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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A PROPOSED LOAN

WITH THE GLOBAL CONCESSIONAL FINANCING FACILITY SUPPORT

IN THE AMOUNT OF US\$500 MILLION

TO THE

HASHEMITE KINGDOM OF JORDAN

FOR THE

FIRST EQUITABLE GROWTH AND JOB CREATION PROGRAMMATIC DEVELOPMENT POLICY FINANCING

June 20, 2018

Macroeconomics, Trade and Investment Global Practice Finance, Competitiveness and Innovation Global Practice Jobs Group Middle East and North Africa Region

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HASHEMITE KINGDOM OF JORDAN GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of June 18, 2018)

Currency Unit = Jordanian Dinars (JD)

US\$1 = JD 0.709000000 JD 1 = US\$ 1.41043723

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics	JD	Jordanian Dinar
CPF	Country Partnership Framework	JEGP	Jordan Economic Growth Plan
CBJ	Central Bank of Jordan	JLGC	Jordan Loan Guarantee Corporation
DFID	Department for International Development	MOF	Ministry of Finance
DPF	Development Policy Financing	MOPIC	Ministry of Planning and International
			Cooperation
DSA	Debt sustainability analysis	NAF	National Aid Fund
EFF	Extended Financing Facility	NEPCO	National Electricity Power Company
EIA	Environmental Impact Assessment	PIM	Public investment management
FDI	Foreign direct investment	PFM	Public financial management
GCC	Gulf Cooperation Council	PMT	Proxy Means Test
GDP	Gross domestic product	PPP	Public-private partnership
GoJ	Government of Jordan	PSIA	Poverty and Social Impact Analysis
GST	General sales tax	SMEs	Small and medium enterprises
HIES	Household Income and Expenditure Surveys	SST	Special sales taxes
IBRD	International Bank for Reconstruction and	TBD	To be determined
	Development		
ICOR	Incremental capital output ratio	UNHCR	United Nations High Commission for
			Refugees
ICR	Implementation completion and results report	USAID	United States Agency for International
			Development
IFC	International Finance Corporation	WAJ	Water Authority of Jordan
IMF	International Monetary Fund	WBG	World Bank Group

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HASHEMITE KINGDOM OF JORDAN

JORDAN FIRST EQUITABLE GROWTH & JOB CREATION PROGRAMMATIC DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P166360	Yes	1st in a series of 2

Proposed Development Objective(s)

The program development objective is to support Jordan to set foundations to: (i) reduce business costs and improve market accessibility, (ii) create more flexible and integrated labor markets and provide better and more efficient social assistance, and (iii) improve fiscal sustainability and take more informed decisions regarding risk.

Organizations

Borrower: HASHEMITE KINGDOM OF JORDAN

Implementing Agency: MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Financing

Total Financing	300.00
DETAILS	
International Bank for Reconstruction and Development (IBRD)	389.00
Trust Funds	111.00
Concessional Financing Facility	111.00

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High

500.00



Results

Indicator Name	Baseline	Target
<u>Aggregate business compliance costs</u> (based on IFC's Compliance Cost Saving Model which measures time and cost savings from both sector specific licensing and inspections reforms)	TBD by December 2018 (for 2017)	2021: 30 percent reduction ¹
Guaranteed exports as a percentage of total exports	(2017): 1.09 percent	(2021): 2.40 percent
<u>Cost of proving compliance with the requirements of foreign</u> <u>markets</u> (testing; conformity assessment)	TBD by June 2019 (for 2017)	(2021): 10 percent reduction
Cost of cargo transport for containers on the Amman-Aqaba corridor	(2017): US\$408	(2021): Approximately US\$368 ²
Insolvency Framework Index of the Doing Business indicator	(2017): 5	(2021): 10
Legal Rights Index of the Doing Business indicator	(2017): 0	(2021): 6
<u>Tariff Cross Subsidy Index</u>	(2016): 25.5 percent	(2021): less than 21 percent
Index of Grid-Subsidy for Self-Generation	(2016): over 90 percent;	(2021): Zero
Growth of formal, private, full-time employment	(2014-2016 annual average): 3.1 percent	(2021): 3.3 percent
Growth of formal, private, part-time workers for women and youth (annual average)	Women: (2014-2016): 31.6 percent	(2017-2019): 35.0 percent
	Youth: (2014-2016): 0 percent	(2018-2021): 10.0 percent
<u>Number of manufacturing and services work permits issued to</u> <u>Syrian workers from January 1 to December 31 of each year</u>	(2017): 16,516	(2021): 18,435
Cost of work permits for Syrian workers	(2017): JD 300-370 (without waiver)	(2018-2021): 0 (with waiver)
Number of households covered by NAF	(2017): 93,000	(2021): 178,000
Impact of revenue measures in 2018-2020	(2017): 0	(2020): about JD 1,280 million
<u>Use of National Registry of Development Projects (NRDP)</u>	(2017): None (NRDP does not exist)	(2019): All new PIP and PPP projects registered in the National Registry of Development Projects (NRDP)
Inclusion of contingent liabilities and risk assessment in Debt Management Strategy	(2017) No	(2020) Yes

While both baseline and target for inspections reform can be defined using a Compliance Cost Savings model, defining a baseline for sector licenses will not be possible until data collection is completed in early FY19.

The result goal is for a 10 percent reduction in the cost of cargo transportation for containers on the Amman-Aqaba corridor. Average of domestic transport import and export costs from *Doing Business* 'Trading Across Borders' indicator (Doing Business 2018). Target will be adjusted for exogenous supply and demand factors, as fuel prices and/or inflation. The baseline of US\$408 is the average of the import (US\$395) and export (US\$421) domestic transport cost for Jordan in the Doing Business Indicators published in 2018.

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE HASHEMITE KINGDOM OF JORDAN

1. INTRODUCTION AND COUNTRY CONTEXT

- 1. The proposed First Equitable Growth and Job Creation Development Policy Financing is designed to help Jordan lay the foundations for a higher and more sustainable economic growth path, while creating more jobs for Jordanians and non-Jordanians. Since 2009, adverse external shocks, a dissipating fiscal stimulus, and slowing domestic reform momentum combined have held back economic growth, which averaged just 2.5 percent per annum over 2010-2017. Progress in reducing unemployment and in increasing labor force participation has also stalled the latter is among the lowest in the world exacerbating the urgency posed by the post-2011 presence of close to 1.3 million Syrians.
- 2. The post-2011 refugee influx has deepened Jordan's labor abundance, but it did not alter the structural pattern of job creation. Currently, job growth is concentrated in low productivity sectors with localized markets and limited attractiveness to efficiency-seeking investment. Going forward, Jordan is seeking to build resilience into its economy by raising productivity, expanding domestic markets through improved access to finance and stronger institutions for managing risk, and opening new external markets. At the same time, given high public debt, Jordan will need to continue its fiscal consolidation, highlighting the urgency of strengthening social safety nets. Jordan's public debt, which stood at 60 percent of GDP in 2008, reached 96 percent of GDP in 2017. While the rate of increase of the debt has slowed significantly owing to several years of fiscal consolidation efforts (which have included increases in electricity and fuel prices, and in indirect taxes), halting the growth of debt and bringing it to more sustainable levels will require significant additional fiscal measures. Policymakers have thus set themselves an ambitious challenge: targeting a higher potential GDP in the context of a worsened external environment and fiscal consolidation. This US\$500 million First Equitable Growth and Job Creation Development Policy Financing (DPF), including US\$111 million concessional portion of the loan, supports simplification of the business environment and the development of exports, the development of credit infrastructure, the introduction of flexibility into the labor market, the reduction of cross-subsidies in electricity pricing and the development and further expansion of the social assistance system.
- 3. The magnitude of the challenge that policymakers face, and the tradeoffs that the government will need to make, came to a head at the start of June: demonstrations triggered by proposed tax reform led to the resignation of the government, and the appointment of a new Prime Minister on June 4th. In recent times, the Jordanian economy has been generating around 50,000 new jobs a year, at a time when around 200,000 new jobs are needed just to absorb new entrants into the labor market every year. Per capita income has been contracting, and deficit reduction measures have been ongoing since 2014, after what had already been a difficult adjustment to elevated oil prices from 2011. The resulting social stress is significant. Jordan eliminated energy subsidies over 2016-17, and eliminated exemptions or increased rates for the GST and SST in many products that directly affect households. Inflation at end April was 3.9 percent year-on-year, compared to 3.7 percent in 2017, and around -1 percent during 2015-16. In this context, when government submitted the draft income tax law to parliament on May 30 and announced on May 31 routine increases in the prices of gasoline effective the next day, people took to the streets. The demonstrations which intensified over the weekend across Jordan and led to the resignation of Prime Minister Mulki.
- 4. **A new government was sworn in on June 14, 2018.** Prime Minister Omar Razzaz formed a Cabinet of 28 ministers including 11 first-time ministers and 7 women. The Prime Minister's Designation Letter set out as guiding principles the need to unleashing Jordan's economic capabilities, so that it regains its potential to grow, compete

