm property, or jeopardise international relations, or to use the internet or media outlets to promote terrorist thinking." This wide definition could result in self-censorship and curtail some of the gains to freedom of speech gained in the last three years.

Political inclusiveness for women, ethnic and other minorities

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. 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. Jordan has signed the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), but enforcement is said to be uneven. 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. The Jordanian National Commission for Women's National Strategy for Women 2012-2015 includes several initiatives aimed at empowering women, especially in rural areas. Jordan abolished a provision that stipulated that women needed prior approval from their husbands to obtain travel documents, mainly passports. Women do not have the right to pass Jordanian citizenship on to their children under the nationality and citizenship law.

The design of electoral constituencies does not correspond to the demographic distribution in the country, which the opposition has stated does not result in equal political representation for all Jordanians.

The EU Election Monitoring Mission, which monitored the country's January 2013 parliamentary election, stated that there are "serious inadequacies in the legal framework affecting the universality of voter participation and equality of votes".

Freedom from harassment, intimidation and torture

The constitutional amendments in Article 8 specifically prohibit torture. Several developments over the past three years indicate a number of improvements in the legal system in Jordan protecting individuals and groups from discrimination. Citizens can now file complaints of police or security forces abuse to the Police's Ombudsman Bureau or to over 15 Police Prosecutors located across the country. Jordan participated in training provided by EU Member States to officers from the Police and the Jordanian Gendarmerie on public order management and operations and to help improve administrative and operational structures.

However, several NGOs report that there remain significant levels of harassment of journalists and political activists, including widespread mistreatment in police and security detention centres. The National Council on Human Rights have reported dozens of such incidents. And there have not been any charges brought forward against officers regarding committing torture.

A large number of demonstrations took place in the past three years, and many continued and ended without obstruction from the authorities. However, there are concerns regarding the excessive force used against demonstrators and political activists.

Jordan has acceded to "The Convention against Torture and other Cruel, Inhuman or Degrading Treatment or Punishment". However, several local and international observers have concerns that trials of civilians continued before the State Security Court, whose procedures do not satisfy international standards for fair trial.

