Jordan’s Request for Country of Operations Status

Technical Assessment*

17 November 2011

*** This document is provided as background reference material exclusively for participants to the EBRD SEMED Partnership Assembly on 28 November 2011. It was produced by EBRD Management for discussion with the Bank's Board of Directors at an earlier date, and may contain information that is out of date.**

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1. Introduction and Overview

Jordan has requested to become a recipient country of the Bank. As set out in the Report of the Board of Directors to the Board of Governors of 28 July 2011 (BDS11-187) and consistent with the respective resolutions and amendments to the Agreement Establishing the Bank (AEB), it is expected that the Bank would follow a three-phase process in becoming active in Jordan:

- In the first phase, the Board of Directors would consider the use of cooperation funds;
- in the second phase, once the amendment of Article 18 AEB has been accepted by members, the Board of Governors would consider the use of Special Fund resources for special operations;
- in the third phase, once the amendment of Article 1 has been accepted by members, the Board of Governors would consider granting recipient country status to Jordan and therefore allowing the use of ordinary capital resources for ordinary operations.

This Technical Assessment has been prepared as a basis for the Board of Directors to make an informed decision at the first stage of the process. It will be further updated ahead of the second stage and replaced by a "regular" Country Strategy for Jordan in the third stage. Additional updates either orally or in writing, for instance on progress towards implementing the political aspects of the Bank's mandate, will be provided to the Board of Directors regularly. These would allow the Board to calibrate the Bank's activities in accordance with events.

The Technical Assessment builds on assessment missions to Jordan during which Bank staff consulted with the authorities, benefited from the views of numerous other parties and conducted an initial scoping of demand for the Bank's services. The Deauville Partnership process has offered the opportunity to build a strong basis for cooperation with other IFIs. The Technical Assessment thus serves not only to deepen the Bank's understanding of the situation in Jordan, but also to identify an initial set of priorities for action that could be financed with cooperation funds. While not a Country Strategy in the strict sense (since that would require recipient country status), it should therefore be seen to discharge some of the practical purposes of a Country Strategy.

The paper has four main sections. Section 2 provides an update of political developments and the current status of Jordan's progress towards pluralism and multi-party democracy. It is meant to inform the Bank's judgement on whether Jordan is on a trajectory that will allow it to meet the political aspects of Article 1 within the not-too-distant future. The assessment is based on the Bank's established methodology for country strategies, and in particular, presents an analysis "criteria by criteria" as envisaged in the 1991 policy on Implementing the Political Aspects of the Bank's Mandate (BDS91-16). The section notes that Jordan is moving in a direction of more democratic governance within the framework of a constitutional monarchy. This process has been ongoing for some time, but has been accelerated by the revolutions in Tunisia and Egypt and the demonstrations this sparked in many Jordanian cities. The constitutional reforms approved by the government and both houses of Parliament and authorised in a Royal Decree at the end of September 2011 make significant strides in strengthening parliament and providing for competitive, free and fair parliamentary elections. Implementing legislation will be put forward in the coming year. Nevertheless, further steps are needed to consolidate progress towards multiparty democracy and pluralism.

Section 3 provides an assessment of Jordan's progress in economic transition. Given that the Bank has had little prior knowledge of Jordan, and absent the background usually contained in the Bank's Transition Reports, the section also presents some of the history of reforms in the country and is supplemented by considerable sectoral detail in Annex 1. Jordan has benefited considerably from years of structural and macroeconomic reforms. This is reflected in a diverse private sector built upon a well educated workforce, an open economy, a well developed banking sector and relatively limited state involvement. However the economy is also vulnerable – notably because of considerable dependence on remittances, high fiscal deficits and growing public sector debt, energy import reliance, growing water scarcity and inefficient and inadequate municipal and transport infrastructure. As elsewhere in the region unemployment remains stubbornly high. Headline structural changes in a number of areas have not been carried through to result in full reform in practice.

Section 4 describes progress made in ensuring that the Bank's potential engagement in Jordan is closely coordinated with other IFIs. The work done so far, including under the aegis of the Deauville Partnership, should provide comfort that the Bank will focus its activities on those areas in which it has skills and capabilities that are complementary to other IFIs. Steps have also been taken for the Bank to join, and in some cases lead, joint initiatives among the IFIs in Jordan and elsewhere in the new region, once it has the mandate to do so.

Finally, section 5 presents the results of a scoping mission that assessed opportunities for the Bank to promote Jordan's transition through operations. It identifies project areas that address transition gaps and where the Bank's specific business model, on its own or jointly with other IFIs, would add value. While the Bank will not be in a position to finance projects during the first stage of its engagement, this review helps to inform the selection of possible technical assistance and similar activities, which are also outlined in this section. Altogether, there would appear to be considerable demand that meets the criteria for a Bank engagement, and the section provides for a range of possible initial operations by the Bank.

2. Political Assessment

2.1 Introduction

The Hashemite Kingdom of Jordan is a constitutional monarchy that adopted its current Constitution in 1952. Over the past 60 years, Jordan has introduced a number of political reforms and liberalising measures that put the country on a gradual path towards a more representative system of governance with greater voice and political participation for its citizens. However, this had a "two steps forward, one step back" character and there were long periods of inaction on the political reform front. At the start of 2011, in the wake of protests that were spreading from other Arab countries in the region, Jordan experienced almost weekly demonstrations by civic activists calling for further reforms, an end to corruption and better social conditions. These were generally peaceful and organisers pressed for reforms as opposed to regime change. In response, King Abdullah II dismissed his cabinet and Prime Minister in February and announced the formation of two national committees to propose political reforms and to consider changes to the Constitution. Slow progress by the new government in moving ahead with reform brought about a further change in October and the appointment of a new Prime Minister.

2.2 History

The Hashemite Kingdom of Jordan was established in 1921 by a United Nations mandate under British control and gained its independence in 1946. Following the assassination of the first King of independent Jordan, Abdullah I, who ruled from 1946 to 1951, and the short reign of King Talal (1951-1952), the country was ruled for the next 46 eventful years by King Hussein.

During that period King Hussein oversaw the implementation of King Talal's liberal (by regional standards) Constitution, worked to improve living standards of Jordanian citizens, cemented ties with the United States and signed a peace treaty with Israel in 1994. King Hussein was known as a moderate and a moderniser, but his years in power were marked by a number of coup and assassination attempts, Arab-Israeli conflicts that had significant implications for Jordan (including the massive influx of Palestinian refugees) and political stalemate that kept many reforms off the agenda. Elections to the lower chamber of parliament (the House of Deputies) were suspended between 1967 and 1989. From that year on, King Hussein set out to liberalise Jordanian politics. The National Charter, adopted in 1991, provided a framework for democratisation and the development of a multiparty system with greater checks and balances, though it was only partially implemented.

With the death of King Hussein in 1999, his son Crown Prince Abdullah II ascended to the throne. King Abdullah II has launched numerous attempts at political reform since coming to power, but only modest progress was achieved by the succession of governments to serve under him. During his 12 year reign, the King has had a total of 9 different prime ministers, all of whom were charged with carrying out political reforms under various banners and initiatives, such as the Jordan First Initiative (2002), the National Agenda (2005) and the We Are All Jordan Initiative (2006). The longest serving prime minister, Ali Abu Ragheb, who held office from June 2000 to

October 2003, presided over three different governments. Prime Minister Abu Ragheb, like the Prime Ministers before and after him, was given explicit directives to advance political reforms that bore little fruit. A key obstacle to the implementation of political reform has been the strength of various vested interests who favour the status quo as well as the demographic and social cleavage in the country between the more rural and conservative Jordanian tribes and the urban Palestinian majority. These concerns, together with the volatility in Jordan's immediate neighbourhood in the eastern Mediterranean, may have dampened enthusiasm for reform and placed a higher premium on stability and security.

2.3 Recent political reforms

In response to protests that began in January 2011 and continued persistently for several weeks following Friday prayers, King Abdullah II promised to crack down on corruption (a major cause of public discontent) and to speed up the pace of political reforms. He replaced then-Prime Minister Samir Rifai and his Cabinet, bringing back into office Marouf al-Bakhit, who had served in the role from November 2005 to November 2007. Portfolios in the new government were offered to representatives of the Islamic Action Front, an affiliate of the Muslim Brotherhood that constitutes the country's largest political opposition party, but they turned them down.

In March 2011, the King established the National Dialogue Committee (NDC), consisting of political party leaders, lawmakers, journalists and activists, which was tasked with the drafting of a democratic Elections Law and a revised Political Parties Law that would enhance political pluralism. In April 2011 he created the Royal Committee on Constitutional Review (RCCR), which was instructed to consider constitutional amendments to "promote political life in a constitutional context" and to take into account recommendations by the NDC. Although political reform efforts had been launched before, the impetus given by the wave of changes in the Arab world following the revolutions in Tunisia and Egypt fuelled expectations that the current initiatives announced by King Abdullah II would produce stronger results.

On 4 June 2011, the head of the NDC, Taher al-Masri, presented the committee's final report to then-Prime Minister al-Bakhit. The report contained recommendations to increase the number of deputies in the lower house (from 120 to 130) and to shift from a single non-transferable voting system to an open-list proportional representation system in which 115 seats would be elected on the basis of party lists at the governorate level and the remainder to be chosen by proportional representation at the national level. The NDC also recommended revisions to the law on political parties that would ease rules for new party formation. These recommendations addressed long-standing issues that stood in the way of Jordan's democratic development, but critics and members of the opposition maintained that they did not go far enough, especially in moving more decisively towards a clear and workable proportional representation system that would encourage the development of strong political parties.

On 14 August 2011 the RCCR presented its proposals on changes to the Constitution to King Abdullah II.

Key changes to the Constitution proposed by the RCCR include:

- Steps to enhance the powers of parliament including limits on the King's ability to indefinitely postpone parliamentary elections; a requirement that the government in power when Parliament is dissolved must resign within one week and the sitting Prime Minister cannot be returned to office; and limits on the government's ability to issue temporary laws during the absence of parliament.
- The creation of an independent Election Commission which would oversee all national and municipal elections.
- Steps to strengthen the rule of law including the establishment of an independent Constitutional Court to monitor the constitutionality of laws and regulations; the establishment of a Judicial Council which will have the sole right to appoint civil judges; the rights of the judiciary to determine the validity of election of members of the parliament and to settle contestations; the right of MPs to refer allegations of misconduct by Government Ministers to the Attorney General, which in turn can issue charges and trials to be conducted by a panel of five judges in the Court of Appeal; and the imposition of new limits on the scope of State Security Courts to review only cases involving crimes of high treason, espionage, terrorism and drug trafficking, all others to be referred to civilian courts.
- Steps to enhance rights and freedoms including forbidding the use of torture; firmer constitutional guarantees for freedom of the press; banning censorship of private communication except by judicial order.

In all, 42 amendments to the Constitution were proposed, which were approved by the Government of Jordan on 24 August and by the Parliament and authorised in a Royal Decree at the end of September. To implement the reforms, 14 new laws are to be issued and 47 existing laws will need to be revised by the Ministry of Justice. Some consultation on reform proposals did occur under the NDC and the RCCR, but Jordan did not hold a public referendum on the constitutional amendments, which civil society representatives criticised.

The new features of the Constitution and the proposed reforms to laws on elections and political parties are a positive step forward towards strengthening the rule of law and guaranteeing political rights and freedoms of Jordanian citizens and building more robust democratic institutions. At the same time, the reforms do not fully meet demands from a significant part of the Jordanian electorate and the organised opposition. While other institutions of governance are to be strengthened, reinforcing checks and balances, much power continues to reside with the King. A key factor, therefore, in determining whether Jordan moves decisively toward a more pluralistic system is in the political will to implement the new laws, and not necessarily in the authorities' readiness to adopt them. A sharper division of powers is still needed to reinforce political accountability.

On 17 October 2011, facing persistent demands to demonstrate stronger resolve to advance political reforms, King Abdullah II appointed a new Prime Minister, Awn Al-Khasawneh. Al-Khasawneh is a respected judge, having served before his appointment as Vice President of the International Court of Justice in the Hague. In his Letter of Designation to the new Prime Minister, King Abdullah II highlighted the importance of political reform, and of engaging in a “constructive national dialogue with the entire political spectrum and civic institutions”.

King Abdullah II empowered his new Prime Minister to form a government of his choosing, which may be seen as a break from the past when the Palace exercised stricter control over ministerial appointments. The Prime Minister has reached out to the main opposition party, the Islamic Action Front, in discussions to form the next government. The primary mission of the government, the King concluded, is to “implement a political reform process with clear milestones, not just arbitrary timetables”. The King also appointed a new head of the General Intelligence Department, Gen. Faisal Shoubaki, whom he said in his appointment letter should oversee “the adoption of a national culture of openness, transparency and accountability”.

2.4 Status of political transition

The transition to democratic rule under a system of constitutional monarchy in Jordan is ongoing. Several positive steps have been taken over the past 12 years under King Abdullah II, culminating most recently in reforms to the Constitution and the proposals of the NDC. However, Jordan has had numerous attempts at political reform that have not produced results and the current proposals do not meet the demands of the political opposition and many civic activists.

Political accountability

Elections. Citizens directly elect representatives of municipal councils and the lower chamber of the bicameral legislature. The conduct of past elections was questioned by international and domestic critics, who were prohibited from mounting observation missions. Allegations of vote buying and an intimidating campaign environment, in addition to skewed laws that limited genuine competition, marred the 2007 parliamentary election. However, the conduct of the most recent parliamentary elections held in November 2010 reportedly improved. For the first time international observers were permitted to monitor the process. 25 teams from EU diplomatic missions as well as teams from the US-based International Republic Institute and National Democratic Institute took part, alongside accredited independent domestic observer teams. Election conduct and results were deemed ‘credible’ by observers, with adequate access to information on the candidates to allow voters to make an informed decision and improved administration and transparency of counting procedures. At the same time, the main opposition party, the Islamic Action Front, boycotted the election and many structural problems remain. The system of districting does not ensure equitable representation for all Jordanians, allowing for the overrepresentation of rural districts and diluting the representation of urban voters, mainly Palestinians. The recently announced reforms to the elections law, the establishment of judicial review of validity of elections and the creation of an independent election commission are steps in the right direction. However, a new law is required to establish the election commission, and it will take time before this new institution would be ready to serve its intended purpose.

Representative government and an accountable executive. Constitutional reforms approved in August 2011 provide for greater autonomy and authority for the Parliament and clarify the separation of powers between the government and the legislature. According to these amendments, the government will have to submit its programme to the Parliament for approval; if it is not secured, the government will have to resign. This strengthens the powers of Parliament and the system of representative government. However, checks and balances in the system are in many respects quite weak, and much power continues to reside with the King, who is a hereditary monarch. The King appoints and dismisses the Prime Minister and the members of the upper house (Assembly of Senators) and takes the key policy decisions. The Royal Court has a relatively large professional staff that has grown significantly over the past decade, despite efforts at reform, allowing the Palace to play a more central role in policy making.

Separation between the state and political parties. The current system is not conducive to having parties represented in Parliament and the legal framework for political parties and their regulation has undermined their independence. Recently, however, the King has endorsed electoral reform that would replace the current single non-transferable voting system ('one-man-one-vote') with a mixed open-list proportional representation system in which the majority of seats would be allocated according to party lists at the governate level and a small number of seats would be allocated according to party lists at the national level.[1] This would purportedly encourage development of the political party system, which remains extremely weak. Although 22 parties are officially registered, the only party with a reasonably strong organisation and electoral base is the Islamic Action Front, an arm of the Muslim Brotherhood. The new laws proposed by the NDC are a step in the right direction, but building a functioning political party system takes time under the best of circumstances and critics and opposition groups contend that the laws as proposed are overly complex and may not produce a more pluralistic political party system in the foreseeable future even if they are vigorously and consistently implemented. Since the appointment of Prime Minister Al-Khasawneh in October, there have been indications that the law may be further reviewed and amended.

The rule of law and corruption

Constitutional rule and means of redress. Constitutional rule has been in place since the current Constitution was ratified in January 1952 and recent amendments to the Constitution provide for clearer guarantees and more extensive means of redress. A Constitutional Court will be created, in accordance with recently adopted amendments to the Constitution, but access to this court is not fully open – only certain official bodies may address cases to the Court, and not civil society

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[1] The Single Non-Transferable Vote (SNTV) election system is used in "multi-member constituencies" (i.e. each constituency has more than one seat allocated in the parliament). Voters have, however, only one vote and can only choose a single candidate on the ballot in their constituency. The candidates with the highest number of valid votes win the seats allocated to their constituency. The system provides an advantage for independent candidates, as it does not allow names to be grouped on party lists, and discourages participation of political parties as it forces members of the same party or coalition to run against each other within the same district. The move to an open-list proportional representation (OLPR) system would encourage common programmes and coalitions among candidates, and has the potential to produce a party-based parliament.

organisations, trade unions or other non-official entities. The Constitutional Court will take some time to establish.