and generate jobs, and to address issues of competitiveness that limit Jordan's potential. Regarding taxation, the Prime Minister will hold a national dialogue on how to respond to Jordan's economic crisis, with a focus on strengthening the link between taxation and the quality of public service delivery and combating tax evasion.

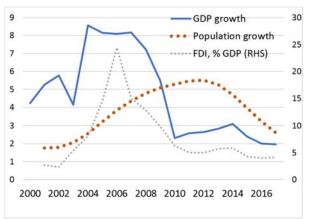
- 5. Jordan's previously successful formula for coping with geopolitical challenges has run into new trends of lower grants, remittances, and investment flows. As a small open economy reliant on trade, the loss of key Syrian and Iraqi export markets has severely hit growth and employment in Jordan. Coupled with the long-term real exchange rate appreciation and stagnating productivity growth at home, this has resulted in declining competitiveness and exports as a share of GDP.³ This in turn has undermined private sector job growth. Nevertheless, while Jordan has few natural resources, its central location in the region and reputation for stable government and secure borders has historically made it a relatively attractive destination for investment, including 'flight' capital from Iraq in the early 2000s, and to a lesser degree from Syria. Foreign investment, together with remittances from Jordanian professionals and entrepreneurs working in the GCC, have comprised a large part of the foreign inflows that were the source of aggregate demand in the economy and sustainability of the external account. However, these inflows have been on a declining trend and are no longer sufficient to buoy the economy, or fiscal revenues, or support the external account.
- 6. While the new government will have the benefit of a fresh start on building consensus for reforms, it faces heightened uncertainty over the summer, necessitating accelerated international support. Sources of additional uncertainty are: delay in completion of the pending second review of the IMF program while ownership of tax reform is built; global strains on emerging markets dependent on foreign inflows and vulnerable to dollar appreciation and rising oil prices; lack of clarity about the prospect for refugee returns to many parts of Syria; political flux throughout the region with formation of new governments pending in Lebanon and Iraq; and, deepening economic reforms in the GCC aimed at increasing their competitiveness for similar kind of investments that Jordan is aiming to attract.
- Although Jordan's adaptability in hosting refugees is intrinsic to its history, the economic context for the latest influx has posed particular challenges. Since 2000, Jordan has hosted two waves of refugees, the first from Iraq and the second from Syria. While refugees' and migrants' characteristics vary, as does their impact on the Jordanian economy and society, both waves have contributed to increased volatility in the economy. The first wave started in 2003 following the start of the Iraq War. It is estimated that about one million Iraqi refugees arrived in Jordan since, bringing with them large amounts of 'flight' capital. Figure 1 shows how Jordan's population growth increased from under 2 percent in 2001, to 5.3 percent in 2010 – leading to an estimated 1.1 million increase in Jordan's population during 2003-2010. Figure 1 also shows the large amounts of foreign direct investment (FDI) that came to Jordan after the Iraq war started, which peaked in 2006. While the population and FDI data in Figure 1 are aggregates, the dramatic changes in the trends are to a large degree attributable to the Iraq war. Moreover, from 2011 onwards, Jordan experienced a second large wave of refugees, this time from Syria. Jordan is hosting almost 1.3 million Syrians, of which 666,217 are registered refugees with UNHCR (as of 26 May 2018). About 90 percent of the refugees are living in Jordan's cities, towns and villages exhausting existing social and physical infrastructure and impacting delivery of basic services. There has been a noticeable deterioration in the quality of services provided across numerous critical sectors, including health, education, municipal services, and others. The influx of these refugees has raised Jordan's overall population to 9.5 million in 2017. The wave of Syrian refugees

Exports fell from 48.3 percent of GDP in 2010 to 34.9 percent of GDP in 2017. The long-term drop in exports is largely attributed to the loss of export markets in Iraq, a loss in competitiveness, and a fall in potash prices.

did not bring significant FDI resources. In recent years, desk reviews and extensive interviews and survey have clarified the impact of the Syrian refugee crisis on Jordanian host communities (see Box 1).

Figure 1. GDP and population growth rates

income (2010=100) 140 -GDP growth 30 -GDP per capita, growth 130 Population growth 25



Source: Government of Jordan and World Bank estimates

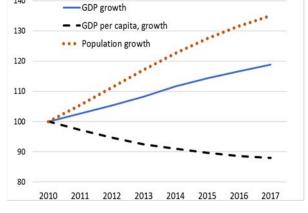


Figure 2. Index of GDP, population and per capita

Source: Government of Jordan and World Bank estimates

Recent poverty data are not available, but earlier declines in poverty are likely to have halted or even reversed for Jordanians. The last estimate in 2010 had shown a decline in poverty, alongside falling inequality.⁴ Between 2008 and 2010, poverty fell from 19.5 percent to 14.4 percent, driven by real GDP growth of 8 percent over the two-year period. An additional 28.8 percent of households lived just above the poverty line and were vulnerable to falling below. The poverty rate varied considerably by governorate, from a low of 6.8 percent in Jerash to a maximum of 26.6 percent in Ma'an, although due to their larger populations, the greatest number of poor were in Amman, Irbid and Zarga. Similarly, although the poverty rate was higher in rural areas (16.8 percent) than in urban areas (13.9 percent), 80 percent of poor households in Jordan were in urban areas. The Gini index fell from 39.3 points in 2008 to 37.6 points in 2010, indicating inequality had fallen slightly at the same time as poverty was falling. However, while new poverty data will not be available until later in 2018, they are likely to show that poverty reduction has stalled, if not reversed. Since 2010, real per capita GDP growth has been negative, while unemployment has been increasing. Together these are likely to have impeded further poverty reduction. As regards to Syrian refugees, they find themselves in an economy where on average residents are getting poorer with significant fiscal and social stress.

The last publicly released poverty estimates for Jordan are based on the 2010 HIES. A new survey round of HIES was initiated in 2017 and will be completed in August 2018, with revised poverty estimates available later in the year. All figures in this paragraph are from the UNDP's Jordan Poverty Reduction Strategy (2013), based on the 2010 HIES data.

These households live between 1.0 and 1.5 times the poverty line of JD 67.8 per individual per month.



Box 1. Impact of Syrian refugees on host communities

Recent assessments have pointed to increased challenges and social tension in service delivery to Syrians and Jordanians in the water sector, access to employment and livelihood, availability of housing stock, and provision of education, healthcare, and social services.⁶ For example, districts hosting Syrian refugees have been severely affected with supply of water reported to have been reduced to once per month (from once per week in some districts).⁷ This has led to adoption of coping mechanisms, including rainwater collection, purchase of water from private water tank sellers, and well-digging. Although difficult to fully attribute employment and livelihood challenges to refugees, surveyed Jordanians reported lack of access to adequate livelihood in host communities (45 percent of Jordanians) and feeling that 'lack of adequate livelihood contributes to social tension' (69 percent of Jordanians and 71 percent of Syrians "agreeing" or "strongly agreeing"). Furthermore, a majority of surveyed Jordanians believe that the refugee crisis has reduced the ability of poor households to access social safety nets (78 percent of Jordanians believe that non-governmental social assistance support is not distributed evenly). As for the housing sector, the Ministry of Interior reports the need for an additional 120,000 housing units for Jordanians and Syrians in host communities to meet the growing need where currently Jordan produces an annual average of 28,600 units per year (2004-2011) that cannot adequately address the growing demand. As for the education sector, the majority of surveyed host communities reported the introduction of double-shift schools. Furthermore, only 62 percent of Jordanian respondents reported 'adequate' access to education. In the healthcare sector, respondents in host communities cited capacity constraints, financial constraints, and out-of-date equipment as a major barrier to quality healthcare. Figure 2 shows that, relative to 2010 (the year before the war in Syria started), real GDP had increased by about 17 percent by 2016, but population increased by about 33 percent, forcing per capita income down by 12 percent.