ANNEX 2 – SELECTED ECONOMIC INDICATORS

Jordan

	2006	2007	2008	2009	2010	2011	2012	2013
Output and expenditure	*(Percentage change in real terms)*							
GDP	8.1	8.2	7.2	5.5	2.3	2.6	2.7	2.8
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	-0.6	0.2
Labour Market[1]	*(Percentage change)*							
Gross average monthly earnings (annual average)	6.9	8.9	14.8	4.3	7.4	6.1	5.0	8.4
Real LCU wage growth	0.6	4.0	0.7	5.0	2.3	1.6	0.3	...
	(In per cent of labour force)							
Unemployment rate (end-year)	14.0	13.1	12.7	12.9	12.5	12.9	12.2	12.6
Prices	*(Percentage change)*							
Consumer prices (annual average)	6.3	4.7	13.9	-0.7	5.0	4.4	4.8	5.5
Consumer prices (end-year)	11.6	5.1	9.1	2.7	6.1	3.3	7.2	2.7
Fiscal Indicators	*(In per cent of GDP)*							
Central government balance (excl grants)	-7.0	-7.9	-6.8	-10.9	-7.7	-12.7	-9.8	-8.2
Central government revenues (excl grants)	29.6	29.9	28.1	24.8	22.7	20.5	21.5	21.5
Central government expenditure	36.6	37.8	34.8	35.7	30.4	33.2	31.3	29.6
Central government debt [2]	68.8	73.8	60.2	64.8	67.1	70.7	80.2	86.7
Monetary and financial sectors	*(Percentage change)*							
Broad money (M2, end-year)	14.1	10.6	17.3	9.3	11.5	8.1	3.4	9.7
Credit to the private sector (end-year)	26.9	15.2	15.9	4.7	7.8	9.0	6.4	7.1
	(in per cent of total loans)							
Non-performing loans ratio	4.3	4.1	4.2	6.7	8.2	8.5	7.7	7.4
Interest and exchange rates	*(In per cent per annum, end-year)*							
Local currency deposit rate (savings, weighted avg)	1.0	1.1	1.0	0.8	0.8	0.7	0.8	0.9
Foreign currency deposit rate	...	...	...	...	...	...	...	...
Lending Rate (weighted avg, loans/advances)	8.6	8.9	9.5	9.1	9.0	8.7	9.0	9.0
Interbank Rate (weighted average)	6.5	5.1	4.6	2.6	2.2	2.9	4.3	3.8
Policy Rate (Rediscount Rate)	7.50	7.00	6.25	4.75	4.25	4.50	5.0	4.5
	(JOD per US dollar)							
Exchange rate (end-year)	0.71	0.71	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	0.71	0.71
External sector								
	(in per cent of GDP)							
Current account	-11.5	-16.8	-9.3	-5.2	-7.1	-12.0	-17.3	-10.0
Trade balance	-33.6	-37.7	-32.6	-26.3	-25.7	-30.6	-34.1	-34.1
Merchandise exports	34.6	33.5	36.1	26.8	26.6	27.8	25.5	23.5
Merchandise imports	-68.1	-71.2	-68.7	-53.1	-52.3	-58.3	-59.6	-57.7
Foreign direct investment	23.5	15.3	12.9	10.1	6.2	5.1	4.8	5.4
Gross reserves, excluding gold (end-year)	44.6	44.1	38.9	48.1	48.6	39.0	25.4	38.7
External debt stock	93.6	88.5	63.3	61.2	64.1	60.8	59.2	70.0
Public external debt	48.6	43.3	23.3	22.9	24.6	21.9	22.5	30.3
Private external debt	45.1	45.2	39.9	38.3	39.6	38.9	36.7	39.6
	(In months of imports of goods and services)							
Gross reserves, excluding gold (end-year)	5.1	4.7	6.2	7.5	7.2	7.5	3.6	5.3
Memorandum items	*(Denominations as indicated)*							
Population (end-year, million)	5.6	5.7	5.9	6.0	6.1	6.2	6.4	6.5
GDP (in millions of JOD))	10,675	12,131	15,593	16,912	18,762	20,477	21,966	23,852
GDP per capita (in US dollars)	2689	2990	3756	3983	4323	4615	4843	5137
Share of industry in GDP (in per cent)	19.5	21.7	24.2	21.2	20.1	20.9	19.8	19.4
Share of agriculture in GDP (in per cent)	2.6	2.5	2.4	2.7	3.0	2.9	2.8	3.0
FDI (In million of US dollars)	3,539.0	2,618.5	2,824.9	2,413.1	1,650.8	1,473.5	1,497.3	1,798.5
External debt - reserves (in US$ million)	3,212.0	3,115.5	1,279.8	-1,128.8	-685.6	1,267.1	5,553.2	3,965.4
External debt/exports of goods and services (per cent)	122.4	114.8	79.2	94.5	96.2	91.0	93.7	119.0
Broad money (M2, end-year in per cent of GDP)	132.2	128.6	117.4	118.3	118.9	117.8	113.6	114.7

[1] Figures do not include emigrant w orkers abroad.

[2] Excluding government-guaranteed debt.