Independence of the judiciary, equal protection under the law and fair criminal procedure. The amended Constitution strengthens the independence of the judiciary and limits the categories of cases under which civilians would be subject to military justice. The law prohibits arbitrary arrest and detention, which is mainly upheld in practice. Following the release of a report in 2006 by the UN Special Rapporteur on Torture, which criticised some elements of Jordan's detention system, specific actions were taken, including the closure of a major correctional facility where abuses had occurred, references were inserted into the revised Constitution on the prohibition of torture and civil judges are now empowered to review torture cases.

Separation between business and politics. The law provides penalties for official corruption, but it remains a significant problem that the King and the government have been trying to tackle. The Anti-Corruption Commission produced a four-year National Anti-Corruption Strategy that was prepared with the assistance of experts from the European Union and adopted in 2008. A draft anti-corruption law was approved by the House of Deputies in September 2011. Jordan is in the process of implementing the provisions of the UN Convention Against Corruption (UNCAC), including the establishment of an anti-corruption commission, protection of whistle blowers and freedom of information laws. Jordan's Access to Information Law was enacted in 2007, the first Arab country to have a law regulating the right of access to information. According to the 2010 Transparency International Corruption Perceptions Index, Jordan is ranked 50th out of 178 countries. This places it in the top third of the rankings for countries in the Middle East and North Africa. However, the country's ranking according to the CPI has slipped in recent years and public attention to this problem has increased.

Civic and human rights

Freedom of speech, media, association and assembly. The Constitution guarantees basic rights and freedoms, but there are limitations on these in practice in some areas. Journalists and rights organisations complain of the wide scope of offences covered under the penal code and the Press and Publications Law, which can either lead to imprisonment or carry heavy fines and result in self-censorship. The government recently amended the Press and Publications Law to restrict the circumstances under which violations would lead to detention and created a special court to review matters of freedom of expression and speech. Criticism of the government is permitted, whereas penalties for insulting the King and the royal family are severe. The draft anti-corruption law that was approved by the House of Deputies in September 2011 contained a clause that could impose either detention or a heavy fine for publishing accusations of corruption without solid proof. Free press advocates have criticised the bill, saying it would restrict the ability of journalists to expose corruption and have called upon the upper house to reject it. The law on Cyber Crimes passed in 2010 requires the police to obtain a court order to search websites' offices, but in general allows the government wide discretion to shut down questionable media outlets and otherwise curb online expression, and has been criticised by Jordanian bloggers and human rights organisations. The Law on Public Gatherings was amended in February 2011, removing the requirement for organisers of public rallies and demonstrations to receive prior approval from the Interior Ministry. However, the legal framework for civil society organisations generally is seen as limiting their role to social services with comparatively less room for political advocacy. The NGO law regulates NGOs' access to foreign funding – applications must be approved by the full Council of Ministers – and according to some rights organisations gives the government wide discretion to reject registration applications without cause. Requests for approval must be processed within one month or they are approved by default.

Freedom of conscience and religion. Islam is the state religion, while members of other faiths are able to worship freely, display their faiths publicly and do not suffer persecution.

Gender equality. Jordan has a low ranking according to several indicators of gender equality, such as the UNDP Gender Equality Index and the World Economic Forum Global Gender Gap Index. However, there has been progress on introducing more rights for women in society, the workplace and in political life. Most recently, a 12-seat quota was introduced for women in parliament and a 20 per cent quota pertains for municipal councils; in general women enjoy equal political rights. In November 2010 nine women senators were appointed to the upper house. Jordan has signed the UN Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), but enforcement is said to be uneven. Women do not have the right to pass Jordanian citizenship on to their children under the Nationality and Citizenship Law and women's rights advocates say they face gender-based discrimination in family laws, in the provision of pensions and social security benefits and in relation to property ownership. Sharia law governs women's rights involving inheritance, divorce and child custody, which is discriminatory. Labour force participation rates are far lower for women (23 per cent) than for men (77 per cent), even when taking into account the number of women working in the informal economy, but the government has taken steps to address this, including active recruitment of women in the public sector and the civil service. The government invests in women's education and training, but jobs that suit their skills remain scarce and cultural barriers remain a problem. A law granting women equal pay for equal work is not adequately enforced according to women's rights advocates. Pay equity is a priority in the 2011-2015 National Strategy for Women and the National Employment Strategy. The legal framework enforcing equal rights for women in Jordan is improving, but there still numerous laws that would need to be amended according to the Jordanian National Commission for Women.

2.5 Assessment

Jordan is moving gradually in a direction of more democratic governance within the framework of a constitutional monarchy. This process has been ongoing for some time, but has been accelerated by the revolutions in Tunisia and Egypt and the demonstrations this sparked in many Jordanian cities. People in Jordan desire political and social reforms, but appear to prefer to see this occur within the current system while preserving stability. The constitutional reforms approved in September 2011, which will lead to a series of legislative changes in the coming year, will strengthen the parliament and clarify its role and responsibilities relative to the executive branch. The proposed laws on elections and political parties move in the right direction to provide for free and fair competitive elections to parliament and the development of the political party system.

In recognition of the progress already made to develop democratic institutions, and the commitments undertaken to make further progress in this direction, Jordon has been invited into the G-8's Deauville Partnership. Jordan has had an Association Agreement with the European Union since 2002, and was granted EU 'advanced status' on deepening ties and cooperation in 2010. These important reference points support the conclusion that Jordan is engaged in a credible, gradual transition towards a pluralistic, democratic and tolerant society.

However, further steps are needed to consolidate progress towards multiparty democracy and pluralism and to build broader consensus amongst elites and the public for strengthening democratic institutions. Formal checks on the power of the King remain relatively weak and the process of devolving more power to other institutions has been halting. At the current stage, the culture of democracy is not deeply embedded in Jordanian society; however, demonstrations indicate a growing bottom up demand for democratic reforms. The municipal elections in early 2012 will be the first concrete opportunity to observe the implementation of promised reforms on redistricting, decentralisation and to provide for an inclusive political process that has recognised legitimacy. Beyond that, important milestones will include the finalisation of a new electoral law and political parties law that will credibly lay the ground for the establishment of a multiparty system, as well as the establishment of an independent Elections Commission and independent Constitutional Court, in line with the Constitution.

3. Transition Assessment

This section analyses the state of economic reforms and private sector development in the Jordanian economy. After a brief historic background on economic reforms it provides an overview of the current economic and sectoral reforms, drawing on Jordan's own priorities as described in "The Way Forward – Country Action Plan" under the Deauville Partnership. It then outlines the key transition challenges in moving towards a well-functioning market economy. Annex 1 provides a more detailed sector-level assessment.

3.1 From an agrarian state toward a modern service economy in a challenging regional setting

Jordan's socio-economic development has been shaped by its unique geopolitical setting. A small and open economy wedged between Iraq, Syria, Saudi-Arabia, Egypt and Israel, Jordan has been close to often volatile regional developments. Nevertheless, it has managed the economic consequences of its delicate geopolitical position increasingly to its advantage over the past decade in the context of deepening reforms. This has allowed Jordan to benefit from regional trade and foreign aid both from oil rich Gulf countries and advanced economies. A relatively open if often administratively managed labour market relies partly on cheap foreign labour and exports higher skilled labour to oil producing countries. As a result, remittance inflows are significant.

Although an energy importer, Jordan's labour market and financial links with the countries of the Gulf Cooperation Council (GCC) have acted as 'buffers' to oil price fluctuations. Lower energy prices translate into terms of trade gains for Jordan but at the same time also lead to lower remittances and FDI and aid flows from the GCC, while the impact of energy price-induced terms of trade losses is mitigated by higher remittance, capital and aid flows from that region. There are also substantial trade and aid links with advanced economies.

The deepening of economic reforms since the mid-1990s – following a major macroeconomic crisis – has increased the capacity to absorb aid and remittance flows and to deal with their inherent volatility. This has supported sustained and relatively high growth through the 2000s, allowing Jordan to enter the global financial crisis in 2008 with a comfortable level of international reserves and manageable levels of external and public debt - although with sizeable twin fiscal and current account deficits, before grants. Nonetheless, growth has generated neither enough jobs nor the type of employment that job seekers target, hence unemployment has remained stubbornly high.

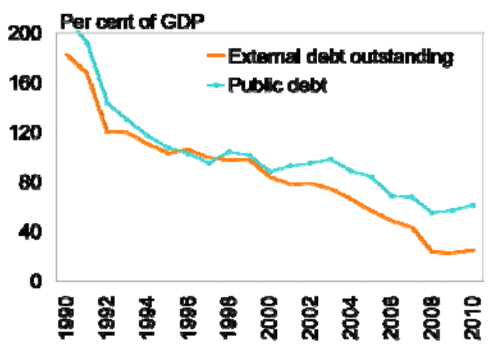
The following main periods can be distinguished:

- *Jordan's modern economic history started with the founding of the Kingdom in 1946.* The economic structure at that time was primarily agrarian, that sector employing 85% of the population. Throughout this period, larger public sector projects such as utility infrastructure and capital-intensive industrial sites were put in place so as to build an industrial base, improve infrastructure and absorb the rapid rise in the labour force. While public ownership was dominant, public-private schemes were utilised as early as in the 1960s.

- *Strong growth based on massive external assistance and remittances, 1973-82.* Economic growth was fuelled by high levels of grants and concessional loans as well as remittances in the context of the oil boom in the Golf countries. At their peak remittances exceeded 20% of GDP. In addition, exports benefitted from the rising incomes of the GCC. Continued grants and technical support from other countries in the context of the Cold War and regional conflicts were also substantial. GDP growth averaged 10 percent annually as a result, starting to lift real incomes even in the context of rapid population growth of over 4%.

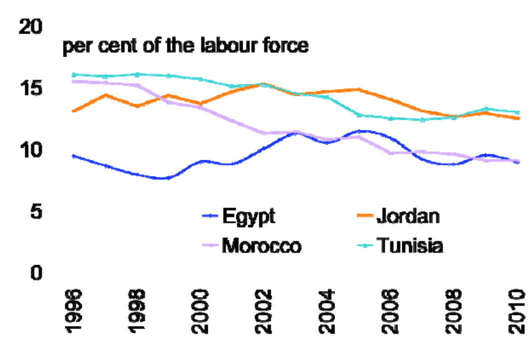
- *The build-up of macroeconomic imbalances and eventual crisis, 1983-89.* However, the collapse of oil prices in the early 1980s and the concomitant decline in remittance revenue and foreign grants hit Jordan hard. Remittance inflows halved between 1983-89 to 10% of GDP and foreign aid also declined. Continued high public expenditures in the face of declining revenues pushed Jordan into unsustainably large deficits that were financed by external borrowing, culminating in a fiscal and balance of payments crisis in 1989. By 1989 Jordan was unable to service its debt, which approached 200% of GDP and had to embark on a major macroeconomic stabilisation and adjustment programme. GDP growth stagnated in this period, translating into declining real incomes.

Chart 1: Public and External debt, evolution since 1990



Source: IMF World Economic Outlook

Chart 2: Unemployment rates, evolution since 1996



Source: IMF World Economic Outlook

- *Macroeconomic stabilization and a first wave of structural reform 1989-99.* The necessary fiscal consolidation and exchange rate devaluation in the context of a series of IMF programmes helped reduce fiscal and external imbalances. Significant external debt reschedulings with official creditors (five Paris Club deals), the private sector (a London Club deal) as well as debt buy-back and swap schemes were also needed to restore debt sustainability and put Jordan on a declining path of external and public debt (Chart 1). Following a period of inflation volatility the exchange rate was fixed to the U.S. dollar in 1996, providing a powerful monetary anchor ever since. Fiscal structural reforms aimed at streamlining and modernizing the public sector through tax reforms and expenditure cuts particularly for public sector salaries. A privatisation programme was launched in 1996, with an incomplete and hesitant implementation, in part due to concerns about redundancies. Government ownership nevertheless began to decline across the board, even though it was maintained in key companies including in the phosphate and cement sectors as well as petroleum refineries. The legal and institutional environment was strengthened, the customs code reformed and product standards improved. Trade liberalisation began to dismantle the import monopoly of the state in 1996; tariffs were reduced unilaterally as part of the stabilisation programme. However, attempts to rationalise and reduce consumer subsidies on bread proved difficult, sparking repeated riots.

- *The 2000s saw a more consistent push for structural reform:* (i) privatisation was accelerated from 2000, reducing or exiting government ownership in most economic sectors (transport, tourism, electricity, telecommunications, railways, aviation etc); (ii) tariffs were further lowered to prepare for WTO accession in 2000. Jordan has become a very open economy, with free trade agreements with the US, EU (with which it reached an advanced status agreement in October 2010), EFTA, and Turkey. Jordan has several Special Economic Zones and Qualifying Industrial Zones to host its offshore trade sector; (iii) financial sector regulation was upgraded with the introduction of Basel 1 and 2; (iv) improvements were made in the business environment – nevertheless, Jordan continued to rank low on measures of ease of business; and (v) consistent efforts to support education. As a result, Jordan's record on primary, secondary (with enrolment rates close to 100 and 90%, respectively) and tertiary education (around 40% of students) is very strong. Literacy is 92%, without major differences in gender. Jordanians consider human capital the country's main economic resource and continue to invest heavily in education. Pre-global crisis high growth however has not brought about a significant dent in Jordan's high level of unemployment, which stood at 12.5% in 2010 (Chart 2), despite a very low female participation rate of 23%. Unemployment among the young is particularly elevated at around 60% (ages 20-29). To be sure, high growth generated some employment but mainly in low paid semi-skilled jobs (construction, low value added manufacturing, etc.) taken up by foreign workers (see below).

- *The global financial crisis from 2008/9 hit Jordan's open economy through trade and remittance channels.* The authorities responded with a combination of fiscal and monetary stimulus, focussing on higher wages and subsidies and, initially, public investment as well as easing monetary policy with a series of interest and reserve requirement cuts. These have helped limit the decline in GDP growth from over 7% in 2008 to about 2.5% in 2009-10. At the same time the fiscal and external current account deficit before grants ballooned to 7.7% and 9.5% of GDP by 2010, respectively.

3.2 Post-Arab Spring economic developments

The authorities have reacted to the events of the Arab Spring with political reforms as described in Chapter 2, as well as further increasing subsidies to about 6% of GDP as well as wages while cutting public investment. Economic reform progresses cautiously with several important laws introduced through the summer, including to ease hiring and firing and adopting a new PPP law. Improving governance and transparency is also on the government's agenda.

At the same time, turmoil abroad and at home has put further strains on an already fragile economic recovery; interruptions in gas supplies from Egypt have been particularly damaging. A rising import bill, drop in tourism revenue, and declining remittances and FDI are expected to widen the external current account deficit (before grants) to as high as 13.5% of GDP in 2011. Substantial grants mainly from Saudi Arabia and some other advanced countries (totalling about 7% of GDP) have helped limit the decline in international reserves to the equivalent of 7 months of imports at end September 2011. The fiscal deficit is also expected to reach about 10.0% of GDP before grants (3.5% after grants) in 2011, as revenue collection is weak and wage and social expenditures, particularly consumer subsidies on fuel, continue to rise. Public investment has been cut back drastically so as to limit the size of the fiscal deficit. Large grants and cuts in public investment are expected to keep government debt to below the official limit of 60% of GDP by year-end. Inflation remains under control but not low at over 5% of GDP and some of the key input prices are administratively controlled. Under the circumstances, unemployment levels remain high at 13.1% for the first nine months of 2011 and are expected to increase further in the context of weak growth.

The growth outlook for 2012 largely depends on the region's political uncertainties. GDP growth may pick up to a modest 3%, but the external current account deficit is projected to remain high before grants. The fiscal deficit (before grants) could reduce somewhat particularly if, as planned, some of the current large subsidies are gradually phased out and replaced with more targeted social transfers resulting in fiscal savings and better pricing. However, such modest growth prospects will not allow for a resumption of per capita real income growth while unemployment may rise further.

Risks to this outlook are significant and relate to Jordan's three main vulnerabilities: (i) terms of trade shocks from import energy and food prices; (ii) partially related, high dependence on foreign aid and concessional finance; and (iii) political uncertainty about domestic tensions as unemployment continues to rise in the foreseeable future. The Jordanian authorities are seeking to mitigate these risks, inter alia, by moving toward GCC membership, which in principle would further ease labour market pressures for Jordanians via more secure employment in the GCC for the high-skilled; help achieve a more predictable aid flow and/or lower energy prices; and further increase FDI from that region. Jordan recently opened official talks about GCC membership.

Against this challenging backdrop the authorities have presented their programme under the Deauville partnership "The Way Forward – Country Action Plan," which draws on the government's Executive Development Programme 2011-13, the country's medium-term socio-economic development plan.