Jordan's response to the country's productivity, jobs, and conflict spillover challenges is to seek international support for the fiscal costs of the spillovers, while using that support to catalyze reforms capable of generating productive jobs in a labor-abundant economy. The Government of Jordan (GoJ) is putting together a five-year priority reform program for equitable growth and job creation whose objective is to set the foundations for higher growth. The program responds to the challenges of prioritizing and implementing reforms that Jordan has included in its strategic documents in the past. Jordan's Vision 2025 was developed in 2014 and has been under implementation since then. The Vision promotes a balanced approach to development and sets out goals for improving social outcomes, the business environment and the functions of government. The Vision incudes about 400 initiatives, with specific actions for each area defined. In 2017, Jordan developed the Jordan Economic Growth Plan (JEGP) 2018-2022. It comprises economic, fiscal and sectoral strategies, and identifies policy interventions, public projects and private investments that must be undertaken to realize these sectoral visions. The new five-year priority reform program: (i) singles out the priority reform goals in the Vision and the JEGP, (ii) identifies the reform elements and capacity needs, (iii) mitigates implementation challenges, and (iv) ensures alignment of donor support and financing, conditional on implementation progress. The proposed DPF is the first operation supporting the key reforms under the five-year program, to which the government has committed. The operation is benefitting from concessional financing approved by the Global Concessional Financing Facility (GCFF) to address the needs of middle-income countries hosting large numbers of refugees (see Box 2).

In 2012-2014, key informant assessment of more than 446 communities (1,4451445 interviews) was carried out under the REACH initiative – a joint multi-phased assessment initiative supported by interagency donor group, including the UNHCR, UNOSAT, and the British Embassy.

Understanding Social Cohesion and Resilience in Jordanian Host Communities. Assessment Report. Amman, June 2014

Box 2. The Global Concessional Financing Facility

The Global Concessional Financing Facility (GCFF) is a partnership sponsored by the World Bank, the UN, and the Islamic Development Bank Group to mobilize the international community to address the financing needs of middle-income countries hosting large numbers of refugees. By combining donor contributions with multilateral bank loans, the GCFF enables eligible middle-income countries that are facing refugee crises to borrow at below regular multilateral development bank rates for providing a global public good. The GCFF represents a coordinated response by the international community to the Syrian refugee crisis, bridging the gap between humanitarian and development assistance and enhancing the coordination between the UN, donors, multilateral development banks, and benefitting (hosting) countries. The GCFF is currently supported by Canada, Denmark, the European Commission, Germany, Japan, Netherlands, Norway, Sweden, the United Kingdom, and the United States.

- The first pillar of the programmatic DPF series will support a better operating environment for the private sector in terms of costs, regulatory complexity, and predictability. Jordan's productivity growth has been modest since 2010 due to unpredictable regulatory processes, high business input costs (including power), and subdued competitive pressures in key segments of the economy combining to undermine competitiveness. A key indicator of competitiveness, Jordan's real exchange rate has appreciated significantly since 2010, despite the modest reversal due to deflation in recent years. At the same time, Jordan's relatively large financial sector does not play a role in financing private sector activity commensurate with its size. Avenues to export have also been reduced by endemic conflict in two key regional markets: Syria and Iraq. Improvements in the enabling environment will be achieved, on the one hand, through measures that reduce the cost-base, improve regulatory predictability, and ease access to finance for Jordanian businesses, and on the other, by measures that improve the ability of those businesses to access markets. Better reform implementation will be key to success, and a significant investment in improved reform governance is needed. Governance challenges are particularly pertinent when it comes to the business enabling environment. Many of the uncertainties and administrative burdens faced by investors and businesses are a function of inadequate governance practices related to the way rules impacting businesses are prepared, coordinated, consulted, implemented and updated. An effective cross-ministerial regulatory reform and oversight body will need to be established. Beyond the direct effects, the reforms will also have a positive signaling effect to investors on the Government's commitment to strengthening the environment for business.
- 11. The second pillar will support increased economic opportunities and flexibility in the labor market and expansion of the safety net. Poor job creation has resulted in high unemployment and low labor force participation rates, especially among women. Unfortunately, labor market segmentation—by nationality, sector, occupation and gender—does not help the modest job market performance. Many Jordanians—mostly unskilled, male workers—find themselves in informal jobs, competing against a large pool of "guest" workers. The legal framework, regulating the labor market, is likely a cause of much of this segmentation which exacerbates labor market segmentation that already exists in most economies; namely, by education, rural and urban, and formal and informal. To begin to address labor market segmentation, the design, enforcement, implementation of that the legal framework must be revised. The broad set of actions in this DPF will benefit all seeking employment in Jordan, including the refugee population not least by significant simplification of labor market regulation. In parallel, to promote a more inclusive growth process and help households manage the risks from some necessary fiscal reforms, including price increases in certain sectors such as electricity and water and the removal of subsidies, the Government will expand and improve targeting of social safety nets (SSNs) for the poor and vulnerable.
- 12. The third pillar of the programmatic DPF series will support the Government's fiscal consolidation efforts by focusing on efficiency in public investment, ensuring maximum opportunities for private investment in

traditional public investment areas through the adoption of a Maximizing Finance for Development approach, and updating the approach to managing debt and contingent liabilities. Public investment averaged 7.4 percent of GDP in 2000-2009, and 4.4 percent of GDP in 2010-2015, and 3.7 percent of GDP in both 2016 and 2017. With a significant fiscal consolidation pending in the medium term, fiscal space for public investment will likely be limited. Yet Jordan needs significant amounts of investment to boost growth and to improve the efficiency of the economy. Jordan will have to seek efficiency gains in public investment and to significantly increase its reliance on the private sector, through making effective the newly-adopted Public Investment Management — Public-Private Partnership (PIM-PPP) Governance Framework. At the same time, Jordan needs to make progress in managing emerging contingent liabilities as part of an updated approach to managing public investment and debt.

13. The pillars supported by this DPF series reinforce each other as part of a comprehensive approach to tackle the nexus of a complex legal and regulatory framework, discretionary implementation, lack of access to formal sector markets, and a narrow tax base due to widespread informality. The pillars set the stage for a gradual, but across-the-board, cost reduction that would be brought about through productivity gains realized by higher investment, reducing business costs, increasing access to finance, and supporting access to new markets especially for small and medium enterprises (pillar I), and lower labor costs in the private sector owing to: (a) expansion of labor supply through reducing costs to labor participation (pillar II), (b) increasing flexibility and reducing segmentation in the labor market (pillar II), (c) fiscal consolidation (pillar III) complemented by reduced informality, and (d) more effectively linking wage growth to productivity growth for the private and the public sectors and revisiting the social security package (contributions and benefits) in the medium term.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