ANNEX 3 - ASSESSMENT OF TRANSITION CHALLENGES

Market Structure	Market Institutions	Key challenges:
CORPORATES		
Agribusiness		
Medium	Large	▪ developing modern processing and promoting higher value-added production; ▪ improving the implementation of higher standards of hygiene and sustainability; ▪ enhancing resource efficiency; ▪ further developing local supply chains in agribusiness by supporting modern retail; and ▪ supporting transport, logistics and distribution infrastructure
Manufacturing and Services		
Medium	Large	▪ enhancing the competitiveness of enterprises through further governance improvements and higher energy efficiency; and ▪ improving the business environment by strengthening the independence and capacity of the Competition Authority, enhancing investor protection and streamlining the permitting and licensing procedures.
Real estate		
Medium	Medium	▪ further streamlining property-related bureaucracy, (e.g. reducing the costs of obtaining construction permits); ▪ developing the affordable business hospitality segment; ▪ further improving building standards, including energy efficiency and sustainability and ▪ further developing the affordable residential segment and sustainable tourism.
ICT		
Small	Medium	▪ further improving the regulatory framework, including further implementation of competitive safeguards facilitating access to the incumbent's network and strengthening the independence of the regulator; ▪ further developing data-ready telecommunications infrastructure (broadband internet); ▪ ensuring effective protection of intellectual property rights; and ▪ ensuring alignment of education curricula with business needs.
ENERGY		
Natural Resources		
Medium	Medium	▪ increasing private sector involvement and competition in the upstream oil and gas segment through the liberalisation and further restructuring of state-owned companies; ▪ pursuing the planned restructuring of the downstream oil and gas segment; ▪ strengthening the legal and regulatory framework, including setting up an independent regulator; ▪ reducing energy import dependency by diversifying energy sources and improving energy efficiency; and ▪ increasing the transparency of revenue flows from extractive

Market Structure	Market Institutions	Key challenges:
		activities.
Sustainable Energy		
Large	Medium	▪ developing a clear action plan to meet energy efficiency and renewable energy targets; ▪ strengthening the capacity and expanding the mandate of the National Energy Research Center (NERC); ▪ developing market regulations to provide appropriate incentives for the use of demand side management; ▪ developing a competitive incentive system for renewable energy, and ▪ addressing institutional and financial barriers to unlock potential for energy efficiency
Power		
Medium	Medium	▪ creating an effective wholesale market that provides sufficient investment signals for new generation; ▪ ensuring effective separation of regulation with full responsibility for setting tariff methodologies and levels; ▪ removing cross-subsidies and introducing cost reflective tariffs for consumers; and ▪ improving access to financing through the removal of debt liabilities that resulted from gas and oil price increases.
INFRASTRUCTURE		
Water and wastewater		
Large	Large	▪ improving operational performance to meet increasing water demand with scarce resources; ▪ decentralisation of decision making and responsibility; ▪ advancing the corporatisation process in the sector; ▪ increasing private sector participation; ▪ reforming tariffs to reflect the scarcity of water; and ▪ introducing economic regulation.
Urban Transport		
Medium	Large	▪ addressing traffic congestion through market based mechanisms (congestion and parking charges) and better planning of public transport services; ▪ adjusting the fleet to changing demand conditions; and ▪ further revising the regulatory and financial support mechanisms; and ▪ reform of the fare system to improve the financial viability of operations
Roads		
Medium	Medium	▪ streamlining the policy and regulatory functions to eliminate responsibility overlaps between different state bodies; ▪ increasing the financing available for road maintenance; and ▪ implementing broader risk transfer to the private sector (e.g. performance based management, PPPs).
Railways		
Large	Large	▪ expanding and securing the sustainability of railway operations in line with demand; ▪ improving operations and regulation of the existing lines; and