The key economic policies and programs focus on five areas:

1. *Improving governance.* As identified in the *National Agenda (2006-2015)* the government recognises the need for effective, transparent and accountable public

institutions and has started to measure different institutions against a number of performance indicators focussing among others on public financial management. The key short term priorities up to 2012 include (i) the modernisation of internal control and external audit functions; (ii) enhancing transparency in the general budget process including the annual publication of the general budget; (iii) improving cash flow expenditure mechanisms and (iv) developing debt management capacities.

2. *Creating Employment and Income-Generating Opportunities.* As part of the *National Employment Strategy and Action Plan* launched in May 2011 the government has launched a JD 150 million Governorates' Fund that will run in partnership with the private sector and civil society focussing on inclusive growth (both job creation and poverty alleviation). Particular areas of government focus are (i) SME support; (ii) Venture Capital Program; and (iii) microfinance and poverty reduction.

3. *Competitiveness, Investment, and Private Sector Development.* This area focuses on improving the legislative framework for both foreign and local investments, with a series of draft laws including a new Investment Law, a new PPP law, a new Secured Lending Law and a new Insolvency and Bankruptcy Law in the pipeline or already submitted to Parliament. Additional emphasis is on accelerating educational reform targeting both vocational training and higher education with a strong emphasis on the knowledge economy and R&D.

4. *Energy, Water and Key Infrastructure projects*. As part of different sector strategies the government is planning to launch a number of infrastructure mega PPP projects, namely the Jordan National Rail project, the Red-Sea Project ("Red-Dead" and Desalination project), a number of renewable energy projects and a nuclear power plant to address infrastructure bottlenecks as well as increasing water and energy vulnerabilities.

5. *Regional and Global Integration.* Following the advanced partnership status with the EU this includes establishing a Euro-Jordanian Free Trade Area by 2014. The trade integration strategy is also reflected in Jordan's bid for GCC membership, a region with increasingly important trade and labour market links with Jordan.

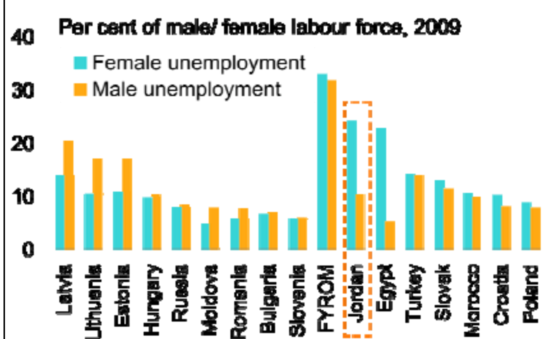
The government programme is not only very comprehensive addressing both regulatory and investment bottlenecks but also shows a clear focus on the private sector and on well-identified support from the international community. Aware of the limited fiscal space the programs aims to leverage private sector contributions in key areas and aim to ease direct foreign and local investment conditions as well as incentivising PPP schemes. Overall, the objectives and government priorities are closely in line with the transition gaps identified below and the Bank's proposed operational priorities.

Box 3.1: Labour Market and Migration

Despite strong growth over the past decade, Jordan's unemployment rate has remained high and the labour market continues to face substantial structural challenges:

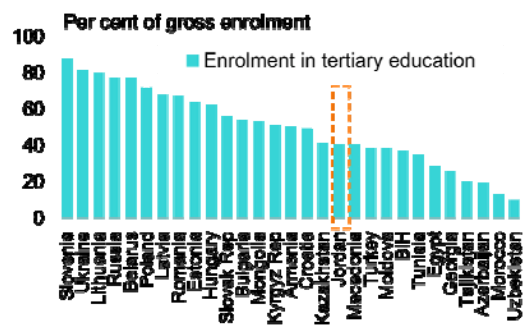
- **Low labour participation and few job opportunities.** Unemployment is high, at currently 13.1% overall, and 24.1% among females. At 23.3% women's participation in the labour force is among the lowest regionally and globally. Unemployment is particularly high for graduates.
- **Emigration of the highly skilled.** Education standards in Jordan are the highest among the SEMED countries: over 40% of the relevant population group are enrolled in tertiary education. In 2010, 11.3 % of the total resident population lived abroad, many of which are tertiary educated. Skilled emigration has been encouraged in the past as part of Jordan's open door policy[1/] to (1) alleviate unemployment, (2) secure remittance flows and gain international expertise; and (3) maintain political stability. Bilateral agreements for high-skilled migration were signed or renewed in 2009 with Qatar, the UAE and Bahrain. However, concerns have been expressed about the ensuing dependency on remittances as well as brain-drain.
- **A highly integrated but fragmented labour market.** A quarter of Jordan's workforce is composed of migrant workers, 71% were from Egypt in 2009; the international migrant stock accounted for 49% of the population in 2010 (including refugees). Non-Jordanians with work permits were employed in agriculture (26.7%), services (25.6%) and manufacturing (19.9%), typically in low-wage and low-skill jobs. Demand for low-skilled labour has also come from Jordan's special industrial zones.

Chart 3. Unemployment



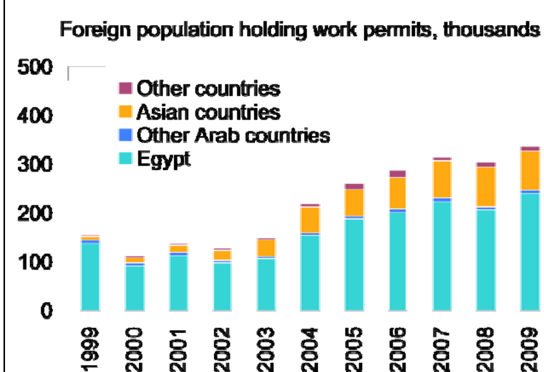
Source: World Bank WDI.

Chart 4. Education



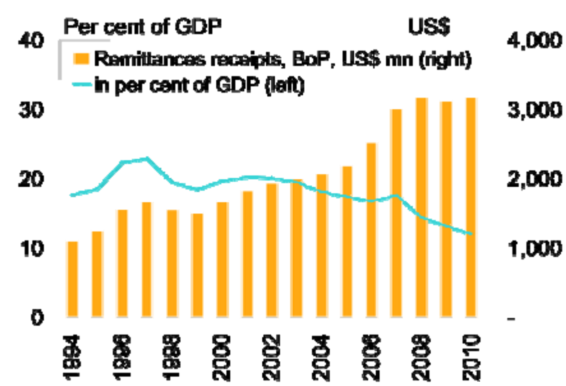
Source: World Bank WDI.
Note: Data is latest available, generally 2009.

Chart 5: Foreign workers in Jordan



Source: CARIM, Jordan Ministry of Labour Annual Report.

Chart 6: Remittances from expatriates



Source: World Bank, Central Bank of Jordan.

/1 Promoted in the National Agenda 2006-15, Min of Labour Strategic Plan 2009-11

3.3 Transition gaps

The sector review in Annex 1 documents varying transition gaps across the economy, with particularly large challenges in the sustainable energy, transport, municipal infrastructure and agribusiness sectors. The structural policies and reform priorities outlined below have been discussed with both the government and private sector participants – and aligned with the authorities' programme under the Deauville Partnership:

- **The sustainable energy sector has large transition gaps in practice, despite considerable structural reform.** Jordan has made considerable progress in unbundling and corporatising its power sector and there is substantial private participation. However in practice there is limited competition and heavily regulated tariffs which are not cost-reflective. Consequently the sector is accumulating losses, principally in the state-owned transmission company. At the same time the government has made limited progress in promoting energy efficiency and renewable energy, which accounts for less than 1% of production. These systemic issues exacerbate Jordan's high level of energy insecurity – its near total dependence on imported fuels, rising commodity prices and growing demand are putting increasing strain on the sector.
- **The agribusiness sector suffers from large transition gaps along the whole food value-chain.** Primary production is dominated by smallholders lacking efficient production technologies with land consolidation being constrained by the current ownership laws and regulations. Upstream the key challenge is to develop a competitive processing industry rather than exporting the raw produce. A lack of adequate specialised transport and storage infrastructure poses an additional constraint in moving up the value-chain and increasing export volumes. The biggest challenge however is water efficiency and water quality for agricultural production, with two thirds of the total water supply being used for agriculture, often on low value crops. Modern irrigation technologies and water-efficient production is underdeveloped partly due to subsidization of water for primary production and lack of finance for such investments.
- **In the municipal services sector there is a need to refine contracts and incentives to draw in the private sector and address water scarcity and traffic congestion.** Jordan is one of the driest places on the planet; nevertheless water distribution is inefficient, the tariff system encourages waste and the private sector is only starting to get involved. With more expensive sourcing such as desalination involving the private sector through transparent PPPs will be a key challenge. Urban transport suffers from the lack of a developed bus system and a limited ability to adjust fleet supply to changing demand conditions. Tariff regulation could be refined to encourage quality and the sector has yet to attract substantial private investment.
- **The financial sector is comparatively well developed, but limited availability of private equity and finance for small and medium sized enterprises is constraining some sectors.** The regulatory framework is reasonably well advanced with the implementation of Basel 2 completed in

2009 and Basel 3 already under implementation. However, a private credit bureau is yet to be established and the effectiveness of bankruptcy enforcement is low, posing a significant constraint on lending to consumers and corporate borrowers. The private equity sector is small, with very few institutional-quality private equity funds active in the market. Increasing the range of private equity strategies available as well as venture capital financing is a key challenge, in particular for the fast growing ICT sector. Jordan's high bank deposit base with low loan/deposit ratio and relatively developed financial services provide a good base for further regional cross-border banking. However, there is a need to improve access to finance for SMEs and micro enterprises, particularly outside Amman.

There are a number of themes that cut across sectors:

- **The labour market suffers from skill mismatches leading to brain-drain and high structural unemployment.** Jordan has suffered from persistently high unemployment of an average of 14.17 per cent even in periods of high growth between 2000 and 2008. The high share of tertiary educated citizens can not be absorbed in the labour market and has left to find employment mainly in the GCC countries – resulting in a high share and dependency on remittances (see Box). The gender gap in the labour market is also higher than in the current EBRD region, but particularly prominent in the low skill strata of the population, with highly educated women finding employment only in the public sector. This is partially driven by the dominance of small SMEs in the private sector and limited transport options.
- **Property related administrative procedures constrain growth in several sectors.** Obtaining construction permits is both time-consuming and relatively costly (Jordan ranks 93rd out of 183 countries in the World Bank's 2012 *Doing Business survey,* with an estimated cost of obtaining a permit of 534 per cent of income per capita (compared to 54 per cent in OECD countries). For food production this effect is compounded by additional ownership laws constraining trade of agricultural land and land consolidation.

3.4 Assessment and risks

Jordan has advanced economic reforms probably further than any other country in the region yet it still does not enjoy the full benefits of these reforms. Unemployment remains high and is again rising. This is in part due to the country's rapidly rising labour force but also to incentives to hire and work. Jobs that were generated during the pre-crisis high growth period were mainly for lower paid unskilled labour; educated Jordanians aspired to wait for work in the public sector where wages are typically higher than in the private sector or for opportunities to work abroad. The gender and age composition of unemployment are also worrisome.

Increasing employment is therefore a key priority for the Jordanian government. The main approach is to transition to a modern knowledge based economy with higher value added production and demand for skilled and well-paid workers. This will require, as the government's programme stresses, significant investment in information technology and sustained improvements in competitiveness. Furthermore, strengthening competitiveness calls for upgrading Jordan's infrastructure while enhancing its energy and water security – again requiring major investments over a longer time horizon.

At the same time, unemployment can also be tackled in the shorter term by policies that create incentives for Jordanians to accept available jobs instead of waiting for high-paid public sector employment or work abroad and eliminate existing disincentives in the form of hiring and firing. Unleashing the potential from higher female participation would require investment in transport to improve female labour mobility and in family support facilities such as child care.

The planned large mega investment projects (such as the Red-Dead Sea project or the railway plans) can be effectively executed only in close partnership with the private sector under public-private partnerships (PPPs) with appropriate transparency and risks sharing. In light of the limited fiscal space the government intends not to provide guarantees but rather seed money with direct transparent participation. A recently approved PPP law is a good framework for proceeding with PPPs.

Overall, with many reforms well advanced – at least on paper – it will be key to unlocking Jordan's full economic potential to match reforms with high corporate governance and transparency standards so that those reforms are effectively implemented. This will help creating a fully level playing field that is needed for unhindered job creation and improve the efficiency, productivity and employability of Jordan's well educated population.

Table 1: Jordan: Selected Economic Indicators

	2006	2007	2008	2009	2010	2011 (proj.)
Output and expenditure	*(Percentage change in real terms)*					
GDP	8.1	8.2	7.2	5.5	2.3	2.5
Private consumption	6.3	5.2	3.8	2.7	…	…
Public consumption	5.5	6.7	5.9	2.0	…	…
Gross fixed capital formation	11.0	9.0	7.6	-0.5	…	…
Exports of goods and services	10.5	9.0	7.2	-2.0	…	…
Imports of goods and services	8.2	7.5	5.5	-2.1	…	…
Industrial Production Quantity Index	…	3.2	1.4	-1.6	…	…
Labour Market	*(Percentage change)*					
Gross average monthly earnings in economy (annual	-1.5	27.9	-1.4	-0.4	-3.5	…
Real LCU wage growth	-7.3	22.2	-13.4	0.3	-8.1	…
	(In per cent of labour force)					
Unemployment rate (end-year)	14.1	13.1	12.7	12.9	12.5	13.2
Prices	*(Percentage change)*					
Consumer prices (annual average)	6.3	4.7	13.9	-0.7	5.0	5.4
Consumer prices (end-year)	7.5	5.1	9.1	2.7	6.1	4.9
Fiscal Indicators	*(In per cent of GDP)*					
Fiscal balance, after grants	-3.4	-5.5	-5.4	-8.5	-5.4	-3.5
Fiscal balance, before grants	-6.7	-8.6	-9.8	-10.9	-7.5	-10.0
General government revenues, incl. grants	44.5	40.8	39.7	35.7	…	…
General government expenditures	43.6	45.7	41.9	42.0	…	…
General government net oustanding debt	68.9	67.6	54.8	57.1	61.1	…
Monetary and financial sectors	*(In per cent of GDP)*					
Broad money (M2, end-year)	118.9	117.9	107.9	119.9	126.8	…
Credit to the private sector (end-year)	90.7	91.3	78.4	71.2	70.3	…
	(in per cent of total loans)					
Non-performing loans ratio	…	…	4.2	6.7	7.9	…
Interest and exchange rates	*(In per cent per annum, end-year)*					
Local currency lending rate	8.2	8.7	9.0	9.3	8.9	…
Local currency deposit rate	4.6	5.4	5.5	4.9	3.5	…
Discount rate	7.5	7.0	6.3	4.8	4.3	…
Money market rate	5.5	5.7	4.9	3.3	2.2	…
	(JD per US dollar)					
Exchange rate (end-year)	0.7	0.7	0.7	0.7	…	…
Exchange rate (annual average)	0.7	0.7	0.7	0.7	0.7	…
External sector	*(In per cent of GDP)*					
Current account balance, after grants	-11.6	-17.6	-9.6	-4.7	-4.9	-6.3
Current account balance, before grants	-17.1	-19.8	-15.5	-6.1	-9.4	-13.5
Trade balance	-34.0	-37.5	-31.0	-23.2	…	…
Foreign direct investment, net	20.7	15.0	12.8	9.9	6.3	…
Gross reserves, excluding gold (end-year)	…	40.2	35.2	45.6	46.3	…
External debt stock	51.1	47.1	38.1	27.6	25.0	…
Public external debt	48.6	43.3	23.3	22.9	24.6	…
	(In months of imports of goods and services)					
Gross reserves, excluding gold (end-year)	…	4.7	6.2	8.2	8.5	
Memorandum items	*(Denominations as indicated)*					
Population (end-year, million)	5.6	5.7	5.9	6.0	6.1	6.3
GDP (in billions of US dollars)	15.1	17.1	22.0	23.8	26.4	28.4
GDP per capita (in US dollars)	2688.7	2989.8	3757.4	3986.6	4326.4	4541.9
Share of industry in GDP (in per cent)	27.7	30.3	32.6	31.6	…	…
Share of agriculture in GDP (in per cent)	2.8	2.7	2.6	2.9	…	…
Net FDI (In million of US dollars)	3682.1	2574.1	2813.9	2354.2	1673.0	…

Sources: International Monetary Fund, Ministry of Finance *General Government Finance Bulletin* Aug. 2011, Central Bank of Jordan.

4. Cooperation with other International Financial Institutions

4.1 An unprecedented coordination effort under the aegis of the G8

Several international financial institutions (IFIs) and major regional and bilateral organisations are currently active in Jordan. As emphasised by EBRD Governors in Astana, it will be important to avoid duplication and competition and to ensure that any potential activity of the EBRD brings specific value-added based on the mandate and competencies of the EBRD. Field missions from Banking, OCE and the Political Counsellors offered numerous opportunities to meet the EBRD's sister institutions in Amman.