- 14. Jordan's economy continues to endure a prolonged period of positive but low economic growth due to a succession of partially-mitigated external shocks and overhangs in public debt and the current account. During its high growth period between 2000-09 Jordan achieved an average annual growth of 6.5 percent associated with high FDI inflows that peaked at 24 percent of GDP in 2006, complemented by capital flight from the war in Iraq. In this period, labor productivity was surging, as was the real exchange rate relative to the US dollar. After 2009, once costly fiscal stimulus wore off, growth dropped to 2.3 percent, on the back of the global financial crisis. The economy then entered a period of almost flat productivity growth (Figure 3) and prolonged slowdown that was exacerbated by the wars in Syria and then Iraq after 2011. These wars brought the closure of trade routes and an influx of Syrian refugees which came with economic and social costs. In 2014, the slowdown in the GCC economies following the drop in oil prices also had a direct impact on Jordan's economy, through the subsequent reduction of trade, tourism, remittances and financial inflows, on which Jordan depended heavily in the past.
- 15. Net job creation is persistently low and declining, well below the flow of new entrants, while unemployment is increasing and youth inactivity is high. In 2007, 70,000 net jobs were created compared to 160,000 new working age population entering labor market (Figure 4). By 2015, the jobs gap had widened even further with net job creation falling to 48,000 while new entrants had risen to 235,000. Unemployment had declined slowly since the mid-2000s, but has risen from 11.9 percent in 2014 to 15.3 percent in 2016 and 18.3 percent in 2017. Unemployment is particularly high among women (24.1 percent) and the well-educated (21 percent of those with Bachelor degrees). At the same time, labor force participation is low and declining (36.0 percent), driven by one of the lowest female participation rates in the world (13.2 percent), and is declining, driven by falling male participation (58.7 percent, down from 64.8 percent in 2009). The number of young people not in

employment, education or training is high (19.1 percent of 15-24-year-old group and 41.2 percent of 18-29-year-old), particularly for females (38.5 percent and 60.8 percent, respectively). Youth unemployment is also high and rising (31.5 percent of males aged 15-24 years and 56.9 percent of females of the same age).

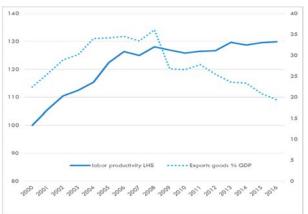
- 16. Women's very low labor force participation rate in Jordan is alarming. Between 2007 and 2017, female labor force participation has gone from a low 17.5 percent to 17.7 percent. Jordan has one of the lowest rates of female and youth labor force participation. Only two other countries in the world (Yemen and Syria) have lower rates of female labor force participation than Jordan. Even labor force participation for men are still low by international standards. While all comparator countries have male participation rates at 70 percent or higher, in Jordan only 64 percent of males aged 15 and above are employed or looking for a job. Low labor force participation on this scale points to a profound lack of transformation of the labor market usually seen in a middle income country with Jordan's level of education and small share of agriculture.
- 17. **Syrian refugees have had a mixed impact on the economy.** On the one hand, they have placed a burden on public services, driven up rents especially for lower income housing, and placed downward pressure on lower end jobs. Some of these costs have been mitigated by the Jordan Compact, through which the international community has committed about US\$2 billion a year in concessional support to Jordan. On the other hand, the presence of the refugees may have enabled dynamism in some sectors (such as construction and trade), helping to mitigate the impact of the downward trend in regional growth.
- 18. The prolonged period of low economic growth is also attributable to inefficiencies in Jordan's domestic economy and stalled productivity, especially as efficiency-seeking investment was deterred by the worsening regional security environment. The impact of per dollar investment on real GDP growth has declined since 2010. This is potentially attributed to increased inefficiency in the economy or 'poor quality' of investments as suggested by: (i) lower economic growth combined with a high investment ratio since 2010; and (ii) a significant rise in the incremental capital output ratio (ICOR). Even in the period of rapid growth (2000-2009), private sector job creation for Jordanian nationals was insufficient. Low-wage low-skill jobs mostly in non-traded sectors were not tempting for Jordanians and were instead filled by foreign workers, hence contributing to Jordan's structurally high unemployment rates. As such, Jordan's productivity levels declined. After registering productivity growth of about 4 percent per annum between 2000-2008 albeit concentrated in a few knowledge-intensive sectors Jordan's productivity growth declined to ¼ percent between 2009-2016; lagging all other non-oil countries in the Middle East and North Africa region.
- 19. These inefficiencies translate directly into reduced competitiveness, since depreciation is not an option given the stability commitment of the long-standing dollar peg. Jordan's exports have declined from 58 percent of GDP in 2008 to 35 percent of GDP in 2016. The loss in merchandise trade (which dropped from 36 to 20 percent of GDP in 2008-2016) was on the back of the collapse of trade with and through Iraq and Syria (Figure 5) and the drop in the price of potash, which is Jordan's major export. Jordan's real exchange rate has appreciated against major trading partners since 2000 impeding the competitiveness of the traded goods sector. Services exports also declined to 16 percent of GDP in 2016 from 22 percent of GDP in 2008, with fluctuations owing to a turbulent regional environment.

⁸ World Development Indicators: Female labor force participation rate for ages 15-64, total (%) (modeled ILO estimate).

⁹ Verme, P. IZA J Labor Develop (2015) 4: 3. https://doi.org/10.1186/s40175-014-0025-z.

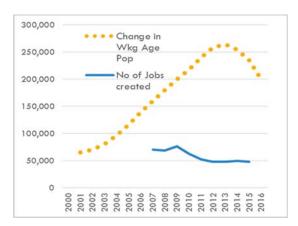
The ICOR is a metric that assesses the marginal amount of investment capital necessary for an entity to generate the next unit of production. Jordan's ICOR increased from an average of 3.9 for the period 2000-2009 to 9.5 during 2010-2016

Figure 3. Productivity index and merchandise exports as percent of GDP



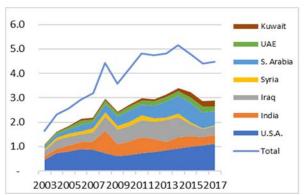
Source: Government of Jordan and World Bank estimates

Figure 4. Working age population and job creation



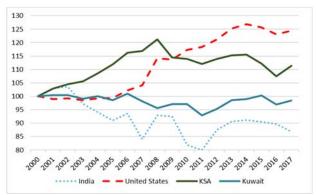
Source: Government of Jordan and World Bank estimates

Figure 5. Exports in US\$



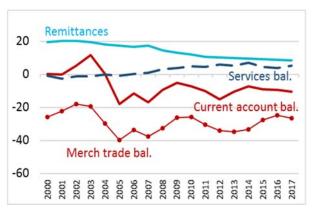
Source: Government of Jordan and World Bank estimates

Figure 6. Bilateral real exchange rates



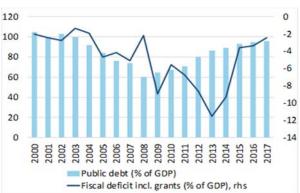
Source: Government of Jordan and World Bank estimates