Market Structure	Market Institutions	Key challenges:
		▪ increasing private sector participation and competition in an expanded railway network.
FINANCIAL INSTITUTIONS		
Banking		
Small	Medium	▪ improving effectiveness of enforcement of the bankruptcy procedures; ▪ broadening access to finance to SMEs, with particular focus on the regions; ▪ improving NPL workout practices at some of the banks; and ▪ although generally well-developed, there is scope for improving further corporate governance.
Insurance and other financial services		
Medium	Medium	▪ broadening access to leasing products by improving the effectiveness of enforcement of the bankruptcy mechanisms and refining implementation of the regulatory framework; ▪ consolidating the insurance sector and refining mandatory motor insurance regulations; ▪ expanding re-insurance activities; and ▪ enacting regulatory changes required to facilitate establishment of the private pension sector.
Micro, Small and Medium-sized enterprises		
Medium	Large	▪ broadening access to finance, especially at the regional level; ▪ improving the effectiveness of foreclosure procedures and credit information systems; and ▪ improving the financial management skills of SME entrepreneurs.
Private equity		
Medium	Medium	▪ broadening companies' access to PE and VC financing; ▪ facilitating the launch of first-generation PE and VC funds; ▪ increasing interest in Jordan among reputable international Sponsors and LPs; and ▪ increasing the range of PE strategies available in the market.
Capital Markets		
Medium	Medium	▪ developing the domestic corporate bond market; clarify laws governing debt securities; ▪ improving corporate governance requirements of companies listed on the Amman Stock Exchange (ASE); ▪ increasing the depth and efficiency of the inter-bank markets and JODIBOR reference rate; and ▪ enhancing liquidity and expanding the range of financial products traded on the ASE.

ANNEX 4 - ECONOMIC INCLUSION GAP RATINGS

Inclusion gap dimension	Inclusion gap	Key challenges
Region[6]		
Access to services	Large	▪ increasing investment into water and health infrastructure and quality of services in regions of acute water scarcity and large numbers of refugee populations
Labour Market	Medium	▪ improving access to local jobs and the continuing skills mismatch, especially in the rural areas strengthening measures to formalise employment, particularly to absorb the high number of refugees in rural areas
Youth		
Opportunities for Youth (Youth unemployment and youth NEET[7])	Large	▪ increasing labour market flexibility to reduce barriers to entry, particularly in relation to hiring / firing ▪ developing effective progression routes from training into employment through closer links between employers and education providers (particularly at tertiary level)
Quality and quantity of education	Medium / Large	▪ reviewing of national skills standards frameworks, including vocational level skills, as part of the E-TVET strategy ▪ introducing sector skills councils to expand engagement of the private sector in curriculum design and development
Financial inclusion	Large	▪ broadening the range of financial products aimed specifically at young people ▪ expanding a focus on start-up finance aimed at young entrepreneurs
Gender		
Legal regulations	Medium	▪ improving the enforcement of the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW)
Access to health services	Large	▪ strengthening measures to reduce the maternal mortality rate in the country through improved awareness of and access to quality medical care
Labour policy and practice	Medium / Large	▪ introducing provisions in the Jordanian Labor Code specifically outlawing discrimination on the basis of gender in employment, or stipulating that men and women should be paid the same ▪ Easing legal restrictions of women's employment, including night shift work and other professions
Employment and firm ownership	Large	▪ Incentivise the private sector to adopt equal opportunities employment standards ▪ Improving career guidance at high school and tertiary education levels specifically focusing on female students and graduates

[6] The regional inclusion gaps were developed specifically for the Jordan Country Strategy. Regional inclusion gaps for countries in the SEMED region will become part of EBRD's standard set of inclusion gaps following the completion of the Life in Transition Survey for SEMED countries in 2015.
[7] Youth Not in Education, Employment or Training (NEET)

Access to finance	Large	▪ supporting FIs in the development of financial products and services specifically aimed at female entrepreneurs in the SME segment ▪ incentivising FIs to review collateral requirements for women-led businesses,e.g. by accepting the applicant's salary (in lieu of land or property) as collateral

ANNEX 5 – LEGAL TRANSITION

This annex offers an analysis of legal sectors directly relevant to the Bank's investment strategy for the forthcoming period. It is based on the research and assessments conducted by the EBRD Legal Transition Programme. First, the annex will consider laws and regulations supporting renewable energy and energy efficiency, then a number of specific legal topics relevant to private sector development, and finally the rules pertaining to public-private partnerships.