This natural coordination process has been strengthened under the aegis of the Deauville Partnership, announced in May by G8 leaders. A follow-up Ministerial meeting in Marseille on September 10 formalised the Partnership and involved actively the World Bank Group, the AfDB, the EIB, the IsDB, and the Arab regional Funds (Arab Fund for Social and Economic Development; Arab Monetary Fund; and the OPEC Fund), in addition to the EBRD.

The MDBs and regional financial institutions signed a Joint Statement in support of the Deauville Partnership, committing to strengthened cooperation in the four partner countries – including Jordan. For this purpose, they created 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 group will be led by one of the participating IFIs on a rotational basis (starting with the AfDB).

The World Bank also coordinated a MDB Action Plan, whereas the AfDB put forward a Private Sector Development Initiative, which is still being discussed by MDBs and would consist of various joint initiatives on which the interested MDBs would work together. It has to be noted, however, that the AfDB is not active in Jordan, as the Levant is not part of its mandate. The EBRD is a full participant in these endeavours, subject to confirmation by shareholders of its engagement in the region.

In addition to these broad-based efforts, the EBRD signed Memoranda of Understanding with the AfDB and IsDB, respectively. A MoU with the EIB is, of course, already under implementation and will be adjusted to take account of specificities in the new region. The MoUs with AfDB and IsDB provide a general framework of cooperation in common countries of operation. The types of cooperation envisaged include: information exchange, secondments, joint training, coordinated technical assistance and co-financing. Overall the MoUs confirm the complementarity of EBRD and the other institutions and the shared intention to use their skills and experience to advance their respective mandates.

4.2 IFI and major bilateral financing activities in Jordan

Jordan faces a particular situation in terms of IFI financing, with currently a very low level of activity combined with very high expectations by the authorities. The IFIs' total portfolio in the country is estimated at € 6.7 billion. IFI financing slowed down in 2010 and is virtually on hold since April 2011 as the country reached the indebtedness ceiling set by its Public Debt Law (60 percent of GDP). The Medium Term Fiscal Framework (MTFF), aimed at lowering the budget deficit, does not allow any further public borrowing.

As a result, the only significant IFI activity that has taken place recently is in the private sector. The IFC has scaled up its investments in Jordan considerably during the last few years; its portfolio has grown from $50 million in 2005 to nearly $500 million today. AFD and KfW also maintained their activity, including grant funded energy efficiency projects and risk sharing schemes for SMEs. The Government of Jordan is also working actively with EIB and AFD to explore avenues for cooperation in financing on a non-sovereign basis.

In the wake of the Arab Spring, the authorities have displayed a willingness to develop the role of IFIs in their economy. Jordan's Deauville Partnership Action Plan, drawing on the country's Executive Development Program (2011-2013), targets external financing of US$3 billion annually in the form of:

- Development loans without the requirement for sovereign guarantees
- Partnership and Investment in Venture Capital Funds
- Development policy loans (DPL) linked to policy measures
- Sovereign development loans with highly concessional terms ("zero-percent interest rates")

This external financing should also help Jordan implement "mega projects", based on partnerships with the private sector. They include the Jordan national rail projects (estimated at $3 billion); the Jordan Red-Sea Project (initial phase estimated at $4 billion); and a nuclear power plant ($5-$10 billion).

In this context, IFI activities appear to be picking up:

- In June, the IFC and EIB provided loans of $215 million and $120 million, respectively, to the Jordan-India Fertilizer Company (JIFCO) to support construction of a state-of-the-art phosporic acid plant.
- In July, the AFD committed €40 million in loan guarantees for small- and medium-sized projects.
- In October, the EIB participated in the launch of the $50m Jordan Growth Capital Fund to provide long-term capital and institutional support to SMEs.
- The EIB and the AFD are publicly considering investments in the Jordan National Railway Network.

- New long-term partnerships have been concluded between the Government and MDBs such the World Bank (indicative envelope of $500 - $650 million over the next three years) and the AFD (in July, Jordan and AFD signed a 3 year MoU for €600 million).
- The EIB is providing technical support to the government to identify PPP programmes and projects and provide implementation recommendations, and has extended the scope of the European PPP Expertise Centre to Jordan.

Table 2: Summary of the activities of IFIs in Jordan

	Portfolio	ABV	Forecasts	Main sectors of activity	Private sector operations
World Bank (IBRD)	$335 million in IBRD Loans, Trust Fund Grants & Guarantees	FY09: $140 million FY10: $302 million	$500 - $650 million under the new Country Partnership Strategy FY12-FY15 (being finalized)	Urban Development, Transport, Energy Education & Environment. Supporting reforms	N/A
IFC	$523 million in 13 companies as of end-September 2011	$123 million in FY11	Expect to commit around $375 million between FY12-13	Financial markets, transportation & warehousing, chemicals, and power. Advisory services activities include PPPs.	Private sector only
EIB	€ 934 million since 1978, of which € 500 million since the launch of FEMIP in 2002	€ 81 million loan and € 5 million equity in 2011; no project in 2010; one private loan in 2009 (for € 165 million)	Expects to commit some € 300 million over three years	Private and public sectors; Water (33 %), Industry (20 %), Energy (16 %), Transport (14 %)	48% of signed loan exposure is in the private sector
IsDB	$ 1.75 billion	No project in 2010	Focus on non-sovereign financing (including PPPs)	Infrastructure, Energy, Health, Social Sector	- Quatrana Power Plant. - QAIA Airport (Amman)
Arab Fund for Economic and Social Development	$373 million (for total projects signed of $ 1.7 billion)	$108 million loan to be signed for the expansion of an existing power plant.	$400 million during the period 2011-2013	water, health, infrastructure, and electricity	One $15 million loan for a glass coating factory

	Portfolio	ABV	Forecasts	Main sectors of activity	Private sector operations
OPEC Fund (OFID)	$11 million	No lending activity in 2010-2011		Health and agricultural sector	
Arab Monetary Fund (AMF)	16 loans in total, worth $ 350 million	One $ 45 million loan in 2010	N/A	Provide financial assistance to correct balance of payments disequilibria and implement structural reforms towards the modernization of financial systems	N/A
KfW/DEG	€280 million	€ 22 million in 2010		Water supply; Sewage; Water resource management	Minor DEG activities in PPPs
AFD	€380 million	€100 million per year on average over the period 2006 - 2010	€200 million per year over the next 3 years (including non-sovereign)	Water and irrigation, local development, renewable energy, environment and transport	Proparco financed water supply in Amman for $ 100 million in 2009 and Energy generation projects for $ 45 million

4.3 Scope for cooperation on projects

The willingness to develop IFI financing and the absolute priority given to the private sector by the Jordanian authorities would make the EBRD engagement both welcome and timely. Given the expected stepping-up of private sector and non-sovereign financing by other IFIs, however, coordination will be particularly important.

Cooperation will build on each institution's specific competencies and business model. The EBRD's business model was described in detail in "Fighting the crisis, promoting recovery and deepening transition" (BDS09-54) providing the basis for the formulation of the medium term operational priorities of the Bank endorsed by Governors in May 2009. These include institutional, mandate and operational attributes such as, *inter alia*, its transition focus, respect for additionality, capacity to evaluate, structure, mitigate and take debt and equity risks, experience in supporting local (less experienced) and smaller businesses, ability to support different ownership models, and ability to intervene directly at company level to promote high quality standards in areas such as governance.

In preparing this technical assessment, the Bank has consulted closely, both on an institutional level and on the ground, with IFIs active in the region. Based on the response, there would appear to be a range of opportunities for cooperation, some of which are set out in Section 5.

Regionally, in the context of the Deauville Partnership Action Plan, the EBRD has been flagged as a potential partner for the AfDB-World Bank SME Facility; the Arab Financing Facility for Infrastructure (AFFI); the Arab World Initiative for food security (driven by the World Bank); and the World Bank-led MENA Concentrated Solar Power Program. Under the AfDB-led Private Sector Initiative, the EBRD has been asked to take the lead in exploring the scope for joint initiatives on "Local currency and capital markets" and is expected to participate in exploring others, including joint guarantee facilities, liquidity support for banks, PPPs and work on the investment climate.

In terms of policy dialogue, cooperation should be particularly helpful in overcoming major regulatory hurdles, in particular for PPPs, commercialisation of utilities, and local currency financing. Finally, cooperation with other IFIs will entail shared analytical work. The EBRD is already working with the World Bank on producing jointly LiTS and BEEPS studies for the new region.

5. Outline of potential operational areas

5.1 Operational focus

The operational directions of the Bank's activities in Jordan reflect the following factors:

- the overall directions set in the context of the Deauville Partnership, including the Country Action Plan prepared by the Jordanian authorities in September 2011 entitled **"Jordan: The Way Forward"** ("JTWF");
- the transition challenges and operational themes identified from the Bank's assessment trip to Jordan in October 2011;
- the activities of other IFIs working in Jordan and the collaborative framework among IFIs active in the region; and
- the specific set of competences, comparative advantage and transition mandate of the Bank.

Transition challenges driving the determination of potential operational activities of the Bank are summarised in this section and described in more detail in Annex 1. Three areas of operational focus have been identified to guide the Bank's activities in Jordan. These are areas where the Bank's mandate and skill set match the major transition gaps discussed in Section 3 and where Jordan's needs go beyond financial support to include systemic reform leading to a transition to an open, liberalised, market-oriented economy:

- **supporting sustainable energy** though investments that promote energy efficiency throughout the economy, the development of new sources of renewable energy and Jordan's transition to a liberalised, sustainable energy sector;
- **direct and indirect financing of private enterprises** in the corporate sector, with a focus on SMEs**,** improvements in the agribusiness value chain and energy and water use efficiency, aimed at boosting the creation of high quality jobs and developing further a thriving private sector; and
- **facilitating sub-sovereign financing for infrastructure services** in order to develop an efficient infrastructure delivered as a partnership between the public and private sectors.

These themes are also aligned with the priority challenges identified by the Jordanian government in the JTWF. Those challenges include the high cost of energy, water scarcity, high poverty and unemployment and fiscal shortfalls, which mean that Jordan must find non-sovereign solutions to finance energy and infrastructure investments. The Bank is positioned to respond to these challenges because of its experience in supporting the development of the private sector and reforming and liberalising the delivery of essential utilities and infrastructure, in particular to introduce private sector participation.

Jordan has moved further than other countries in the region in creating structures that allow the sub-sovereign financing of energy and infrastructure projects. Nevertheless, structural weaknesses (such as the single purchaser model in the electricity sector) will need to be addressed before the Bank can work fully in these sectors. There will therefore in some cases need to be an initial focus on policy dialogue combined with financing of projects where financing on a sub-sovereign basis is already feasible.

As noted in Section 4, the Bank is committed to participating in joint initiatives with other IFIs active in its potential new region of operations. These include local currency and capital market development and the possible design of joint guarantee schemes, on both of which the EBRD is expected to take a leading role, as well as regional cooperation on SME investment vehicles, liquidity facilities for banks, PPP development, capacity building programmes, work on the business climate and possibly further initiatives. These are not specifically taken up in the following but should be seen to complement the Bank's plans in Jordan.

The Bank's operations in Jordan, at both the initial and later stages, will seek to address issues of gender equality and women's entrepreneurship, within its mandate and in keeping with the Bank's Gender Action Plan. In particular, the Bank could assess ways to further enhance the participation of women in the labour force. This might include tailored projects that would accompany future investments – e.g., with intermediary banks on lending to women-owned businesses, with corporate clients on improving their human resources policies, and in municipal projects ensuring benefits are equally shared between men and women.

Finally, the themes and potential activities described in this section have been formulated on the basis of the knowledge available to date in a situation where the Bank does not yet have any operational experience in the country and no local presence. Accordingly, the directions and priorities set in this section constitute an initial basis for the start of operational activities in Jordan and will be enriched as the Bank's operational knowledge and experience build up.

5.2 Technical cooperation framework

The areas of operational focus guide the initial definition of Technical Cooperation (TC) assignments which could be launched as soon as the Board authorises the use of cooperation funds in Jordan. Based on its operational experience, the Bank has developed a range of TC mechanisms which generally fall into the following broad categories:

- **Regional or sector studies**: overarching reviews of particular areas or sectors, intended to inform the Bank and its interlocutors and to facilitate the identification of specific opportunities. These include, for example, a market survey of energy efficiency investment opportunities, analysis of the possible opportunities for sub-sovereign financing in infrastructure and analysis of the current fiscal framework for municipal investment.
- **Capacity building and environment enabling**: targeted assistance to create an environment more conducive to transition or to facilitate particular

reforms. This might include for example support for PPP development, allocation of air navigation charges or port dues setting mechanism to develop sub-sovereign financing options and the development of a national solid waste management strategy. This category can also be viewed as covering TAM/BAS activities which are essentially stand-alone.

- **Project preparation and implementation**: assistance to support a particular project, during both preparation and implementation. An example of the former might be a feasibility study for a port infrastructure development, wastewater treatment plant investment and of the latter, technical assistance to a small bank following an equity investment by the Bank.

These categories follow a natural sequence in the order in which they are presented above although the starting point in the sequence will vary from sector to sector. Thus in some sectors, the Bank first needs to understand the general area in which it is operating, to identify opportunities and to share its experience with its interlocutors. The next step in those sectors and in other sectors is to focus on specific sub-sectors where a need is identified and the Bank's involvement is appropriate and lay the groundwork for successful interventions. Often, particularly in the infrastructure sector, significant policy dialogue is required in order to create an environment in which projects can proceed. Finally TC is deployed to ensure the success of specific projects or enhance their transition impact.

In practice of course there can be overlap so that one assignment may fall into more than one category. Similarly in some cases certain steps in the sequence will be unnecessary or can be pursued concurrently. This EBRD TC "toolkit" provides a framework within which the TC assignments outlined below have been identified and prepared. The initial TC activities identified for each operational theme are presented in the sequence described above with the volume and nature of TC assignments varying for each operational theme.

5.3 Supporting sustainable energy

Key transition challenges

Jordan is almost entirely (97%) dependent on imported fuel. Fuel import costs are a significant financial burden on the national economy, consuming 7.5% of national income. Around 80% of fuel demand is for electricity production, which is mainly based on natural gas with diesel back-up. Entry points are limited to the port of Aqaba, the Egyptian pipeline and trucks from Iraq all three of which are threatened, either by cost, inefficiency or sabotage.

On the demand side, primary energy consumption has been growing at a rate of 4 to 5% a year with electricity consumption predicted to grow at a higher rate of 6% for base load and more than 10% for peak. Electricity is also critical in addressing Jordan's other major resource challenge, namely growing water scarcity, which requires energy intensive desalination plants. Overall Jordan anticipates needing an additional 300 MW of new generating capacity annually in the medium term.

The government's response to this has two aspects. First is a focus on energy efficiency, with a high level target of reducing consumption by 20% by 2020. However, few concrete regulatory steps towards this goal have been taken, there is limited availability of finance and the sector's structure lacks incentives for greater efficiency. The second aspect is the development of Jordan's significant renewable energy potential, particularly in solar power, with a target of meeting 7% of the country's energy mix by 2015 and 10% by 2020 from renewable sources. Again however there have so far been few tangible results.

Jordan's power sector has been broadly commercialised and the private sector is strongly involved in both distribution and generation. The state owned transmission company performs the duties of market operator and single buyer. Nevertheless, the organisation of the energy sector is a major barrier to addressing Jordan's problems. The single buyer model for electricity suffers from both political interference (electricity retail prices do not reflect generation costs) and an absence of incentives in the market structure which would promote competition, efficiency gains and renewable energy supply. Tariffs are not cost-reflective and leave the state-owned transmission company with significant losses.

The oil and gas sector in Jordan remains largely under state control with the government controlling imports, exploration and development of minerals and hydrocarbon deposits and the leasing of exploration and production rights. There are a limited number of joint venture projects with foreign investors under the aegis of the Jordanian National Petroleum Company (JNPC) and the Jordan Petroleum Refinery Company (JPRC) which has a de facto monopoly over all downstream petroleum activities such as oil refining, storage, transportation and distribution, is in the process of being partly privatised. The oil and gas infrastructure, notably Jordan's only refinery and its fuel distribution network, is inadequate, ageing and inefficient.

The government intends to privatise large parts of this sector in order to address some of these problems by introducing private sector capital and expertise. Privatisation is seen by the government as a solution to current problems with liquid fuel imports, production and distribution. The success of this privatisation, and the associated regulatory reform, is critical to resolving Jordan's problems in this area.

Potential investment areas

The Bank can support Jordan in its transition to a more sustainable and secure energy sector through a range of instruments. In particular it can bring its experience in promoting effective sector reform, energy efficiency and renewable energy, combining policy dialogue with small and large scale finance.