Figure 7. External account



Source: Government of Jordan and World Bank estimates

Figure 8. Fiscal balance and debt



Source: Government of Jordan and World Bank estimates

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 - 20. In addition to the regional demand shocks, Jordan faced an idiosyncratic oil price shock (due to the loss in favorable prices from bilateral partners), which worsened a deteriorating fiscal position. In 2008, public debt stood at 60 percent of GDP, at the ceiling then set by the public debt law. With the advent of the global financial crisis, there was a significant slowdown in the Amman property market, which reduced tax revenues from this source. But policy choices played a much larger role: to mitigate the impact of the crisis and the effect of dwindling foreign inflows on its economy, Jordan embarked on fiscal stimulus through large scale tax exemptions and cuts, which reduced its domestic revenue base by 10 percent of GDP¹¹, and undermined its ability to withstand ensuing shocks. In 2011, the impact of elevated oil prices was exacerbated by an interruption in gas supplies following the Arab uprisings.¹² Anticipating a situation like the Arab uprisings, the Government shielded consumers from regulatory pass-through of these price increases, further burdening its finances.
 - 21. In the past few years, Jordan has made a sizable dent in its fiscal imbalances. A significant adjustment was accomplished in response to the increase in electricity generation costs following the disruption of gas supplies from Egypt in 2011, which forced generation to rely entirely on more expensive oil. Around 25 percentage points of the increase in public debt-to-GDP ratio since 2011 is accounted for by this shock, since the Government guaranteed National Electricity Power Company's (NEPCO) debt incurred from the inability to pass through generation costs ("NEPCO shock"). With the support of the World Bank and other development partners, Jordan has been able to make a phased adjustment to cost-reflective electricity tariffs and cut the overall fiscal deficit (excluding grants) from 14.3 percent of GDP in 2014 to 4.8 percent of GDP in 2017. The adjustment is a combination of lower oil prices, import of liquified natural gas from newly commissioned Aqaba facility, tariff adjustments in electricity that now cover the operating balance of NEPCO, and increased use of renewables in the power generation mix.
 - 22. However, the remaining fiscal imbalances, weakened competitiveness, and lower availability of external grants have created persistent external account deficits. Since 2010, the current account deficit has averaged about 10 percent of GDP. Remittances, mainly from the GCC, are down from 20 percent of GDP to 10 percent of GDP, the services balance has varied around 3-4 percent of GDP, and the trade balance has been about -30 percent of GDP but declining due to a contraction in imports. The capital and financial account averaged under 10 percent of GDP, despite the drop in FDI from about 13 percent of GDP in 2008 to 4 percent of GDP in 2016, owing to the increase in external borrowing. Jordan has foreign reserves coverage of about seven months of imports.
 - 23. The year 2017 saw again the pattern of sluggish growth despite some favorable regional developments, and headwinds from the monetary-fiscal policy mix. There was a robust performance in tourism and the industrial sector regained momentum based on a recovery in mining and quarrying as the effect of the fall in potash prices dissipated. On the demand side, growth was led by net exports and private demand, as public demand continued to be weighed down by fiscal consolidation efforts.
 - 24. After a two-year deflationary period, headline consumer prices rebounded, while monetary policy remains tight as the Central Bank of Jordan (CBJ) follows a monetary policy consistent with the currency peg. Consumer price inflation averaged 3.3 percent in 2017 compared to a deflation of 0.8 percent in 2016. This is largely due to low-base effects driven by: (i) a global recovery in international oil and food prices; (ii) the introduction of revenue-

From 2008 to 2011 GoJ reduced domestic revenues by 10 percent of GDP through the reduction of rates and the introduction of exemptions. https://openknowledge.worldbank.org/handle/10986/13251

According to the 2011 Public Expenditure Review, the Jordan had to pay nearly four times as much for oil than what Egypt was charging before the Arab spring.

enhancing measures;¹³ and (iii) the 2017 depreciation in the US dollar. The two years of price deflation drove Jordan's real exchange rate, vis-à-vis major trading partners, to a low in mid-2016, after which it appreciated through end-2016 and held approximately steady until June 2017 (Figure 6). The CBJ has raised interest rates five times since December 2016—once by 50 basis points (bps) and four times by 25 bps each—to maintain an attractive risk premium over the US Fed rates. The impact of these interest rate hikes on private sector borrowing has been mitigated by a crowding-in effect of the Government resorting more to external financing to cover its financing needs via issuances of Eurobonds and concessional borrowing.

- 25. **Jordan's fiscal balance improved in 2017, continuing the progress made in previous years**. The overall fiscal balance narrowed to -2.2 percent of GDP in 2017 (after grants, including transfers to Water Authority of Jordan (WAJ), from -3.2 percent of GDP in 2016 (Table 1). The drivers behind the deficit reduction are increases in domestic revenues and decreased capital expenditures. On the revenue side, domestic revenues increased by 0.9 percent of GDP in 2017, mainly driven by non-tax revenues. In 2017, tax measures included the imposition of excises on gasoline, increases in special sales taxes (STT) on cigarettes, telecom, alcoholic beverages and soft drinks, the removal of general sales tax (GST) and customs exemptions, and amendments in the law governing work permit fees for non-Jordanians.
- 26. However, despite a contractionary fiscal policy, and a small uptick in exports, the external account deteriorated as global energy prices increased over the past year. While exports of services (propelled by tourism) rebounded and some routes to Iraq and Syria reopened, ¹⁴ Jordan's current account deficit widened to 10.6 percent of GDP in 2017 from 9.5 percent in 2016. Exports continue to be weighed down by the slowdown in the GCC region and the weak recovery in domestic exports via Iraq. Workers remittances declined by 0.3 percentage points to 8.4 percent of GDP, as reflected by slower recovery in the GCC (Figure 7). The capital and financial account registered a slight increase in net inflows to 8 percent of GDP in 2017 compared to 7.8 percent in 2016, driven by public flows and FDI (4.4 percent of GDP in 2017 vs. 4 percent in 2016). Lower foreign inflows, exchange market pressure and higher dollarization rates all put downward pressures on net international reserves, which declined to US\$12.3 billion in end-December 2017 from US\$14 billion in 2014. Table 1 presents the baseline macroeconomic framework.

The Government introduced taxes, fees and customs duties in 2016 and 2017. The Government also started removing general sales tax exemptions in 2017 in line with the IMF EFF program.

¹⁴ Exports to Iraq and Syria recovered by 5.6 and 0.8 percent y-o-y during 11 months of 2017, respectively, as benefits of reopening trade routes with Iraq and stabilization of the security situation on the Jordanian-Syrian border started materializing.



Table 1. Key economic indicators, 2016-2022

	2014	2015	2016	2017	2018	2019	2020	2021	2022
	2014 Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.	Proj.
Real sector	7101.				ange, unle				110j.
Real GDP	3.1	2.4	2.0	2.0	2.1	2.3	2.4	2.7	3.0
Real GDP per Capita	-1.5	-1.5	-1.2	-0.6	0.0	0.6	1.0	1.6	2.2
Aprilanda (abara of CDD)	2.2	2.2	2.4	2.5				2.5	
Agriculture (share of GDP)	3.3 25.2	3.3 25.2	3.4 24.9	3.5 24.8	3.5 24.8	3.4 24.9	3.4 25.0	3.5 25.0	3.5 25.1
Industry (share of GDP) Services (share of GDP)	55.8	56.0	56.3	56.4	56.2	56.3	56.3	56.2	56.1
Net taxes (share of GDP)	15.7	15.6	15.4	15.3	15.5	15.4	15.4	15.3	15.3
	13.7								13.3
Money and prices					ange, unle				~ -
CPI Inflation (p.a.)	2.9	-0.9	-0.8	3.3	3.7	2.3	2.4	2.5	2.5
Money (M2)	7.1	8.1	4.0	0.3	2.3	4.9	4.2	6.4	4.7
Investment & saving				nt of GDP,	unless oth		ecified)		
Total Investment	28.0	24.1	22.2	20.6	21.9	22.3	22.4	22.7	23.2
Gross National Savings	20.7	15.0	12.6	10.0	12.3	13.7	14.7	15.8	16.4
Government finance			(percer	nt of GDP,	unless oth	nerwise sp	ecified)		
Total revenues and grants	28.6	25.5	25.8	26.1	28.1	27.3	26.0	25.8	25.7
Domestic Revenue (excl. grants & privatiz.)	23.7	22.2	22.7	23.6	25.1	25.1	24.8	24.7	24.6
o/w. tax revenue	15.9	15.4	15.5	15.3	17.1	17.2	17.1	17.0	16.9
Foreign Grants	4.9	3.3	3.0	2.5	3.0	2.2	1.2	1.1	1.1
Total expenditure and net lending	37.9	29.1	29.0	28.7	30.2	30.8	29.5	29.7	29.7
Current ^{1/}	33.4	24.9	25.2	25.0	26.4	26.8	25.5	25.7	25.7
o/w wages and salaries	4.9	4.7	4.6	4.5	4.9	4.8	4.8	4.7	4.6
o/w interest payment	3.6	3.4	3.0	3.0	3.3	3.3	3.7	4.0	4.1
o/w Transfer to utilities (NEPCO and WAJ)	7.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital & Net Lending	4.5	4.1	3.7	3.7	3.8 0.1	4.0	4.0	4.0	4.0
Adjustment on receivables/payables (cash use)						1.0	2.0	2.0	4.0
Additional Fiscal Measures (Fiscal Gap)				0.4	0.4	1.9	2.9	3.9	4.9
Statistical discrepancy, net Overall balance (deficit (-), incl. grants)2/	-9.3	-3.6	-3.2	0.4 -2.2	-1.8	-1.7	-0.7	0.0	0.9
Overall balance (deficit (-), excl. grants)2/	-9.3 -14.2	-6.9	-6.2	-2.2 -4.7	-4.8	-3.9	-1.9	-1.1	-0.2
Primary Balance (deficit (-), incl. grants)2/	-5.7	-0.12	-0.2	0.8	1.5	1.6	3.0	4.0	5.0
Primary Balance (deficit (-), excl. grants)2/	-10.5	-3.4	-3.2	-1.7	-1.5	-0.6	1.8	2.9	3.9
External sector	7.2	0.1			unless oth			C 0	C 0
Current Account	-7.3 -26.4	-9.1 -22.9	-9.5 -21.0	-10.6 -21.5	-9.6 -20.5	-8.6 -18.3	-7.7 -17.1	-6.9 -16.0	-6.8 -15.3
Net Exports Export FOB	43.3	37.6	35.1	35.6	37.6	38.8	39.7	40.1	40.0
Import FOB	69.7	60.5	56.2	57.0	58.1	57.1	56.8	56.2	55.3
Net Income and transfers	19.1	13.8	11.5	10.8	11.0	9.7	9.4	9.1	8.5
Net Private Investments (FDI and Portfolio)	9.1	7.7	7.1	6.5	8.4	8.9	8.7	8.4	8.2
Foreign Currency Reserves ^{3/} (Months of	7.1	7.8	7.6	6.8	6.7	7.3	7.6	7.7	7.9
Imports GNFS ^{4/} , excluding re-exports ^{5/})									
Total Debt			(in mil	lion US\$,	unless oth	erwise spe	ecified)		
Total Debt Stock	31,984	35,126	36,843	38,504	40,258	42,059	42,871	44,325	46,007
Debt to GDP Ratio (%) ^{6/}	89.0	93.4	95.1	95.9	96.2	95.9	93.1	91.5	89.9
Memorandum Items:									
Nominal GDP (Billion JD)	25.4	26.6	27.4	28.4	29.6	31.1	32.6	34.3	36.2
GDP (in million US\$)	35,917	37,612	38,752	40,169	41,833	43,865	46,041	48,466	51,168