1. Enhancing energy sustainability and energy efficiency

Renewable Energy (RE)

Given its heavy dependency on foreign imports for oil and natural gas, Jordan is increasingly looking to diversify the energy supply mix and utilise its renewable energy potential. The Renewable Energy and Efficiency Law adopted in 2012 ("REEL") contains a number of provisions intended to incentivise renewable energy investments such as compulsory purchase of electricity from renewable energy sources (RES), exemptions from customs duties and sales tax, a priority list for the usage of land with high potential for RES development and a one-stop shop for licenses and permits. In addition REEL has set up a Renewable Energy and Efficiency Fund ("REEL Fund") to financially support energy saving and renewable energy initiatives. At the end of 2012, the country's Electricity Sector Regulatory Commission (ERC) introduced feed-in tariffs (called "reference prices") for different types of RES (wind, solar, solar PV, biomass and biogas), which would be paid by the national utility company (National Electric Power Company, "NEPCO") and regional distribution companies. REEL envisages an additional 15 per cent tariff support if the renewable energy facility is "fully Jordanian [in] origin".

Publication of long term master plans for the sector's development, introduction of binding targets for each renewable energy type, clear action plans for their implementation, as well as effective monitoring mechanisms should be part of the government's plans for the sector.

Jordan has made substantial progress towards its ambitious renewable energy goals in the last year. In December 2013 financial close was reached on a 115 MW private wind farm and in March 2014 NEPCO signed power purchase agreements with twelve private developers for solar projects ranging in size from 10 MW to 50 MW – these projects are expected to begin construction in early 2015. Further private proposals for wind farms and larger solar projects are expected in summer 2013. The successful implementation of these projects would be a major step forward in the private development of renewable energy both for Jordan and in the region more generally.

Energy Efficiency (EE)

The legal framework in the EE sector is quite scarce, with the sector-dedicated REEL providing for almost no references to promotion of EE measures, other than the reference to the REEL Fund. Implementing regulations include those mandating regular mandatory energy audits by large commercial and industrial facilities or mandatory installation of solar water heating systems as a condition to occupancy permits for certain large premises. However, these regulations need further implementing rules, which are currently being drafted.

The country has only recently started to promote EE and needs to significantly step up efforts on policy, legal, regulatory and institutional levels. There is a need for a national EE plan with clearly set of sectoral targets as well as an enabling legal and regulatory framework to ensure the action plan is being monitored. The legal framework needs to be aligned with best practices and market needs, including setting up proper incentives of the demand side management, ESCOs and energy performance contracting. Proper financial incentives are vital for attracting private capital into the sector, including from IFIs and local banks. Tariffs need to be aligned with the incentives for reduction in energy consumption. Ensuring sustainable financial resources of the REEL Fund is vital for incentivising sector development. There is a clear need for an independent authority in charge of promoting EE in all sectors, including electricity, industry and households. Awareness campaigns promoting benefits of the EE need to be considered.

Further aligning of the legal and regulatory framework with international best practices, in particular with respect to supporting small scale decentralised initiatives and facilitation of innovative approaches to sustainable energy such as demand side responses, abolition of national content requirement and gradual cost pass-through to consumers shall direct the government's further reform efforts. In order to be operational, the REEL Fund needs sustainable sources of financing, clear eligibility criteria and enhancement of technical capacity of staff. In order for renewable energy to take a major share of energy production in the future, it is important to match technical capacity, adaptability of the grid and the load requirements of the network. Public awareness campaigns demonstrating benefits of implementation of RES facilities and targeted training curricula for the concerned population groups should also be considered.