Demand-side energy efficiency projects may range from the small scale using sustainable energy financing facilities channelled through local banks to large scale direct investments in energy-intensive sectors such as the water industry, raw material mining and processing (e.g. steel and aluminium), construction materials production (e.g. cement), and agribusiness (including introduction of modern energy management systems).

On the supply side the Bank may support projects introducing more efficient power generation systems and loss reduction in transmission and distribution networks. Improvement in the distribution networks will also pave the way for decentralised renewable energy production, especially solar. Support for renewable energy projects such as wind and solar (thermal and photovoltaics) will both strengthen Jordan's energy security and introduce new investors to the sector. A common theme running through the Bank's activities in this sector will be liberalisation and strengthening of the regulatory framework.

In the oil and gas sector, potential investment opportunities arise in particular from the urgent need to increase the role of the private sector, notably by supporting the government's privatisation programme. In addition there will be scope to support the development of key infrastructure that brings greater diversity and liquidity to the sector, such as new interconnectors and additional storage and refining capacity. Finally the Bank may support investment in challenging exploration opportunities.

Technical cooperation

Several agencies have been supporting sector reform in the Jordanian energy sector and continue to provide the Jordanian authorities with technical assistance. The Bank's Technical cooperation (TC) assignments will therefore be coordinated with the donors already active in the sector and targeted to support directly the Bank's investments and associated sector reform agenda.

The Bank will carry out a sustainable energy market demand study, including an assessment of the market size for sustainable energy investments, identification of potential barriers to such investments, required reforms, and activities by national and multi/bilateral organisations. This will recommend priority areas and sustainable investment activities in each sector. TC assignments will also be carried out to develop a facility offering energy and water audits to private sector clients, principally in the agribusiness, manufacturing and services and municipal sectors.

When specific opportunities are identified the Bank will work on TC projects in these areas. Possible projects include an assessment of investment needs for distribution companies to reduce losses and support the implementation of smart grids and feasibility studies for IPP projects under development.

The oil and gas storage and distribution network would benefit from a strategic study of the types, capacities and location of key infrastructure. This will support the rationalisation of the remaining state retail distribution network, and also evaluate capacity for buffering imports for the smooth running of the power generation sector. A specific request from the Government mineral resources agency is for support in preparing their tender programme for gas exploration rights. It may also be appropriate to assess the scope to reduce water and energy consumption in the oil and gas sector, particularly in production and refining.

5.4 Direct and indirect financing of private enterprises

Transition challenges

With the exception of phosphate and potash production, substantially all manufacturing, services and agribusiness companies in Jordan are private. There is a positive attitude towards business and petty corruption is said to be minimal. Foreign investment is welcomed and the Government has well focused and coherent programmes for encouraging inward investment, regional development (development and free zones), micro and SME development. The Jordanian economy is also highly open and liberalised with many free trade agreements. The standard of education is high with Jordan supplying executives to neighbouring states, particularly those in the Gulf.

The **manufacturing** sector (17% of GDP) is fairly diversified. In **services**, the ICT sector is strong, accounting for 12% of GDP, as is tourism (14%). The ICT sector is one of the key components of Jordan’s economic growth, with Jordan now recognised as one of the key knowledge economies of the Middle East region alongside Israel.

Despite this fertile environment for private enterprise there are a number of transition challenges in certain key areas:

- First, although the banking sector in Jordan is well developed, comfortably capitalised and highly liquid it is generally focused only on large high quality credits. One key weakness therefore is access to finance for small businesses: SMEs account for 98 per cent of active businesses but only receive 13 per cent of total lending, well below the OECD average of 26.8%. The majority of the SME lending that does take place, like most banking activity, is concentrated in Amman with much poorer access to finance outside the capital. Difficulties such as the lack of a bankruptcy register and a focus on collateral-based lending exacerbate these difficulties.
- Second, certain specialist financial skills are less developed and consequently finance is not available for more challenging or structured investments. Notably there is limited understanding of the economics and structuring of energy efficiency financing. Non-bank financial services such as leasing and insurance are generally not well developed. The corporate and municipal bond markets are virtually absent and there are no derivatives.
- Third, the agribusiness sector has large transition gaps: there is significant scope to increase value-added production of agricultural products, as most products are exported unprocessed. Hygiene standards and traceability need to be improved along the whole production chain. The Bank's experience in supporting the development of logistics, storage, processing, distribution and retail infrastructure is particularly relevant in this context.
- Finally, although Jordan has built a sound equity capital market in terms of regulations, technology, infrastructure and acceptance of international investors the private equity industry is only nascent and unstructured with only five local fund managers and one second generation fund. The venture capital sector is similarly small despite rapid development in recent years.

This shortfall in the availability of early stage and growth equity is particularly significant in the context of Jordan's focus on exploiting its entrepreneurial culture and high level of education to develop a high technology economy.

Potential investment areas

The Bank has conducted an initial scoping of potential investment areas where it can bring to bear its particular expertise. Opportunities would appear to include:

- the direct financing, including through an extension of the Local Enterprise Facility, of mid caps, for example family owned companies that wish to professionalise their management, improve corporate governance, internationalise their sources of finance or prepare for a listing on the Amman Stock Exchange,
- investments to improve energy, water and other resource efficiency,
- investments in high-tech companies, and
- investments throughout the agribusiness sector value chain in such areas as large scale farming, storage, logistics, processing and modern retailing to increase capacity and the range and quality of products available.

Given the relatively small transition gap in mainstream banking, the need for Bank financing in the financial sector in Jordan is more targeted and would in many cases be subject to the availability of local currency financing. In the banking and microfinance sectors, this could include making equity investments in medium-to-small size institutions in support of their adoption of an SME strategy, strengthening their focus outside Amman and with the further objective of encouraging best practice in corporate governance. It could also include providing specialist credit lines, combined with focused TC, for SME finance, mortgage finance and energy and water use efficiency, and possibly investment in a distressed asset vehicle alongside one or more local banks to assist in removing growing NPLs from banks' balance sheets.

Jordan intends to launch an SME Program, including loan guarantees extended by IFIs (OPIC and AFD) to banks in support of SME financing and a grant element to support capacity building activities. It will be important for EBRD to coordinate closely with the implementing agency, JEDCO, on any future cooperation in this field to ensure that duplication does not take place. In addition, IFC, EIB and KfW are cooperating on a regional SME risk sharing facility which will be available to Jordan.

In the equity funds sector opportunities could include playing a leading role in promoting and building private equity activities in cooperation with other DFIs. This would involve using the Bank's experience of investing in more than 130 equity funds to support the growth of the private equity and venture capital asset classes, including through investments in funds with a targeted investment strategy, and help to attract reputable international, regional and local investors.

Technical co-operation

The Bank’s initial TC activities in the corporate sector in Jordan will focus on capacity building and project preparation. These would include: subject to screening to confirm the existence of a market gap, introducing the TAM and BAS programmes to provide consulting and strategic support to medium sized corporates and TC funding supporting smaller investments directly though the Local Enterprise Facility. In the agribusiness sector projects would focus on advice and training to improve the supply chain, for example in relation to hygiene and environmental standards, particularly in the poultry and dairy sectors.

In respect of financial institutions and private equity, the Bank’s initial TC activity might include providing assistance to an MFI in risk management and corporate governance, preparing the ground work for further assistance with a transformation plan. This would enable the MFI to become a commercial entity and attract investors thereby being able to expand further. Other projects include an assessment of SME lending policies and procedures in 3-4 banks with a view to providing tailored downscaling programmes focussed on increasing lending outside of Amman as well as training in “best practice” energy and water efficiency financing. If it becomes clear, as is anticipated, that there is a need for the Bank to extend its local capital markets initiative to Jordan then TC projects will include technical assistance in support of this.

5.5 Facilitating sub-sovereign financing for infrastructure projects

Transition challenges

As is clear from the review in Annex 1, **municipalities** in Jordan are faced with major challenges in providing better access and improved quality with greater efficiency. Given the scarcity of water, progress in this area can be of vital importance. The municipalities must address these challenges in an environment where most municipal services, including water, wastewater and urban transport services, are centralised. Municipalities (with the exception of Greater Amman Municipality (GAM) and special zones) are consequently only directly responsible for a few areas, such as solid waste management, street refurbishment and street lighting. In addition they are only allowed to borrow from the “City and Village Development Bank”, a state owned bank for municipalities. Although there have been a few non-sovereign projects, non-sovereign financing is not widespread in Jordan and remains constrained by legal restrictions on municipal borrowing and the weakness of municipal budgets. At the same time fiscal problems limit the government's ability to enter into sovereign projects.

The Jordanian government recognises that it therefore needs to develop non-sovereign financial solutions for the municipal infrastructure sector and to introduce private sector capital and skills as well as corporatisation and commercialisation. The government has successfully tendered a number of PPPs such as As-Samra WWTP BOT, Disi Water Conveyor BOT, and management of the Yarmuk Water company. However several recent PPP tenders have been unsuccessful due to a poor allocation of risks between public and private sector as well as a requirement for local currency financing.

Jordan's **transport** sector is based on an unbalanced two mode transportation model with an excessive reliance on road and air transport. The existing railway operations are predominantly freight with marginal passenger flows while the existing infrastructure capacity at the port in Aqaba requires further modernisation and expansion to adequately provide for the necessary maritime transportation flows.

The sector is well regulated with the Ministry of Transport being the key policy maker, supported by respective sub-sector regulatory bodies. Historically, the government has provided most funding for capital expenditures, e.g. in the roads sector, but there are now strong efforts to expand private investment flows into the sector, via PPPs, e.g. in the airport, port and railway sectors. These need to be put in the context of the overall transport strategy which aims at reducing the reliance on road and air links by supporting further railway network expansion and improvements to port infrastructure. The government is also targeting improvements to the energy efficiency and environmental sustainability of the sector operations.

Potential investment areas

The Bank is particularly well positioned to help Jordan implement two reforms in the municipal services sector: increasing the role of the private sector and corporatising and decentralising municipal service provision to allow for sub-sovereign borrowing.

The Bank could in particular provide non-sovereign financing to public sector utilities and municipalities that are already corporatised and creditworthy and support investments that are built around private sector participation. In the water and wastewater sector potential investments could, for example, include financing of Yarmuk Water, the Red-Dead BOT and the Aqaba desalination project. In urban transport potential investment opportunities could include the development of a car parking system in GAM, co-financing a BRT PPP in Amman and an Amman-Zarqa PPP. The Bank can assist the Government with developing and structuring integrated solid waste management projects, in particular in Amman as well as supporting GAM in the introduction of energy efficient solutions in the city such as solar water heating. In the transport sector priority projects include: financing priority infrastructure projects that promote the development of the private sector, such as modernisation of the Port of Aqaba and supporting projects that increase the commercialisation of the sector or the role of the private sector, such as the introduction of private operators in the railway sector, modernisation of the country's airports or projects structured as PPPs.

Technical Cooperation

The Bank's priorities for TC in the infrastructure sector will place a high priority on project preparation work, including feasibility studies for specific projects such as investments by Yarmuk Water Company, integrated waste management facilities and the development of energy efficiency measures for Greater Amman Municipality or the Port of Aqaba development. The Bank will also consider technical assistance for sector reform such as the development of a national strategy in the solid waste management sector, support to the Government to prepare PPP projects and restructuring of the institutional framework of the transport sector with a view to encouraging broader private sector participation. Finally, reflecting the Bank's expertise in developing municipal sub-sovereign financing solutions, TC work will include an analysis of the current fiscal framework and steps necessary to attract investments in the municipal infrastructure sector using sub-sovereign structures.

Annex 1: Assessment of Transition Challenges

A 1. Corporate Sectors

A 1.1 Agribusiness

Overall transition gap: Large

Key challenges: (i) promoting higher value-added production; (ii) improving the implementation of higher standards of hygiene and sustainability; (iii) further developing local supply chains in agro-production by supporting modern retail, which remains underdeveloped; and (iv) supporting transport, logistics and distribution infrastructure.

Agricultural production accounts for less than 3 per cent of GDP while absorbing approximately 7 per cent of Jordan's labour force. The main agricultural commodities are fruits, vegetables and animal produce. However, Jordan is a net food importer, especially with regard to meat and consumer-ready products. MFN applied tariffs for agricultural goods are 18.6 per cent, higher than those of Ukraine or Russia, but significantly lower than those of the other SEMed countries and of Turkey, which range between 40 and 70 per cent. Price controls exist for basic food products. In addition, the government supports grain producers through price guarantees and subsidises (mainly imported) barley and wheat bran as feed for sheep and goat production. Bread is also subsidised, which has led the government to be *de facto* the sole wheat (flour) and barley importer, even though no trading restrictions are in place. Water for agricultural production remains subsidised to date and agricultural producers are exempt from income tax.

The ownership laws currently in place restrict larger farm sizes and efficient agricultural production. Therefore, small land holdings dominate the agricultural sector, which makes it more difficult for producers to process and market their products. There is significant scope to increase value-added production, as most products are sold and exported unprocessed. The Jordanian agricultural sector also suffers from several structural deficiencies. As one of the driest countries in the world, efficient water use and irrigation are important challenges. Approximately two thirds of the water supply in the country is used by the agricultural sector, often on low value crops. The government is supporting technology transfer in order to promote the adoption by local farmers of more water-efficient technologies. Hygiene standards and traceability need to be improved along the whole production chain. The lack of modern raising techniques in livestock farming, as well as the low water quality for irrigation of vegetable production, are serious concerns.

In addition, chilled transport and storage facilities are in undersupply, which constitutes an obstacle to increasing export volumes. Frozen and higher value-added ready meal products are not widely sold due to the lack of adequate infrastructure. Modern retail chains, such as Safeway and Carrefour, are present in Jordan but retail remains very underdeveloped. These two chains are concentrated in Amman and smaller towns and villages still primarily rely on convenience stores for retail.

Rural financing is limited. Low-cost financing in the form of seasonal, short- or long-term loans to farmers is mainly provided by the state-owned Agricultural Credit Corporation. Farmers may also access micro-credit through the public Development and Employment Fund. However, commercial banks provide limited finance to the sector. As in other countries of the region, banks require immovable collateral for short-, medium- and long-term loans, while being more flexible on seasonal and small loans. Borrowers are exempt from the costs of collateral pricing, registration and redemption, which may constitute an important part of the cost of the loan. Insurance products for agricultural producers are inexistent in Jordan. The government tried to close this gap through the creation of an Agricultural Risk Management Fund. Having been legally set up in 2007, the Fund is not functional due to lack of finance. Currently, the government acts as a quasi insurer by providing compensation to farmers whose production suffered from drought, frost or flooding.

A 1.2 Manufacturing and Services

Overall transition gap: Medium

Key challenges: (i) enhancing the competitiveness of enterprises through further governance improvements and higher energy efficiency; (ii) reducing the sector's heavy dependence on the chemicals sector (potash and phosphates); and (iii) improving the business environment by strengthening the independence and capacity of the Competition Authority, enhancing investor protection and facilitating permitting and licensing.

In 2009, the manufacturing sector accounted for about 17 per cent of GDP. The main products include chemicals (particularly potash and phosphates, with fertilizers accounting for 15 per cent of total exports), leather and footwear, furniture, packaging, engineering products and IT. In recent years the government adopted several market reforms and further liberalised trade. It launched a comprehensive privatisation programme in the 1990s. The programme is now largely complete, although the privatisations of the Jordan Post, the Jordan National Petroleum Corporation, and the restructuring of the Civil Aviation Authority are still ongoing. The only sectors in which the government retains significant stakes are mining and utilities. In particular, the government still retains significant shareholdings in the Arab Potash Company and the Jordan Phosphate Company. Prices in the M&S sector are generally liberalised. Price controls are only maintained for basic goods such as food, water and energy as it is the case in other SEMed countries. Non-targeted subsidies for these basic goods constitute a significant burden on the government's budget.

The Jordan's economy is very open to trade. The country has been a member of the WTO since 2000 and has signed several bilateral trade agreements, notably with the EU and the United States, and is part of the Greater Arab Free Trade Agreement and of the Agadir Agreement (aiming at free trade between Mediterranean countries). The MFN applied tariff for non-agricultural goods at 9 per cent is among the lowest in the SEMed region (compared to Egypt, Morocco and Tunisia), lower than Russia's, but still twice as high as Turkey's. Several programmes are in place to support private enterprises in becoming more competitive on the international market. Some examples include the Jordan Upgrading and Modernisation Programme (JUMP) and the Jordan Services Modernisation Programme (JSMP) which help companies enhancing their productivity and adopting international best practices. JSMP in particular is targeting SMEs and their export performance, and is funded by the EU.

Within the SEMed region, Jordan has one of the most energy intensive economies and energy intensive corporates do not yet seem to have made significant energy efficiency investments. Water is also scarce and water use efficiency is an important challenge. In terms of innovation, Jordan has one of the highest R&D effectiveness measures in terms of patents granted relative to total R&D expenditure in our region, although the R&D-to-GDP ratio is slightly below average (similar to the one in Romania, Latvia and Slovakia).