^{1/} Includes adjustment to other receivables for 2012 (0.4% of GDP) and transfers to NEPCO and WAJ. As of 2015, NEPCO and WAJ reverted to government-guaranteed borrowing from commercial banks. The government transferred 0.1% of GDP to WAJ in 2015.

 $^{^{2/}}$ Includes Fiscal Gap of 0.4 in 2018, 1.9 in 2019, 2.9 in 2020, 3.9 in 2021 and 4.9 in 2022.

- ^{3/} Reserves exclude bank deposits in foreign currencies.
- ^{4/} GNFS: Goods and Non-Factor Services.
- $^{5/}$ As of January 2017, coverage ratio calculation for the series deducts re-exports from imports.
- ^{6/} Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2018-2022.

Sources: Jordanian authorities, IMF and World Bank staff estimates.

27. Higher borrowing needs by WAJ and NEPCO, and slow economic growth since 2011 pushed gross debt to 95.9 percent of GDP (US\$38.5 billion) by end-2017 from 95.1 percent by end-2016. Debt held by WAJ and NECPO combined constituted about 26.4 percent of Jordan's gross debt by end-2017. Of total government and guaranteed gross debt, 59.9 percent is denominated in local currency. Since the Government is resorting to more foreign borrowing to reduce crowding out in the domestic market, gross outstanding domestic debt fell from 53.9 percent of GDP in 2017 from 57.5 percent in 2016. Total external loans (government and government-guaranteed) contracted during 2017 amounted to US\$3.1 billion.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

- 28. Jordan's macroeconomic outlook depends on overcoming the dual transitions of debt reduction and structural reforms, while taking advantage of continued international support as well as a potential regional peace dividend. The GoJ has committed to fiscal consolidation with a reduction in debt (to GDP) being the fiscal policy anchor. Jordan has found it necessary to pursue fiscal consolidation within the framework of successive IMF programs: a Stand-By Arrangement (SBA) of around US\$2 billion during 2012-2015, and an Extended Financing Facility (EFF) for an amount around US\$720 million from 2016 to the present. The strategic rationale behind debt reduction is that it will reduce macroeconomic vulnerabilities, give the right signals to investors about macroeconomic stability, create space in financial markets, and ultimately make better use of public funds. GoJ has also committed to implementing a comprehensive five-year reform program, which anchors the 2018-19 reform agenda supported by this programmatic DPF series. This program document builds on the latest IMF EFF completed program review in June 2017, and updated in May 2018 by an IMF staff mission, and utilizes recent information, including on external grants and budget outturn.
- 29. Recent political developments underscore how precarious the sustainability of the reform effort is, and the magnitude of the social and economic risks that are involved. As protests against the draft income tax law took hold in early June, the formula-based increase in the price of gasoline and electricity was postponed. The increases would lead to a new rise in fuel prices of up to 5.5 percent and a 19 percent increase in electricity prices. The increase in fuel prices would have been the fifth since the beginning of 2018, while electricity bills have been raised by 55 percent since February. The fiscal cost of a one-month postponement of the price increases is estimated to be about US\$ 20 million. While a one-time postponement may be manageable from a fiscal perspective, frequent postponements would add additional risks to the macroeconomic framework. Such risks could be mitigated in the context of a larger future national dialogue about an equitable approach to raising revenues and meeting deficit obligations and therefore curtail fiscal risks.
- 30. The baseline macroeconomic framework for this operation suggests a moderately growing economy, averaging 2.5 percent annually through 2022. This will be driven by recovering exports primarily owing to an improved security situation in western Iraq¹⁵ and the development of new markets. The projections also reflect a boost to the economy from the gradual recovery of oil prices leading to increased investment and remittances from the GCC. At the same time, private investment is expected to pick up as credit grows and ongoing investment

¹⁵ Jordan announced early this year the initiation of agreements to allow Jordanian commercial trucks to make direct trips to Iraq through the recently reopened Turaibil border crossing.

climate reforms materialize. The CBJ remains committed to the dollar peg. In tandem with the US, monetary policy is expected to tighten over the next few years. This, in addition to receding low-base effects and stabilizing commodity prices, will help keep inflation rates low over the medium term, projected at 2.4 percent by 2022.

31. Fiscal policy is expected to remain contractionary in line with Government's medium-term fiscal framework, and projections assume additional unidentified above-the-line measures which cumulate to nearly 5 percent of GDP by 2022. The Government has committed to reducing the primary balance (excluding grants) by about 1-1.5 percent of GDP a year in 2018-2022, bringing it up to about +3.9 percent of GDP in 2022 to ensure that the debt is on a downward trend. The need for the large projected primary surpluses is due to a pronounced fall in projected grants. Table 2 shows that in the outer years, Jordan is expecting to receive a third of the grants that were envisioned in July 2017. Table 3 outlines the Government's medium-term fiscal framework. A revenue-based fiscal effort is expected to deliver a reduction in the overall fiscal deficit and in the primary deficit excluding grants. As a result, total debt is expected to fall to about 89.9 percent of GDP by 2022. The framework maintains the room for an increase in capital spending from 3.7 percent of GDP in 2016 and 2017, to 4 percent of GDP in 2019-2022. The overall consistency of the framework requires the assumption that further permanent fiscal adjustments averaging at least 1 percent of GDP per year over the next four years take place, measures that will increase in urgency as the decline in grants materializes. A "fiscal gap" of similar magnitude was present in the previous DPL operation (Second Programmatic Energy and Water Sector Reforms DPL, 2016), and in the published IMF framework from 2017.

Table 2. Budgetary grants - original and updated estimates

	2018	2019	2020	2021	2022
Grants in JD– Estimate of July 2017	1,151	857	904	955	1,008
Grants in JD–Estimate of April 2018	881	510	450	365	365
Grants % GDP	3.0	1.6	1.4	1.1	1.0

Sources: Jordanian authorities, World Bank staff estimates.