2. Enabling dynamic, private sector-led, inclusive growth

Contract enforcement / judicial capacity

Court judgments in Jordan are perceived as lacking predictability and consistency. The heavy case load of the Court of Cassation adversely affects its ability to develop unifying case law and guiding materials. Further, there is no comprehensive case database, although some decisions are accessible on a website established by the Adalah Center for Legal Information, a non-governmental organisation, as well as the legal database established by the Ministry of Justice. The slow pace of court proceedings remains a key concern, with frequent adjournments being a regular practice, and the process of enforcing court decisions particularly slow. The rate of successful enforcement of judgments remains generally low, with enforcement of judgments against governments and municipalities proving particularly problematic. Further, courts in Jordan do not enjoy widespread public confidence as to their impartiality, fuelled in part by low levels of transparency in court-related procedures, including the important question of allocation of cases to judges.

Jordan has made progress in strengthening judicial independence and enhancing judicial capacity, but significant challenges remain to be addressed. Recommended measures include: providing further systematic and specialised training to judges, particularly in key commercial law matters such as company law, competition, securities law and intellectual property, as well as procedural matters such as how to deal more robustly with applications for adjournments. The Bank is currently working with the Jordanian bodies in charge of judicial training to put in place a programme addressing these issues.

Court management would also benefit from greater skills in financial and administrative matters. Public access to case law should be improved through a comprehensive, up-to-date and searchable database. Further efforts should be made to strengthen the enforcement system, including through provision of greater public information on enforcement procedures and capacity building of enforcement officers. In addition, greater use should be made to promote the use of alternative dispute resolution, in particular mediation.

Corporate Governance

The EBRD Corporate Governance Assessment in Jordan, undertaken in 2012, revealed that the Jordanian corporate governance framework is in “low compliance” with the international standards. The Assessment highlighted that the national legal framework is weak especially on the “role of stakeholders” and “equitable treatment of shareholders”. This essentially derives from the fact that stakeholders have no access to relevant information and minority and foreign shareholders do not enjoy equal treatment and might find it difficult to obtain redress for violation of their rights. Further, it seems that shareholders do not have pre-emptive rights on newly issued shares, while the decision of some fundamental issues - as the disposal of significant assets – are left to the board and do not require shareholders’ approval. The EBRD is currently discussing a legal reform project with the Central Banks of Jordan aimed at reviewing and ensuring an effective implementation of the Corporate Governance Code for Banks.

Access to finance for SMEs / pledge law

Despite some recent legislative amendments aiming to introduce floating charges, the law still only contains legal solutions which limit the possibility of usage of non-possessory mortgage (pledge) over movable property both in terms of potential users and in terms of flexibility of creation of security. A pledge cannot be established over freely chosen particular assets and there is no modern type of pledge register envisaged by the law.

The IFC is currently engaged with the government on the revision of the pledge law aiming at introducing a modern secured transaction legal framework and on-line register of movable collateral. The EBRD is ready to assist in this process if requested.

Insolvency

The Jordanian framework is complex as there is no uniform act governing insolvency. Although companies that cannot pay back their debts and/ or conceal their deteriorated financial condition may be subject to bankruptcy proceedings under the Commercial Code, it appears that in practice the most common route for companies is dissolution under the liquidation procedures of the Companies Law. In particular there is no possibility of including secured creditors in a settlement procedure without their consent, hence, the settlement agreement is not binding vis-à-vis the secured creditors who have not waived their security rights. Furthermore secured creditors rank behind taxes and employees’ claims in any liquidation of companies, which may significantly reduce their returns.

A declaration of insolvency (bankruptcy) has reportedly severe consequences for the bankrupt debtor and carries a heavy stigma for the bankrupt. Bankrupt individuals are deprived of their political and professional rights upon the declaration of bankruptcy and lose the ability to manage their business and any assets acquired during the bankruptcy period, however, the law does not say for how long this sanction lasts.[8] There is a new draft bankruptcy law proposed, which would modernise the existing framework. USAID was involved in drafting this. Nonetheless the latest information received indicates that the draft law is blocked and USAID have withdrawn from the project.