Since 2002, the government has made efforts to encourage and enhance competition through stronger competition policy. The currently applied Law No 33 was adopted in 2004. It stipulates liberal prices, but allows for exceptions with regard to basic goods and price setting at times of exceptional circumstances. The Competition Directorate is responsible for the enforcement of the competition law, including inspections and examinations of possible violations. Fines can be applied, but are rarely used by the authority. The fact that different regulatory bodies yield powers in their respective sectors without a clear definition of responsibilities is an important weakness, and may lead to conflicts and incoherence in the application of the Competition Law. Furthermore, since it is integrated into the Ministry of Industry and Trade, the Competition Directorate is not independent and lacks capacity to deal with all potential cases. Even though it has contributed to raising awareness about competition, in particular following some prominent cases in the aluminium and automotive sectors, anticompetitive practices persist in an economy with many concentrated sectors.

Jordan ranks 96th out of 183 economies in the World Bank's *Doing Business* survey of 2012. Significant challenges are in protecting investors (Jordan ranks 122nd) and enforcing contracts (130th). Progress has been made in terms of starting a business where Jordan now ranks 95th as compared to 127th in 2011. This is mainly due to the capital requirement reduction from JOD 1,000 to as little as one dinar. According to the IFC's *Enterprise Surveys*, more than 40 per cent of companies identify permits and licenses as a major constraint, the highest percentage in our COOs. However, in terms of corruption, Jordan scores relatively well on Transparency International's *Corruption Perception Index* (ranking 50th out of 178 countries) better than Russia, Turkey or the other SEMed countries.

A 1.3 Real Estate

Overall transition gap: Medium

Key challenges: (i) further streamlining property-related bureaucracy, (e.g. reducing the costs of obtaining construction permits); (ii) further improving building standards, including energy efficiency (iii) further developing the affordable residential segment.

The tourism sector represents about 14 per cent of Jordan's GDP. It is well developed, especially the higher-end segment, with major international hotel chains present in the country. It has benefited from government incentives for FDI – the Investment Promotion Law provides various tax exemptions and facilitates licensing and business registration. Jordan also derives significant income from health tourism. In the retail segment of the real estate sector, there are a number of class A properties which have attracted major international retailers. The office segment is also relatively well developed. The development of the industrial segment in the Jordan's Special Zones has been supported by exemptions from building and land taxes or by discounts on land prices. There seems to be an over-supply in the luxury segment of the residential market, as suggested by sharp price falls during the global financial crisis. On the other hand, there has been a gap in the affordable residential segment, although developers have already started addressing it.

As in other countries in the SEMed region, the process for obtaining construction permits is relatively costly (Jordan ranks 93nd out of 183 countries in the World Bank's 2012 *Doing Business survey*, as the cost to obtain a permit is equal to about 534 per cent of income per capita, compared to an average of 54 per cent in OECD countries). The level of transparency in the real estate sector could be further improved. According to the Jones Lang LaSalle's 2010 *Global Real Estate Transparency Index*, Jordan is in the semi-transparent category, and ranks slightly better than Morocco and Egypt.

A 1.4 Telecommunication

Overall transition gap: Small

Key challenges: (i) further improving the regulatory framework, including granting access to the incumbent's network and strengthening the independence of the regulator; (ii) further developing data-ready telecommunications infrastructure (broadband internet); (iii) ensuring effective protection of intellectual property rights; and (iv) ensuring alignment of education curricula with business needs.

The ICT sector plays an important role in the economy, accounting for about 12 per cent of GDP. The fixed-line incumbent, Jordan Telecom (controlled by France Telecom) lost its guaranteed monopoly in 2005 and faces competition mainly from major mobile network and WiMAX operators. Furthermore, an alternative fixed-line license has been awarded to Batelco Jordan. Advanced service offerings such as Internet Protocol TV (IPTV), Voice over Internet Protocol (VoIP) and mobile commerce are available in the country. In the mobile segment, there is competition between three major operators, Zain Jordan, Jordan Telecom (branded as Orange) and Umniah (owned by Batelco). Zain and Orange have already been rolling-out 3G services and Umniah is expected to follow soon. The mobile virtual network operator FRiENDi Mobile recently started operations in the country, thus further increasing the competitive pressure in the mobile segment. However, mobile number portability is yet to be implemented.

Internet penetration has reached about 40 per cent, i.e. a level similar to other SEMed countries and slightly below the average for the SEE region. Although Jordan Telecom remains the major provider of broadband internet, it faces increasing competition from mobile operators offering 3G services. Fixed line broadband penetration is still low, at about 4 per cent (similarly to Tunisia), however mobile broadband access is improving rapidly, indicating the importance of the mobile-fixed substitution in the SEMed region.

The telecommunications sector is regulated by the Telecommunications Regulatory Commission (TRC). Concerns about regulatory independence emerged during the recent unrest in the region. Local loop unbundling still needs to be implemented (it is expected to be implemented by the end of 2011). Although the software piracy rate of over 50 per cent is lower than in other SEMed or SEE countries, intellectual property rights protection should be further improved. Availability of skills for the ICT sector (alignment of the available skills with the business needs) also seems to be a challenge, despite the fact that the country has one of the highest literacy rates in the region and ranks higher than other countries of the SEMed region in the World Bank's *Knowledge Index*.

A 2. Energy Sector

A 2.1 Natural Resources

Overall transition gap: Medium

Key challenges: (i) increasing private sector involvement and competition in the upstream oil and gas segment through the liberalisation and further restructuring of state-owned companies; (ii) pursuing the planned restructuring of the downstream oil and gas segment; (iii) strengthening the legal and regulatory framework, including setting up an independent regulator; (iv) reducing energy import dependency by diversifying energy sources and improving energy efficiency; and (v) increasing the transparency of revenue flows from extractive activities.

Jordan has very limited indigenous energy resources. The Kingdom imports around 98 per cent of its total oil products consumption and around 80 per cent of its domestic natural gas consumption. Natural gas is imported from Egypt and transported via a single pipeline. The risks associated with the country's reliance on a single supplier and the urgent need for Jordan to reduce its energy import dependency have been highlighted by a series of recent pipeline blasts in Egypt, which have led to substantial supply disruptions. Shale gas is seen as a promising indigenous alternative but, although the government has signed a number of memoranda of understanding for the joint preparation of feasibility studies, there has not yet been any substantial development.

Oil is mainly imported from Iraq by trucks. Recently, discussions about the construction of an oil transport pipeline between Jordan and Iraq have been revived. Crude oil is delivered to the sole refinery of the country, located in Zarqa, and covering around 80 per cent of domestic needs. Overall, the cost of consumed energy amounted to around 12 per cent of the Kingdom's GDP in 2009.

Jordan is one of the world's largest producers of bromine (4^{th} producer after China, Israel and the U.S.), and of phosphate rock and potash (7^{th} producer). It also produces cement, steel, clay, fertilizers, kaolin, limestone, silica sand, and other minerals used in the construction industry. However, the natural resources sector (mineral and hydrocarbon resources) only accounts for 2.7 per cent of the Kingdom's GDP.

The Jordanian energy and mining sectors are controlled by the Ministry of Energy and Mineral Resources (MEMR). The MEMR oversees the Natural Resources Authority (NRA) which is responsible for the regulation, exploration and development of mineral and hydrocarbon deposits and which has lease rights for exploration and production (E&P) of oil and gas fields.

The upstream oil and gas sector is dominated by the state-owned company Jordan National Petroleum Company (JNPC). JNPC signed joint venture agreements with IOCs such has BP and Total for E&P activities. JNPC is exploiting the sole gas field in Jordan. The Jordanian Egyptian Fajer Company owns and operates the natural gas pipeline from Aqaba to the north of the country and is in charge of transporting natural gas from the Egyptian border to the power plants and heavy industry consumers.

Downstream, the state-owned Jordan Petroleum Refinery Company (JPRC) had been granted a 50-year monopoly licence over domestic fuel supply which expired in 2009. Since 2004, the government has however engaged in a sector reform for the post-concession expiration period. The reform agenda included the full liberalisation of the domestic fuel market within 5 years (initially 25 per cent of the domestic fuel market would be opened to private companies, rising to 100 per cent within 5 years). 6 companies have been pre-qualified to acquire part of JPRC's distribution operations. JPRC however retains full ownership of the 150,000 b/d Zarqa refinery.

Privatisation in the mining sector seems more advanced than in the oil and gas sector. The main industrial players include the Jordan Phosphate Mines Co. (31 per cent directly and indirectly controlled by the government), the Arab Potash Co Ltd (26.9 per cent owned by the state) and Lafarge Cement Factories Company P.S.C. (100 per cent private).

Jordan has been committed to reducing fuel subsidies and has gradually introduced market-based pricing mechanisms for petroleum products, although the recent need to contract more expensive alternative fuels following natural gas supply shortages has led the government to take a small step backward on the issue of cost-reflective tariffs. The government has released an Energy Strategy in 2004, subsequently updated in 2007. The strategy gives a brief analysis of the main technical, financial as well as legislative challenges and requirements in order to meet forecasted energy demand for the period up to 2020. It also highlights an energy supply diversification strategy. Jordan is not an EITI candidate country.

A 2.2 Power

Overall transition gap: Medium

Key challenges: (i) Creating an effective wholesale market that provides sufficient investment signals for new generation; (ii) ensuring effective separation of regulation with full responsibility for setting tariff methodologies and levels; (iii) removing cross-subsidies and introducing cost reflective tariffs for consumers; and (iv) *improving access to financing through the removal of debt liabilities that resulted from gas and oil price increases.*

The power sector in Jordan is separated into a generation, transmission and distribution segments. Electricity generation is performed by two main private companies (CEGCO[2] and AES PCS Jordan). However, the state maintains a significant minority share in CEGCO, which accounts for 60 per cent of total electricity generation in the Kingdom. There is also a fully state-owned company (SEPGCO[3]) and some small independent power producers and large industrials. The state-owned National Electric Power Company (NEPCO) acts as the transmission system owner and operator. Finally, distribution is performed by three private distribution companies (JEPCO[4], IDECO[5] and EDCO[6]). IDECO and EDCO have been privatised in 2008. JEPCO is a listed private company operating under a concession agreement that will be converted into a licence in 2012. The three distribution companies are responsible for power supply in different regions of the country.

The wholesale market operates on a single-buyer model in which NEPCO is the main counterparty. There is no direct contracting between generators and suppliers. The model employs long-term power purchase agreements and is supported by government guarantees for generators. As counterparty to the generation power purchase agreements, NEPCO is liable for the all generation costs. Recent increases in fuel costs (primarily gas and Heavy Fuel Oil) have put upward pressure on costs that have not been passed on to consumers. As a consequence, the TSO has accumulated a significant amount of debt, which is restricting both network and generation expansion. The introduction of a wholesale market where generators and suppliers could freely interact would provide more appropriate signals for new investment, which in turn would address the structural issues in the generation market. Moreover, NEPCO currently has a monopoly over electricity imports and exports through the country’s interconnection with Syria and Egypt. Open access to interconnection capacity should be made available to third parties, and effective capacity allocation rules should also be developed.

The power sector is regulated by the Electricity Regulatory Commission, who determines electricity tariffs, subscription and connection fees, and which monitors the quality of service and issues licenses for companies of the sector. The regulator is directly accountable to the Prime Minister’s office. Electricity tariffs are set according to an allowed rate-of-return tariff methodology adjusted for each company. There is also a de-facto control of rates on return on generation through the centralised control of the PPA procurement process. Although the regulator has stated its intention to remove cross subsidies in the future, current cost under-recovery and cross-subsidisation lead to an opaque and ineffective tariff regime.

Network coverage is very high and losses of the power system were reported at an average of around 15.5 per cent in 2010, down from 17 per cent in 2009. Performance

[2] Central Electricity Generating Company.
[3] Samra Electric Power Generating Company.
[4] Jordan Electric Power Company.
[5] Irbid District Electricity Company.
[6] Electricity Distribution Company.

on losses varies across the three distribution companies. There has been an increase in the detection of electricity theft by some distribution companies, and the latter are taking measures to address this issue, including the installation of electronic and smart meters.

A 2.3 Sustainable Energy

Overall transition gap: Large

Key challenges: (i) developing a clear action plan to meet energy efficiency and renewable energy targets; (ii) strengthening the capacity and expanding the mandate of the Energy Program within the Higher Council for Science and Technology (HCST); (iii) developing market regulations to provide appropriate incentives for the use of demand side management; (iv) developing a competitive incentive system for renewable energy, and (v) addressing institutional and financial barriers to unlock potential for energy efficiency.

The energy sector in Jordan faces a number of challenges including heavy dependence on imported fuels, rising costs of imported gas and oil coupled with an upward trend in electricity consumption (with a growth rate expected to exceed 4 per cent per year). Energy efficiency and the development of renewable energy sources have potentially a significant role to play in addressing these challenges. The Government is starting to promote energy conservation and to exploit the country's potential for renewable energy sources, especially wind and solar.

Jordan's Energy Strategy (2007-2020) has set a target to reduce energy consumption by 20 per cent by 2020. However, the country lacks sector specific strategies (e.g., residential, industrial, transport) with clear action plans and steps required to meet the target. The Energy Program within the Higher Council for Science and Technology (HCST) acts as the country's energy efficiency centre. The centre was originally set up in 1989 to carry out research on renewable energy and energy conservation but it now has an advisory role and is in charge of implementing projects.

Currently, there is a financing gap for energy efficiency projects. The government does not have a specific budget line dedicated to energy efficiency. While ESCOs could play an important role in the implementation of energy efficiency measures, there are only a few operating in Jordan and have limited budgets. Obtaining loans from local banks is also difficult since they are not familiar with this type of funding. A Renewable Energy and Energy Efficiency Fund (JREEF) is in the process of being set up with the aim to provide some support for renewables and energy efficiency projects.

Jordan has one of the highest solar energy potentials in the world and has significant wind energy resources. Currently, renewables account for less than 1 per cent of electricity production. The new Renewable Energy and Energy Efficiency Law (2010) sets a target to increase the share of renewables in electricity generation to 10 per cent by 2020. The law provides a number of incentives for renewable energy projects including a priority access to the national grid. A few projects have been launched to develop solar energy in Jordan, including decentralised solar PV systems to provide energy services to remote and rural villages. Two wind farms have been in operation since early 1990s, and two additional wind projects are in the pipeline but are significantly behind schedule. Like conventional generation, contracts are determined on a bilateral basis with NEPCO. Distortions in the electricity pricing system have frustrated the development of some renewable generation and solar water heating systems. This should be addressed through the development of a competitive electricity market that facilitates the participation of renewable generation.

A 3. Infrastructure

The transport sector serves the Jordanian economy essentially along the North-South corridor Aqaba-Amman; it also plays an important role on a regional level to transport goods and passengers to and from the neighbouring countries. The transport infrastructure is composed of one sea port (Aqaba) on the Red Sea, two narrow gauge railway lines for freight (phosphates) and mixed freight and passengers in the northern part of Jordan, and a 8,000 km network of roads (3,440 km of main roads including a four lanes highway between Aqaba and Amman; 2,127 km of secondary roads and some 2,435 km of rural roads) and three international airports (Queen Alia international airport under PPP with Airports de Paris; Amman international; and King Hussein international airport). All international land connections are by road.

A 3.1 Railways

***Overall transition gap: Large*[7]**

Key challenges: (i) expanding and securing the sustainability of railway operations in line with demand; (ii) improving operations and regulation of the existing lines; and (iii) increasing private sector participation and competition in an expanded railway network.

Jordan has a small railway system composed of two lines totalling some 620 km. The historic northern section of the railway is managed by the Jordan Hejaz Railway Corporation (JHR), which operates tourist chartered services (steam trains) and freight services on demand on a narrow gauge network of some 217km (and 111 km of abandoned lines). In the south of the country, the Aqaba Railway Corporation (ARC) operates a 293 km narrow gauge industrial line primarily for the transport of phosphates from inland mines (El-Abyad, El-Hasa and Shediya) to the Red Sea port of Aqaba (2.5- 3 million tones/year). Both companies seem to operate with limited control or monitoring from the Ministry of Transport. Safety rules are based on the old railway law dating 1934. There are plans for a massive expansion of the railway network on the N-S and W-E corridors towards neighbouring countries, with freight and high speed passenger (160 km/h) in a project worth USD 5 billion in total.

Regulation in the sector is undertaken by the Ministry of Transport, which lays down the general policy for transport, oversees its implementation in coordination with pertinent authorities, regulates the rail transport sector and its services, determines fees and fares for transporting goods for all means of transport, ensures compliance

7 The transition gap rating needs to be considered in the context of a small railway sector that is unlikely to grow into a competitive sector.

with technical rules, and conducts research for the development of the sector. A new interim railway law was passed in 2010 by sublime royal decree.