During the same period the primary balance excluding grants would improve from a deficit of -1.7 (2017) percent of GDP to a surplus of 1.8 percent of GDP (2020).

Table 3. Key Fiscal indicators, 2016-2022

(percent of GDP, unless otherwise	2014	2015	2016	2017	2018	2018	2019	2020	2021	2022
specified)	Act.	Act.	Act.	Act.	Budget	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenues and grants	28.6	25.5	25.8	26.1	28.6	28.1	27.3	26.0	25.8	25.7
Domestic Revenue (excluding grants										
and privatization proceeds)	23.7	22.2	22.7	23.6	26.3	25.1	25.1	24.8	24.7	24.6
o/w tax revenue	15.9	15.4	15.5	15.3	17.3	17.1	17.2	17.1	17.0	16.9
Foreign Grants	4.9	3.3	3.0	2.5	2.4	3.0	2.2	1.2	1.1	1.1
Total expenditure and net lending	37.9	29.1	29.0	28.7	30.4	30.2	30.8	29.5	29.7	29.7
Current ^{1/}	33.4	24.9	25.2	25.0	26.5	26.4	26.8	25.5	25.7	25.7
o/w wages and salaries	4.9	4.7	4.6	4.5	4.9	4.9	4.8	4.8	4.7	4.6
o/w interest payment	3.6	3.4	3.0	3.0	3.4	3.3	3.3	3.7	4.0	4.1
o/w Transfers, of which:			7.0	7.2	8.4	8.4	8.9	7.3	7.2	7.2
Cash transfers			0.0	0.0	0.6	0.6	0.5	0.5	0.5	0.5
Transfers to health fund			0.5	1.0	1.0	1.0	1.3	0.5	0.5	0.5
Energy arrears clearance			0.0	0.0	0.5	0.5	0.8	0.0	0.0	0.0
Transfers to public sector institutions			0.8	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Capital & Net Lending	4.5	4.1	3.7	3.7	3.9	3.8	4.0	4.0	4.0	4.0
Adjustment on receivables and payables										
(use of cash)						0.1				
Statistical discrepancy, net				0.4						
Additional Fiscal Measures (Fiscal Gap)						0.4	1.9	2.9	3.9	4.9
Fiscal Balances after Fiscal Measures										
Overall balance (deficit (-), incl. grants)	-9.3	-3.6	-3.2	-2.2		-1.8	-1.7	-0.7	0.0	0.9
Overall balance (deficit (-), excl. grants)	-14.2	-6.9	-6.2	-4.7		-4.8	-3.9	-1.9	-1.1	-0.2
Primary Balance (deficit (-), incl. grants)	-5.7	-0.1	-0.2	0.8		1.5	1.6	3.0	4.0	5.0
Primary Balance (deficit (-), excl. grants)	-10.5	-3.4	-3.2	-1.7		-1.5	-0.6	1.8	2.9	3.9
Memorandum Items:										
Total Debt Stock (Millions JD)	20,668	22,645	24,869	26,085		28,502	29,778	30,353	31,382	32,573
Debt to GDP Ratio (%) ^{2/}	89.0	93.4	95.1	95.9		96.2	95.9	93.1	91.5	89.9
o/w External			37.5	41.7		40.8	45.6	45.7	40.0	30.0
Stock of Health Arears (%GDP)			1.2	1.5	0.4	0.8				
Stock of Energy Arears (%GDP)			1.1	1.4	0.4	0.8				
NEPCO Operating Balance			0.4	-0.1						
WAJ Overall Balance, excluding project			-1.0	-1.1		-1.4	-1.2	-1.2	-1.1	-1.0
Nominal GDP (Billion JD)	25.437	26.637	27.445	28.448	30.170	29.627	31.066	32.607	34.324	36.238

¹/ Includes adjustment to other receivables for 2012 (0.4% of GDP) and transfers to NEPCO and WAJ. As of 2015, NEPCO and WAJ reverted to government-guaranteed borrowing from commercial banks. The government transferred 0.1% of GDP to WAJ in 2015.

32. The Government's strategy for raising revenues has relied to a large extent on indirect taxes and non-tax revenues, but the income tax is expected to play a greater role going forward given the need for progressivity. Similar to the earlier years of fiscal consolidation, the GST is scheduled to contribute to enhanced revenues, by increasing the preferential rates on certain commodities and services with the aim of reaching the standard rate of 16 percent on most categories. Furthermore, enhanced revenue yield is expected from income tax reforms, in particular by lowering the high minimum threshold for families paying income taxes, as well as by adjusting personal and corporate taxes rates from 2019 onwards. In recent years, the GoJ has worked intensively to provide oversight of revenue forgone due to extensive use of preferential rates on consumption and income taxation. The efforts led to a full presentation of the tax expenditures in the 2018 budget law, which provided the foundations

^{2/} Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2018-2022.

Sources: Jordanian authorities, IMF and World Bank staff estimates.

of the Government's revenue strategy, including the specific measures, for 2019 and beyond. On the revenue administration side, with USAID support, Income and Sales Tax Department is looking to build a billing system for all tax payers and to further develop third party gathering of information, and developing electronic services (see Box 3).

Box 3. Jordan Taxation in Perspective

Total tax revenues in 2016 stood at 15.5% of GDP, against 24.7% in 2007. The development represents a drop in tax-to-GDP by 59%, which essentially took place over 2007-2011, while 2012-2016 was close to flat. The main driver behind the decline are the introduction of a series of tax exemptions in the tax bases and preferential rates, on goods and services and customs duties. Over 2007-2011, the revenues on goods and services were reduced by 5.1% to GDP (a decline of 50%), while customs duties were reduced by 1.6% to GDP (equal to 53%). Finally, the revenues generated on corporate income fell by 0.8% to GDP, equivalent to a reduction of 25% and with exemptions in the tax bases on corporate income taxation, including on FDI-related incentives.

The skewedness towards consumption taxation and under-utilization of income tax sources in Jordan appears clearly when comparing with the tax mix in peer countries. Countries such as Egypt and Lebanon, which collect less than Jordan in tax-to-GDP, uses income tax sources to a much higher degree. In the case of Egypt, some 45-40% higher share to GDP than in Jordan. When looking at consumption taxes, Egypt and Lebanon collect some 35-50% less, in share to GDP than is the case in Jordan. Similarly, countries such as Pakistan and Kazakhstan utilize the consumption tax sources too a much lesser degree than Jordan, and while the taxation of consumption is slightly higher in Morocco than in Jordan, the overall tax to GDP in Morocco stands at around 22%, which is around 37-38% higher than is the case in Jordan.

While income taxation in general is underutilized in Jordan, the tendency is even more pronounced when looking at the two main areas of income taxation. Tax revenues from personal income taxation (PIT) in Jordan stood at 0.7% to GDP in 2016, and at 0.6-0.8% over the period 2007-2016. This level may be compared to PIT to GDP levels in lower MIC at 3.0%, and upper MIC at 2.4%. Compared with other lower MIC, Jordan generates four time less revenue on personal income taxes than its' peers. As regards corporate income taxation (CIT), the difference appears smaller. In 2016, CIT in Jordan was at 2.7% to GDP, which may be compared to lower MIC at 3.2%; upper MIC at 3.4% and LIC at 2.2%. Compared to other lower middle income countries, Jordan is about 0.5% to GDP below the average of its' peers.

In terms of revenue enhancements and tax policy options going forward, a more balanced utilization of income- as well as consumption taxes seems warranted. Income tax reforms should preferably include efforts on corporate income as on personal income. On the corporate income, exemptions and other reliefs in the tax base are excessive and should be further review for efficiency and rationalization, including sectors such as telecommunication. Exemptions for the corporate enterprises at customs appear generous and could be reduced. The rate structure of the corporate income tax by economic sector seems not in line with good practice. It could eventually be simplified, with most likely a consolidated statutory rate being somewhat lowered, provided that the tax base is broadened through the suppression of ineffective tax exemptions. As to the personal income tax areas, base broadening efforts to include higher income taxpayers (such as in liberal professions) seems helpful, to ensure fairer burden-sharing when lowering the threshold for income taxation. On the consumption taxation, the Government has embarked on a medium-term effort to dial back the excessive use of tax exemptions, which led to the abovementioned tax-to-GDP decline of almost 50%. A fair burden sharing between household and companies should be sought, as the suppression of exemptions is being rolled out.