As part of future developments, Jordan should adopt a comprehensive, uniform insolvency law to clarify the existing insolvency regime and which is capable of application to all corporate entities. At present, the Jordanian system does not promote the restructuring (reorganisation) of businesses in financial difficulties. Further steps should be taken to introduce a proper reorganisation procedure into the insolvency law framework, accessible by businesses in financial difficulties and capable of application to secured and unsecured creditors alike. The introduction of licensing, qualification and training requirements for insolvency practitioners should be also considered, as the profession is as yet largely unregulated.

3. Private sector participation in public infrastructure

Concessions/Public-Private Partnerships (PPP)

Jordan does not have a single act governing specifically concessions or PPP. However, the 2000 Privatisation Law No 25 (“Privatisation Law”) and the 2008 Regulation No 80 for Implementing Privatisation Transactions (“Privatisation Regulation”) form the basis for the legal framework for PPP and concessions in Jordan. In addition, several sector specific laws also regulate PPP, notably in water, electricity and telecommunications.

The EBRD 2011/12 Assessment of PPP Laws ranked Jordan’s PPP laws as being ‘in medium compliance with internationally accepted standards and practice’ and their effectiveness is also rated as ‘medium’. That means that the laws on the books as far as the coverage/extensiveness of the rules is concerned and their workability in practice (effectiveness) is within the 50-70 per cent range compared to the international standards. Although not ideal, the laws are still seen as fairly solid and largely workable. For instance, although there is no specific PPP law, the Privatisation Law provides a sufficient framework for the implementation of PPP projects. Obviously, there is room for improvement, in particular, as far as security and support issues are concerned as well as project agreement regulation.

There is a track record of a few PPP projects, both those that are under way and also those withdrawn as unable to be structured on a project finance basis. In an attempt to encourage a project pipeline the Ministry of Municipal Affairs produced guidelines for PPPs in infrastructure back in 2010 and is said to be working on updating such guidelines.

A new PPP law has been under consideration for some time and once enacted will become the specific legal framework for concession and PPPs in Jordan.

[8] Article 325- 337 of the Commercial Code

ANNEX 6 – GENDER PROFILE

Gender Inequality and Human Development

According to the UNDP's Human Development Report 2013, Jordan's Gender Inequality Index (GII)[9] in 2012 was 0.482 which ranked the country 99th out of 187 countries. Jordan's Human Development ranking is 100 out of 187, indicating that human development and gender equality are at approximately the same level in the country.

Education

The participation of girls and women in education is quite close to that of boys and men, especially with respect to secondary and tertiary education. According to the 2013 Millennium Development Goals Monitor, the net enrolment in secondary schools for girls is slightly higher with 89.4 per cent compared to 86.5 per cent for boys. Of particular note is that, women outnumber men in tertiary education, with 43 per cent women being enrolled as compared to 37 per cent men.

Labour participation and gender pay gap

According to the Jordanian Department of Statistics, in 2013 the economic activity rate was 12.1 per cent for women and 60 per cent for men which is among the lowest in the region for women. Only 16.6 per cent of waged and salaried workers were women as compared to 83.4 per cent for men, while women's employment rate in the informal sector is 28 per cent which is much higher than men's (17 per cent). The official unemployment rate is 19.9 per cent for women and 10.4 per cent for men. Women are more likely to be engaged in the public sector, where 51.4 per cent of working women are employed, compared to 36.6 per cent of working men engaged in the public sector. Women are predominantly engaged in 'social' professions such as education, health and social work and personal, social and service activities, and remain underrepresented in scientific and technical fields. There are legal restrictions on women's employment, for instance they are not allowed to work night shifts or work in socially unacceptable professions. Data on child labour shows that significantly more boys (90.7 per cent of child labour) are involved in some form employment than girls (9.3 per cent).

Women are entitled to 10 weeks maternity leave paid by the government.