A 3.2 Roads

Overall Transition Gap: Medium

Key challenges: (i) streamlining the policy and regulatory functions to eliminate responsibility overlaps between different state bodies; (ii) increasing the financing available for road maintenance; and (iii) implementing broader risk transfer to the private sector (e.g. performance based management, PPPs).

Although there are studies that suggest that 70 per cent of the all roads are in excellent to very good roughness conditions and just 2 per cent are in a bad condition, it appears that maintenance of the relatively extensive Jordan road network is still insufficient. The Government Tenders Department under the Ministry of Public Works and Housing awards consultancy, maintenance and construction contracts under competitive tendering, as required by law. Jordan introduced road maintenance by contract since 2001, at first for three primary highways maintained by local contractors (one year, unit price-based contract), then through two-year unit-price based contracts. There are no performance based contracts yet nor PPPs in roads.

The Ministry of Public Works and Housing (MPWH) is responsible for planning, development and maintenance of the road infrastructure, which also involves road freight logistics centres and station facilities. The MPWH is responsible for maintenance of primary, secondary and village roads. Municipalities are responsible for maintenance of municipal roads. In Amman, the Greater Amman Municipality (Road Maintenance Department) is in charge of roads maintenance. In rural areas, some functions of the road maintenance are under the responsibility of the Jordan Valley Authority and village councils. However, according to the National Transport Strategy, there are some overlaps and institutional conflicts between the Ministry of Public Works, responsible for the construction, rehabilitation and maintenance of the road network, and the Ministry of Transport responsible for the design and implementation of road transport policies. Although there have been plans for a National Road Maintenance Fund since 1997, its establishment has repeatedly been shelved. Currently, funding comes from annual transfers from the Ministry of Finance to the Ministry of Public Works and Housing.

A 3.3 Water and Wastewater

Overall transition gap: Large

Key challenges: (i) improving operational performance to meet increasing water demand with scarce resources; (ii) advancing the corporatisation process in the sector, increasing private sector participation; (iii) reforming tariffs to reflect the scarcity of water; and, (iv) improving economic regulation.

The demand for water in Jordan is growing and exceeds already the available water resources. It is estimated that groundwater, which accounts for 54 per cent of total net water supply, is being exploited at about twice its recharge rate. Additionally, some non-renewable resources are also exploited. Annual per capita water availability has declined from 3,600 cubic meter per year in 1946, to 145 cubic meters per year in 2008. Access to the water supply sector in Jordan is fairly high, with drinking water supplied to 98 per cent of the population in urban areas and 83 per cent in the rural areas, and 65 per cent of the population served by sewerage systems (only 6 per cent in rural areas) and wastewater treatment through 25 treatment plants. However, uninterrupted supply is the exception rather than the norm; supply only one day a week is common in parts of the capital Amman; and supply as infrequent as one day every three weeks may occur in parts of the country. A major challenge going forward is how to meet the growing water demand, as the traditional water resources will not be enough and more expensive sources (involving desalination) will need to be developed.

The responsibility of water and sewerage services rests with the Water Authority of Jordan (WAJ), which is subordinated to the Ministry of Water and Irrigation. The WAJ provides water directly to consumers in most of the country. In three locations, however, the WAJ has established corporate water supply entities subject to private law: Miyahuna supplies water in the capital city Amman, the Aqaba Water company (80 per cent owned by the WAJ and 20 per cent by the Aqaba Development Corporation) supplies the city of Aqaba; while Yarmuk provides water in the north of Jordan. The Jordan Valley Authority (JVA) is responsible for water basin management from across the entire length of the Jordan river and is the main supplier of bulk water and supplier of drinking water and irrigation water in the territory of the Jordan Valley. As water and sewerage tariffs across the entire chain of supply are not cost reflective, water operators – both bulk water suppliers and distribution companies are not financially strong. The water sector is heavily subsidised by the government, through various mechanisms: low water bulk prices (free water provision by the Jordan Valley Authority to Miyahuna), low extraction fees, subsidised energy costs, capital grants and direct subsidies for water companies. Investment responsibilities are largely in the hands of the WAJ, as operators are only responsible for network operations, extensions and normal capital maintenance projects, whereas the WAJ is responsible for large investments such as network rehabilitation and major infrastructure construction. With the exception of Amman, Aqaba and Petra, municipalities can only borrow from the City and Villages Development, a state bank set up for channelling fiscal transfers and financing the investments of municipalities. International donor financing has been used to finance investments. Most of the country distribution systems are inefficient, with non-revenue water in excess of 50 per cent in parts of the country (about 43 per cent is the national average), although there are notable exceptions - Aqaba Water losses are only 22 per cent and Miyahuna 34 per cent. The metering level in Aqaba, for example, is 100 per cent, with digital meters installed for major consumers. The private sector has a notable presence in the water and wastewater sector in Jordan, including a 5-year extendable management contract for operating the Yarmuk Water Company awarded in 2011 to Veolia Jordan; a private operation (BOT) for the Amman wastewater treatment plant (operational); and a BOT for the Disi bulk water supply to Amman (under construction).

End-user and bulk water tariffs remain below cost-recovery. The stated policy of the WAJ is to achieve O&M cost recovery tariffs across the country. The WAJ estimates that current tariffs cover some 120 per cent of O&M in Amman, all costs (including investment costs) in Aqaba, and remain below O&M cost recovery in Yarmuk and the rest of the country. Household tariffs have a tier structure (JD 0.1, 0.15 and 0.25 per m3) depending on the volumes consumed. Cross subsidies exist with non-residential customers paying up to 10 times the residential rates. There is no independent regulatory authority and tariffs are set by the Cabinet of Ministers upon proposals from the Ministry of Water and Irrigation. The Ministry for Water and Irrigation is responsible for developing the national water strategies, policies and planning subject to approval by the Council of Ministers. Contractual relationships are evolving, as the Performance Monitoring Unit within the WAJ is developing benchmarks to be deployed across the water sector. Currently the management contract in Yarmuk is based on four performance indicators.

A 3.4 Solid Waste Management

Overall transition gap: Medium

Key challenges: (i) expanding collection to cover the entire population and increasing and regularising recycling; (ii) improving operational performance and encouraging more private sector involvement; (iii) promoting tariff reform to enforce the user-pays principle in full; and (iv) streamlining the legal and regulatory structure for solida waste management (SWM).

With a population of about 6 million, Jordan produces about 2 million tonnes of municipal solid waste (MSW), growing at about 3.3 per cent per annum. Estimates suggest that solid waste management (SWM) collection covers 70 per cent of rural areas and 90 per cent of urban areas.

In most Jordanian cities, the day-to-day solid waste management is performed by municipalities. The Common Services Councils own and are in charge of managing disposal sites. In Amman, GAM is responsible for collection, transportation and disposal at the Al Ghabawi landfill site. Since 2007, the administrative responsibility of the collection and cleaning equipment and staff has been transferred to the Cleanliness and Environment Department. SWM depends on budgetary transfers (mainly from municipalities), as user charges cover between 40-60 per cent of costs. Some 85 per cent of SWM is disposed into landfills. There is one modern landfill in Amman (including leachate and landfill gas management) and some 20 other around the country. Estimates for 2007 in Amman suggest a total cost of the service of JOD 22.55 million (USD 32.5 million). The breakdown suggests 25.4 JOD/ton (35.9 USD/ton) for collection, 3.5 JOD/ton (4.9 USD/ton) for transfer and 2.9 JOD/ton (4.1 USD/ton) for disposal. The financing of waste management infrastructure and systems is provided by municipalities. The Ministry of Municipalities offers low interest loans for municipal activities (except for GAM, which finances SWM from its own resources) including SWM via the Cities Development Bank. There is only one operating private sector structure – solid waste collection and transfer in Aqaba and an ongoing contract for the construction and operation of a medical and industrial waste treatment facility. Two other attempts at PPPs in collection and transfer in Amman failed. Recycling is largely performed by the informal sector without adequate health and safety standards.

Solid waste fees are flat fees set by the central government (except in Amman) and differ between municipalities based on their category and size (20 JD/year in first category municipalities (Governorate Centers), 14 JD/year in second category municipalities (District Center) and 12 JD/year in third and fourth categories). The fees are collected as monthly supplement to the electricity bill. The non-household commercial sector pays 20 per cent of the commercial license values as SW fees (about the same value paid by the residents in most cases). Tariffs ensure about 60 per cent cost recovery in Amman and less than 50 per cent elsewhere. The Ministry of Environment is responsible for policy and planning in the SWM sector. The Ministry of Municipal Affairs provides municipalities and common services council with financing to offer municipal services including SWM. The Ministry of Health follows up and monitors the medical waste generated from health care institutions. The legislation covering SWM is spread across several laws and regulations.

A 3.5 Urban Transport

Overall transition gap: Large

Key challenges: (i) addressing traffic congestion through market based mechanisms and better planning of public transport services; (ii) adjusting the fleet to changing demand conditions; and (iii) further revising the regulatory and financial support mechanisms.

The Ministry of Transport sets the general public transport policy. Policy implementation is undertaken by the Public Transport Regulatory Commission (PTRC), which may further delegate regulation and licensing to municipalities. Some 85 per cent of public transport services in the country are provided by individually owned and operated vehicles. In the wider urban agglomeration of Amman, the responsibility for transport (land use, traffic, parking, urban transport) has been delegated by PTRC to the Greater Amman Municipality (GAM). Public transport in Amman is dominated by private cars, whereas the main form of public transport are the white shared taxis (operating on a fixed fee system) and yellow metered taxies (with the largest market share). There are five large bus operators in Amman and some 75 per cent of the large bus routes are operated by the Comprehensive Multiple Transportation Company (CMTC), a listed Jordan-based bus public transportation operator established in 2005 (20 per cent owned by the Greater Amman Municipality, 19 per cent by the private Abu Khader Group and 51 per cent by the Kuwait City Group Company). CMTC runs operating losses and relies on often delayed subsidy disbursements. In mid-2011, CMTC was involved in a dispute with the regulator regarding a fleet of 191 new buses and unpaid subsidies; the company is now in default and administered by a government appointed temporary administration. Four smaller private large bus operators operate a fleet of about 100 buses. In June 2010, GAM started implementing an ambitious Bus Rapid Transit system in the Amman area financed by a USD 166 million loan from the AFD. Infrastructure investments are made by the Government, whereas funding mostly comes from international development organisations. There were several failed attempts at an infrastructure PPP for the Amman-Zarqa LRT, reportedly the country’s highest demand commuter route. CMTC introduced a smart card system in its buses, allowing users to use prepaid cards, and purchased 13 special buses equipped for disabled people.

The Ministry of Transport develops the transport policy, which is implemented by the PTRC, responsible for all land transportation. The Ministry of Public Works and

Housing is responsible for planning, designing and maintaining public, rural and agricultural roads, including ensuring road safety measures. Municipalities are responsible for municipal infrastructure and traffic management. The tariffs for all types of public transport are set by PTRC, while in Amman are set by GAM. PTRC has an indexing formula for fuel costs and inflation, and private operators have to cover all costs. The higher quality large bus operators (CMTC) cannot cover costs from user fares. A subsidy system is in place in Amman based on performance indicators but there is evidence that they do not operate effectively (e.g. dispute between an operator and GAM over a subsidy worth around EUR 4.9 million). Routes are licensed for 8-10 years either directly by PTRC or in conjunction with the municipalities.

A 4. Financial Institutions

A 4.1 Banking and Finance to MSMEs

Banking

Overall transition gap: Small

Key challenges: (i) improving effectiveness of enforcement of the bankruptcy procedures; (ii) broadening access to finance in the regions; (iii) improving NPL workout practices at some of the banks; and (iv) although generally well-developed, there is scope for improving further corporate governance.

The banking sector in Jordan is very liquid and well-capitalised, with a strong level of competition, diverse ownership, reasonable credit and risk management skills and fairly sophisticated products. Total banking assets over GDP amounted to 179 per cent at the end of 2010. A total of 26 banks are operating in the Jordan banking sector, of which 22 are commercial banks (13 domestic and 9 foreign) and 4 are Islamic banks. State ownership in the sector is limited to holding of minority stakes in several banks, and stakes in several quasi-banking organisations, including the Jordan Loan and Guarantee Corporation, in which the central bank owns 47.75 per cent of shares. However, these quasi-banking organisations are relatively small and state influence does not distort the overall activities of the banking sector.

	Bank	Total assets 2010	Market share 2010
		USD Bill	%
1	Arab Bank Group	10.39	21.08%
2	The Housing Bank for Trade & Financ	9.42	19.10%
3	Jordan Islamic Bank	4.06	8.24%
4	Jordan Ahli Bank Plc	3.55	7.21%
5	Jordan Kuwait Bank	2.94	5.96%
6	Bank of Jordan Plc	2.78	5.63%
7	Cairo Amman Bank	2.60	5.27%
8	Union Bank (Bank al Ethiad)	2.17	4.40%
9	Capital Bank of Jordan	1.70	3.44%
10	Islamic International Arab Bank*	1.47	2.98%
	Market share top 3		48.42%
	Market share top 5		61.59%

* Figures refer to 2009.

Concentration in the sector is at a reasonable level, with the three largest banks accounting for 48.4 per cent of assets in 2010 (compared to 53.2 per cent in 2000). Regarding other indicators of the competitive environment, there has been an increase in net interest margins (by 48 basis points between end 2009 and mid 2011, to reach 532 bps); this, however appears to be a trend driven by an adjustment of rates following the global financial crisis rather than an indication of lack of competition in the sector. Concentration in the Islamic banking segment appears high, whereby the largest Islamic bank, Jordan Islamic Bank, holds close to 70 per cent of assets. This banking segment, however, remains small, whereby the share of the Islamic banks' assets in the banking sector in 2010 stood at 12 per cent.

Extended loans and advances grew in the first half of 2011, reaching JD 13.2 billion (USD 18.6 billion equivalent), a 6 per cent increase compared to end-2010. Overall, loans and cash advances constituted around 35 per cent of total banks' assets, while just under 14 per cent of assets were invested into government bonds and over 30 per cent into cash assets. The FX share in total loans and advances in H1 2011 was low at just over 11 per cent.

NPLs have risen as a result of the crisis, reaching 8.4 per cent in H1 2011 (compared to 4.2 per cent end 2008), although this is still lower than levels observed in early 2000s (NPLs in 2003 stood at 15 per cent). The coverage ratio in the country is low, standing at 54 per cent. Although generally reasonably developed, there is scope for improving NPL workout practices at banks, and, when the conditions become more conductive, there might be scope for facilitating NPL sales process to third parties.

The banking sector is highly liquid. At the end of H1 2011, the loan to deposit ratio stood at 57 per cent, which is low compared to levels observed among Western European and US banks as well as among banks in most of our countries of operation (COOs). Deposits predominantly come from customers (65 per cent of total assets), with the balance raised from banks (11 per cent). The share of FX deposits in total deposits stood at a modest 23 per cent at the end H1 2011. Although this is somewhat higher than the share of FX in loans in advances (around 11 per cent), the level is still comparably low and does not constitute an undue risk in the banking sector.

High capital levels among the Jordanian banks provide the sector with substantial cushion for potential future losses. As of H1 2010, CAR stood at a comfortable 19.4 per cent, although given that NPLs are somewhat under-provisioned this slightly overstates the level of capitalisation of Jordanian banks. The leverage ratio reached 13.5 per cent in mid 2010.

The loan and cash advances and deposit products in the banking sector are relatively sophisticated in comparison to those existing in most COOs. The loan maturities for corporate loans extend to five years and to individuals to 20-25 years for mortgages. In relation to corporate governance and decision making, although adequate structures (boards, etc.) have been established, some shortcoming on implementation and existence of conflicts of interest still exist.

Banking sector regulation is carried out by the Central Bank of Jordan (CBJ). The Basel II accord was implemented and new guidelines with regard to risk management have been issued in 2009. The implementation of the Basel II framework still faces some challenges, including full coordination with regulatory authorities abroad. The CBJ introduced several additional measures in 2010 in order to enhance the soundness of the banking system and the ability to manage risk. An automated data collection system was introduced in June 2010 and cross-border bank regulation has been enhanced. In 2010 the Law establishing Private Credit Bureaus has been adopted, and it is expected that the first Bureau will be established in 2012. A deposit insurance system is in place. The low effectiveness of enforcement of bankruptcy procedures among borrowers, however, remains a significant impediment for increasing lending to both consumers and corporate borrowers.

Finance for Micro, Small and Medium-sized enterprises

Overall transition gap: Medium

Key Challenges: (i) broadening access to finance, especially at the regional level; (ii) improving the effectiveness of foreclosure procedures and credit information systems; and (iii) improving the financial management skills of SME entrepreneurs.

MSMEs play a fundamental role in the development of the Jordan economy. They account for 98 per cent of active businesses in Jordan, providing 60 per cent of private sector total employment and generating around one third of GDP. Yet, access to finance remains an important impediment to MSMEs' growth. According to the World Bank, bank lending to MSMEs is estimated at around 13 per cent of total lending[8]. Around 80 per cent of MSMEs are located in three main cities (Amman, Zarqa and Aqaba) although the majority of MSME lending still tends to be in Amman. Therefore, providing access to finance to regional areas outside of the capital remains a key transition challenge. Lending to SMEs by banks is particularly constrained by the lack of collateral as well as poor historical financial information.

[8] *The Status of Bank Lending to SMEs in the Middle and North Africa Region* , World Bank Washington DC, June 2010".

Other sources of commercial funding for SMEs, including private equity, are at an early stage of development. The scale of leasing activity is limited and accounts only for 1.1 per cent of GDP.

Microfinance is still developing in Jordan. Eleven microfinance institutions operate in the country, mainly state or donor funded, although a number of private organisations play an important role. The number of microfinance borrowers has almost tripled in the past five years reaching 199,332 borrowers and a gross loan portfolio of over USD154.3 million (0.6 per cent of GDP) in 2010[9]. Microfinance intuitions are required to register with the Ministry of Trade and Industry. A microfinance law is currently under preparation with the assistance from GIZ and is expected to be in place by the second half of 2011. Jordan has the largest loan portfolio of the MENA microfinance sector, after Morocco and Egypt. Various credit guarantee and subsidised schemes, including from the National Bank of Jordan, have not been effective in encouraging MSME lending partly because the emphasis has been on lowering interest rates below commercial rates. A large credit guarantee scheme of about USD 250 million, supported by the OPIC/USAID, is currently being discussed for supporting a national SME Program.

The institutional environment that supports bank lending to MSMEs needs to be improved.[10] A comprehensive cadastre is in place but property registration remains a lengthy and expensive process. Although the bankruptcy law is relatively effective, the cost of contract enforcement is the highest in the region. Seizure and foreclosure of collateral is very lengthy and costly for banks. A low on moveable collateral is in draft form and once approved, a central collateral registry for movable assets is likely to be implemented. There is need to increase the coverage of public credit bureaus (currently at only at 1.5 per cent of adults). The introduction of Jordan's first private credit information bureau in 2012 is expected to have a positive impact on access to bank finance for MSMEs. High collateral requested by banks are still perceived as a constraint for MSMEs lending. MSMEs often lack the management skills to prepare appropriate business plans and have limited access to business information on financial services.

A 4.2 Insurance and Other Financial Services

Overall transition gap: Medium

Key challenges: (i) broadening access to leasing products by improving the effectiveness of enforcement of the bankruptcy mechanisms and refining implementation of the regulatory framework; (ii) consolidating the insurance sector and refining mandatory motor insurance regulations; (iii) expanding re-insurance activities; and (iv) enacting regulatory changes required to facilitate establishment of the private pension sector.

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[9] Microfinance Information Exchange (MIX) 2010.
[10] *Report on the implementation of the Euro-Mediterranean Charter for Enterprise*, OECD, EU, ETF and Euromed.

Insurance

Insurance penetration is at a reasonable level compared to other COOs, however, market structure in the sector could be improved by reducing fragmentation and facilitating consolidation among smaller firms. The establishment of the Insurance Commission in 1999 marked the beginning of developments in this sector. The gross premium grew significantly in recent years, increasing to JD 408.1 million (USD 575.3 million) in 2010. This is equivalent to 2.2 per cent of GDP, which is below the levels observed in the European Union and in some of the more developed COOs (e.g., the ratio in Slovenia is 5.8 per cent), but in line with average levels observed, for example, in the SEE (1.8 per cent) and in Russia (2.4 per cent).

In 2010, 90.7 per cent of written premia were in the non-life segment, amounting to JD 370.1 million (USD 521.7 million) or 2 percent of GDP, while 9.3 per cent were in the life segment, amounting to JD 38 million (USD 53.6 million) or 0.2 per cent of GDP. The non-life segment is dominated by motor insurance, which accounted for 43.2 per cent of total gross written premia in 2010, followed by medical insurance with 23 per cent (the remainder coming from maritime and accident insurance). As of 2010, there were 28 insurance companies present in the market, of which one was licensed as a life company, 10 were listed as non-life companies and 17 were licensed as composite companies. Many of the smaller companies are family owned and there is also limited strategic foreign ownership. There is no significant state ownership in the sector.

The level of competition appears to be relatively high. The three largest insurance companies capture a combined 28.1 per cent of the market (in terms of gross written premia). This concentration level is relatively modest and significantly below the average levels observed for the top three players in the CEE and SEE regions for example (64 and 55.3 per cent respectively). However, a large number of smaller, family owned insurance companies make the structure of the sector and competition inefficient. Consolidation (or orderly wind-downs) among smaller companies could benefit the sector. The products in the insurance sector are relatively sophisticated, and the level of underwriting and risk management skills, particularly among larger companies, is at a reasonable level. The local and regional re-insurance sector in Jordan is non-existent, with re-insurance being bought from international re-insurance companies.

The profitability in the sector is low, with more than half of the insurance companies reporting a net loss in 2010 and the sector reporting an aggregate net loss for the period. While the sector is showing some recovery and an aggregate net profit in H1 2011, there is still a significant number of companies that are reporting losses. The low profitability in the sector is mainly driven by losses on investments and underwriting losses in the mandatory motor insurance segment. The capitalisation in the sector is above the minimum levels set by the Insurance Commission; however, it is recognised that this minimum level will need to be increased considerably in the coming years to get to more adequate levels.

Legal, technical, financial and organisational frameworks have been reformed according to international standards. Some further requirements, however, are planned by the Insurance Commission, including the equalisation of the capital requirements of existing and new insurance companies (currently JD 4 million and JD 25 million respectively), and some refinements to the regulation of mandatory motor insurance, where the price ceiling is currently set below cost reflective levels and the client acquisition process does not give companies the right incentives.

Leasing

The leasing segment is at a relatively nascent stage. Leasing volume over GDP stood at just over 1 per cent, which is similar to the average level of Eastern Europe and the Caucasus but well below the South East Europe and Central Europe and Baltic regions averages of 4.1 per cent and 9.9 per cent, respectively. Leasing is provided by banks (5 out of 11 leasing agents), captive leasing companies (2 companies), stand-alone leasing companies (2 companies) and bank-related companies (2 companies). The Jordan leasing market is concentrated in real estate, which accounts for 66 per cent of the total leasing volume. Often, real estate leases replace mortgages since leases are typically more attractive than mortgages from the lenders' perspective (due to more efficient foreclosure process). Leases also might be more attractive to some borrowers since they generally qualify as Sharia-compliant products.

The 2008 Law on Leasing has facilitated the registration of lessors' interest in assets and reduced costs. However, there is no unified collateral registry. The rights of lessors and lessees in the case of bankruptcy are clarified within the law, however, there appear to be significant deficiencies in the way in which these bankruptcy procedures are enforced. Improving the enactment of the bankruptcy procedures could greatly facilitate and broaden access to leasing products. There are also restrictions on banks' ownership of property, which somewhat hampers the development of this segment.

Mortgages

The mortgage segment is at a fairly reasonable level of development. Mortgage products are available with maturities as long as 20-25 years. The growth of the mortgage market has been facilitated by the Jordan Mortgage Refinancing Company ('JMRC') that was established in 1996 by the government with the goal to improve house financing and develop local capital markets (through issuance of bonds). Medium- and long-term financing is provided to banks through refinancing housing loans granted by these banks.

Pensions

The pension system in Jordan comprises a public and a private component (Pillar III). The public pensions segment is sizeable, with public pension reserves representing one third of GDP (47.5 per cent in 2005). At the same time, the private pensions segment is virtually non-existent with a very limited number of private pension products available and extremely low assets under management.

The public funds are managed by the Social Security Corporation. The biggest share of the portfolio is invested in equities (around 60 per cent of assets). These equity investments typically give the Corporation large minority stakes (with Board representation) in these companies. Around 15 per cent of assets are invested in fixed income securities, while other investments include cash and CDs, real estate. The Corporation is also considering investments into the private equity and VC segments. Overall, the investment portfolio is tilted towards equity investments, with only a limited share of investments made into fixed income securities (in contrast, 95.3 per cent of assets in Egypt and 61 per cent in Morocco are invested in fixed income securities). The management of funds at the Social Security Corporation is carried out by a separate investment unit. This enhances accountability. Nevertheless, the size of equity holdings in large Jordanian companies in strategic sectors could potentially result in interference with the investment strategy design.

Pillar III pension schemes are offered both as group and individual plans. The former mostly consist of occupational and professional plans, while individual plans are offered by life insurance companies. The sector remains significantly underdeveloped as the size of both group and individual plans is very small.

A pension reform law was approved by Parliament in February 2010. The law includes provisions to increase the retirement age and penalties for early retirement, a reduction in the accrual rate and an increase in the investing period. While the law may facilitate the establishment of a more effective public pension system in Jordan, it is not expected to have any material positive effect on the private pension sector in the country. Further changes, including a reduction in the maximum payout at retirement stage, are expected to increase the need for voluntary pension top-ups and therefore increase demand for private pensions. However, since it is not expected that individuals will be allowed to switch their pensions between the Social Security Corporation and private pension fund providers, the private pension sector is likely to remain relatively underdeveloped in the foreseeable future.

A 4.3 Private equity

Overall transition gap: Medium

Key challenges: (i) broadening companies’ access to PE and VC financing; (ii) facilitating the launch of first-generation PE and VC funds; (iii) increasing interest in Jordan among reputable international Sponsors and LPs; and (iv) increasing the range of PE strategies available in the market.

The private equity sector in Jordan remains small compared to what is observed in most developed countries, with only five institutional-quality private equity funds currently active in the market. The Foursan Group follows a generalist strategy with a regional focus. Other funds include an SME-focused fund, established with the assistance of the government and a leading regional player (Abraaj Capital); a fund focused on power and energy; and two venture capital oriented funds (focused on ICT and on solar/renewable energy). These funds typically focus on growth capital investments, and therefore there is only a very narrow range of strategies available in the market. The sector would benefit from increases in capital committed and invested, an increased number of fund management teams with local focus and the presence of reputable international Sponsors and LPs.

There is also a significant number of larger regional funds that include Jordan in their investment mandate. They are, however, based outside Jordan with very limited presence in the country and are typically focussed on larger investment opportunities, which are currently not present in Jordan. To date, these funds have made very limited investments in the country. In order to translate this significant amount of capital that is in principle available for the country into investment flow, these funds will have to adopt more focused strategies and develop their local presence in Jordan.

The private equity funds investing in the country have, in principle, all conventional exit routes available to them: strategic sales, secondary sales and IPOs. However, to date there has been a very limited number of exits, which is largely reflective of the maturity of the investment portfolios. There have, however, been some successful exits, including the sale of Maktoob (the Arab's world largest online community), which was noticeable from a financial point of view (sale in 2007 by Abraaj to Tiger Global Management, an existing shareholder, followed by a sale by Tiger and EFG (a shareholder since 2000) to Yahoo! in 2009 reportedly for USD 164 million).

The institutional environment in the country is fairly conducive for establishing private equity and venture capital funds and conducting their operations. Target investee companies' practices are at a reasonable level (e.g. companies typically have IFRS accounts). However, issues remain, with, for example, companies often lacking skills required for developing credible business plans and engaging with private equity investors. It is also worth noting that the government has made the VC segment one of its priorities and is engaging in the sector by facilitating the establishment of the VC funds, as well as providing them with part of the required capital.

A 4.4 Capital markets

Overall transition gap: Medium

Key challenges: (i) developing the domestic corporate bond market; (ii) improving corporate governance requirements of companies listed on the Amman Stock Exchange (ASE); (iii) increasing the depth and efficiency of the inter-bank markets and JODIBOR reference rate; and (iv) expanding the range of financial products traded on the ASE.

Capital markets in Jordan are relatively well development. The Amman Stock Exchange (ASE) was established in 1999 as a non-profit making institution with administrative and financial autonomy from the State. The equity capitalisation on the ASE in H1 2011 stood at JD 19.7 billion (USD 27.8 billion equivalent), or 105 per cent of GDP. There are currently 250 listed companies, of which a majority (79 companies) belong to the financial sector, followed by the real estate sector, commercial services and the mining sector (14 companies). Out of the listed companies, 32 are majority foreign-owned; almost 50 per cent of shares (by value) on the ASE are owned by investors domiciled outside Jordan.

The stocks turnover in 2010 stood at JD 6.7 billion (USD 9.4 billion), which represents a decline of around 70 per cent compared to 2008 levels (driven by a decline in the velocity of trading and share values). Market liquidity, measured by the velocity of turnover, stood at 30.1 per cent in 2010, higher than in almost all of the Bank's countries of operation, but yet still significantly lagging behind levels observed in more developed countries. The trading activity is concentrated in some of the largest stocks, while smaller stocks listed on the exchange have very low levels of liquidity.

The corporate bond market in Jordan remains significantly underdeveloped. Only two bonds were listed in 2010 by the corporate private sector with a total volume of JD 18 million (USD 25.4 million). The government bond market is more developed, with 122 Treasury bonds and bills listed and a combined listed value of JD 6,661 million (USD 9,389 million) in 2010. These bonds are listed on the ASE but not actively traded; the total trading volume of bonds amounted to JD 0.14 million in 2010. The maturities available - which together with the inter-bank money market yield curve should provide a pricing reference for lending by banks - are fairly limited, with the longest maturities being at around 5 years.

The JODIBOR inter-bank rate was launched as a reference interest rate for the dinar interbank market in late 2005. Since its launch, efficiency in the interbank market has improved significantly. However, liquidity remains somewhat unstable, as the interbank lending volumes fluctuate significantly. The first half of 2010 saw a large increase in total lending volume, peaking at JD 1,820.4 million (USD 2,566.1 million) in 381 transactions in July 2010 before dropping to JD 562 million (USD 792.2 million) in 128 transactions in December. The rate is not currently used as a reference rate by banks, which instead typically link interest payments to their internal prime rates.

The Jordan Securities Commission (JSC), created in 1997, is the regulator of both the ASE and the Securities Depository Centre. The JSC monitors the market for insider trading, market manipulation and other breaches, and it is working closely with ASE Market Watch, which carries on real time monitoring of ASE trading. It also monitors and enforces issuers' compliance with disclosure requirements. Overall trading and listing regulations on the ASE are in line with good practice. However, the corporate governance standards set as part of listing requirements on the ASE could be improved by introducing mandatory compliance with the Corporate Governance Code (instead of the current “comply or explain” requirement).

Annex 2: Jordan – Summary of challenges, opportunities and priorities

Operational priority	Transition challenges	Potential investments	Indicative TC priorities
Supporting **sustainable energy**	• Structural reform of the power sector not yet carried through to practical implementation. • Extensive state role in the oil and gas sector. • Very high level of energy import dependency. • Poor energy efficiency and limited penetration of renewable energy.	• Investment in power networks and infrastructure linked to commercialisation and liberalisation. • Finance for private investors in the oil and gas sector and key market-supporting infrastructure. • Direct and intermediated financing for energy efficiency projects. • Investment in renewable energy development.	• Sustainable energy market demand study. • Energy and water audits in the power, oil and gas, industrial and agricultural sectors. • Assessment of distribution investment needs and IPP feasibility studies. • Strategic review of oil and gas infrastructure. • Technical assistance for rights tendering.
Direct and indirect financing of **private enterprises**	• Limited access to finance for SMEs and outside Ammam. • Underdeveloped banking skills limit availability of more complex or structured products. Non-bank financial services and capital markets are also underdeveloped. • Agribusiness sector is fragmented and lacks key infrastructure in the areas of logistics, storage, processing, distribution and retail, • Shortage of early stage and growth equity.	• Direct, including through LEF, and intermediated SME financing for the private sector. • Investments throughout the agribusiness value chain. • Investments in local or regional private equity and venture capital funds. • Targeted specialist credit lines.	• Introduction of TAM/BAS. • TC support for roll out of LEF. • Technical assistance to raise standards in agribusiness sector. • Technical assistance for selected microfinance and SME-focussed lending institutions. • TC in support of local capital markets initiative.
Facilitating sub-sovereign financing for **infrastructure** projects	• Structural problems inhibit sub-sovereign financing and commercialisation of municipal service provision, in a context of major stress on existing infrastructure. • Financing and regulatory difficulties obstructing widespread implementation of PPPs. • Congested and limited transport sector constrains economic development. • Limited private sector participation in providing transport infrastructure.	• Non-sovereign financing for creditworthy municipalities and utilities. • Financing for PPPs and other forms of private provision of public infrastructure. • Support for key infrastructure projects that facilitate private sector growth.	• Preparation and feasibility studies for specific projects. • Technical assistance for sector reform and PPP implementation. • Analysis of existing municipal sector and scope for sub-sovereign financing.