The Gender pay gap is 11 per cent overall, however the gap varies according to sectors and industries. The pay gap is higher in the private sector compared to the public sector. Men earn 23 per cent more than women in management positions according to UNDP statistics, while the pay gap is 40.3 per cent in manufacturing 21.1 per cent in education and 26 per cent in health and social work activities according to the Jordanian Department of Statistics (2012).

---

[9] The GII is an 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.

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 which is connected to the requirement for collateral 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. According to the Jordanian Department of Statistics in 2013 only 2 per cent of women were self-employed as compared to 10.3 per cent of men. According to the Enterprise surveys (2006) 13.1 per cent of businesses had female participation in ownership while 3.6 per cent of firms had women among the majority shareholders. According to the World Bank Gender Statistics, 17.4 per cent of women and 33.7 per cent of men had a bank account at a formal financial institution, while 3.6 per cent of women and 5.4 per cent of men obtained loan in the past year from a formal financial institution.

Participation in politics and decision making

Women's political participation is secured by law; they can vote and participate in politics. The new Election Law, still under preparation, might provide a 20 per cent quota for women at municipal elections, and a 6 per cent quota for elections to the lower House of Representatives. Currently, women represent 12 per cent of members in the national parliament. 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.

In 1992, although Jordan signed CEDAW to eliminate all forms of discrimination against women; it maintained reservations to some of the clauses for instance article 16 paragraph 1 (g) that would provide same personal rights, including the right to choose a family name, a profession and an occupation.

It should be noted that since 2009, legislation has been enacted to prevent trafficking, as the country is both a destination and transit country for men and women who are trafficked for sexual and labour exploitation.

ANNEX 7 - TECHNICAL CO-OPERATION

Following EBRD shareholders' unanimous decision to expand the Bank's mandate to the southern and eastern Mediterranean, the Board set out a three-phased approach to engagement in support of the emerging Arab democracies. The first phase comprised the deployment of technical assistance and other similar activities funded from cooperation funds.

During that phase, donor funded technical cooperation in Jordan had allowed the Bank to undertake early diagnostic work, identify investment opportunities, build capacities of prospective clients, and share transition experience from policy makers and private sector stakeholders from EBRD Countries of Operations in Central and Eastern Europe. Significant TC funds were provided to support the transfer of skills and the growth of local private MSMEs through a range of advisory and investment programmes, including the Business Advisory Services, the Enterprise Growth Programme and the Local Enterprise Facility.

Now that full-scale operations in Jordan have been launched, the Bank will continue using donor funds on an even larger scale. The focus of technical cooperation is expected to shift from analytical work to investment support and policy dialogue with a view to backing the EBRD's growing investment pipeline and helping the Government advance its reform agenda.

To sustain these needs, the EBRD will rely on a number of donor funds administered by the Bank or managed externally, in addition to resources made available by its shareholders:

- SEMED Multi-Donor Account: supported by several bilateral donors and considered the "fund of first resort" in SEMED, it will provide TC grants across a wide range of activities and sectors.
- Bilateral donors: TC funds will also be sought from donors having bilateral donor accounts administered by the EBRD, who have expressed interest in supporting activities in SEMED.
- EU Neighbourhood Investment Facility (NIF): the NIF's Southern window will remain an important source of funding for TC and non-TC grants, mainly in support of investment operations co-financed with other IFIs in such sectors as transport, energy, MEI, and private sector development.
- Middle East and North Africa Transition Fund: operating under the umbrella of the Deauville Partnership and administered by the World Bank, the Fund offers TC grants for policy and institutional reforms. The Bank will use this source for larger-size policy dialogue assignments.
- Climate funds: donor resources will be sought from the Global Environment Facility, in particular for capacity building and non-TC instruments in the areas of climate change mitigation and material efficiency. Additional grant resources for water efficiency will also be sought via the Special Climate Change Fund (targeted at climate resilience actions).
- EBRD Shareholder Special Fund (SSF): contributed by all shareholders from the Bank's net income, the SSF will provide TC and non-TC support in areas which cannot be covered by other donor sources.