Careful attention to social impact and incidence is core when implementing the tax reforms towards enhanced revenues. Improving the balance between consumption and income taxation may have incidence impact. As an example, the combined impact of a lower threshold on personal income taxation and suppression of certain GST and/or SST exemption could become substantial on certain lower income households. Sequencing the reforms, as well as efforts to enhance revenue from other segments of taxpayers, including corporations, as well as targeted social programs on the expenditure budget would be options for mitigating short-term incidence impact.



Box 4. Fiscal measures in the 2018 budget

The approved budget for 2018 includes a fiscal package expected to yield JD 733 million (about 2.5 percent of GDP) to support fiscal consolidation. These include a cap on the nominal increase in wages, further removal of GST exemptions, increases in SST on cigarettes, cars and other imports, plans to curb the rise in health arrears and the redirection of bread subsidies to a more targeted cash transfer program.

Tax measures	Expected		
I. Sales tax	631		
1. General sales tax	201		
2. Special sales tax (fuel, vehicles,	430		
II. Carry over impact of 2017 measures	102		
TOTAL	733		

The underlying fiscal deficit according to the Government's budget for 2018 is 1.8 percent of GDP; but due to lower expectations of fiscal outturns on the domestic revenue side and more conservative economic growth expectations the baseline projection for the fiscal deficit for 2018 is 2 percent of GDP. However, the Government has expressed its strong commitment to fiscal consolidation, including a commitment to revise the budget at mid-year (if revenue measures do not materialize) to maintain a deficit reduction track relative to 2017. This was the case in 2017 as well, where revenue measures did not materialize on the back of slower than anticipated growth and delays in enacting the Income Tax law.

- Jordan's public debt is sustainable as the country pushes ahead with fiscal consolidation, but slow growth, and external or fiscal shocks pose significant risks to the public debt trajectory. The public debt is projected to continue its upwards trend in 2018, mainly due to the elevated stock of domestic government debt that needs to be serviced (and partially rolled over), in addition to the uptick in external borrowing that is required to cover Jordan's external financing gap. Nevertheless, the debt to GDP ratio is expected to decline to a projected 89.9 percent in end-2022, from 95.9 percent in end-2017, under the assumption that growth continues to pick up gradually to reach 3 percent by 2022, and as the fiscal consolidation program remains on track (such that Jordan's primary balance continues to improve and an overall fiscal surplus is achieved by 2022). The fiscal consolidation program that is embedded in the Debt-Sustainability Analysis is aligned with the published EFF framework, which includes adjustments to the domestic energy tariffs to reflect global oil prices, and also envisages the containment of transfers to WAJ. Moreover, the overall economic performance is expected to improve due to: (1) positive spillover effects of an improved macro-fiscal situation, which will in turn attract larger investment, (2) the implementation of structural reforms in the 5-year priority reform matrix that is expected to complement the macro-fiscal reforms; and (3) exports to Iraq and Syria are expected to rebound as regional peace and stability is progressing. Additional details of the Debt-Sustainability Analysis and the stress tests to the baseline scenario are presented in Annex 4.
- 34. The recovery in Jordan's external account is expected to be driven by an increase in merchandise and services exports, and in remittances on the back of a recovery in the GCC region. Stronger exports and some import compression and substitution linked to fiscal consolidation and structural reforms will drive the gradual reduction of the current account deficit over the medium term from 10.6 percent of GDP in 2017 to 6.8 percent of GDP by 2022. The capital account is projected to benefit from a recovery in FDI and in other private inflows on the back of reforms improving the business environment. These positive developments are expected to aid in Jordan's accumulation of additional external reserves.

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35. **External financing needs will be substantial in the coming years**. Table 4 shows external financing requirements consistent with preceding tables. It relies on an improving external account, higher FDI and improved capital inflows. Despite these assumptions, the external funding needs for the medium term are anticipated to be significant because: (a) external grants to Jordan are declining, (b) international bonds equaling US\$3.25 billion will fall due, and (c) Jordan is expecting to build up its external reserves to about 8 months of imports. In all, total financing needs for 2018-2022 are about US\$14 billion, of which: US\$2.4 billion are already identified official financing, about US\$10 billion are on-budget external borrowing, and the remainder in off-budget financing. In line with the debt management strategy 2018-2020, and new considerations on debt management, the GoJ is expected to complement its access to the Eurobond markets by pursuing concessional financing with longer maturities.

Table 4. External financing requirements and sources

/In mailtions of LIC dellars unless abharming in direct all	2016	2017	2018	2019	2020	2021	2022
(In millions of US dollars, unless otherwise indicated)	Act.	Act.			Proj.		
Gross Financing Requirements	5,693	6,353	6,858	6,660	6,385	4,722	5,801
Current account deficit (excl. grants)	4,951	5,353	5,560	4,739	4,462	4,262	4,341
Of which: Energy imports	2,489	3,030	3,938	3,762	3,772	3,725	3,732
Amortization of public loans 1/	474	514	831	520	482	443	436
Amortization of sovereign bonds ^{2/}	0	0	0	1,000	1,250	0	1,000
IMF repurchases	268	486	467	401	191	17	24
Gross Financing Sources	3,574	3,963	4,463	4,840	4,124	4,079	4,224
FDI, net	1,552	1,661	1,792	2,009	2,175	2,207	2,330
Public grants	1,257	1,097	1,529	939	551	545	545
Public sector borrowing 3/	355	290	344	763	172	133	44
Issuance of sovereign bonds ^{2/}	1,000	1,500	0	0	0	0	0
Non-resident purchases of local debt	-30	-39	100	140	160	180	200
Private capital flows, net 4/	-560	-545	699	988	1,067	1,014	1,105
Errors and omissions	56	1,170	0	0	0	0	0
Change in reserves (+ = increase)	-	-102	821	1,248	1,079	907	1,269
Total Financing Needs	959	1,119	3,216	3,068	3,340	1,551	2,845
Official Financing	959	1,119	1,786	638	0	0	0
Identified official budget support	615	649	1,158	393	0	0	0
Jordan Compact off-budget grants	272	399	236	84	0	0	0
IMF purchases	72	72	391	161	0	0	0
Unidentified budget support	0	0	1,430	2,430	2,828	1,029	2,300
Unidentified off-budget financing	0	0	0	0	512	522	545
Memorandum Items:							
Foreign Currency Reserves (Months of Imports GNFS)	7.6	6.8	6.7	7.3	7.6	7.7	7.9

^{1/} Includes project loans, Arab Monetary Fund, and disbursed IMF purchases.

36. **Jordan's external debt is moderate but is projected to increase and is susceptible to shocks.** Jordan's external debt came to 66.4 percent of GDP in 2017, of which 39.8 percent of GDP was public and publicly guaranteed. Since 2014, when Jordan's external account began to deteriorate and when the fiscal consolidation efforts went into full swing, total external debt edged up by 2.4 percent of GDP. The increase in external debt

^{2/} Includes guaranteed and non-guaranteed bonds.

^{3/} Includes identified budget loans, identified project loans, and Arab Monetary Fund.

^{4/} Includes changes in commercial banks' NFA.

Sources: Jordanian authorities, IMF, and World Bank staff estimates.



reflects an increase in public and publicly guaranteed debt from 31.2 percent of GDP to 39.8 percent of GDP. This increase reflects government's efforts to better manage its debt (moving from domestic market based debt to external debt largely below market) and to support its external account. Jordan's private debt declined stayed almost level in US dollar terms, and declined relative to GDP from 32.8 percent of GDP in 2014 to 26.6 percent of GDP in 2017. Going forward, external debt is expected to increase as part of continued rebalancing away from domestic debt, though external debt is not expected exceed 50 percent of GDP in the medium term. On the basis of the Jordan Compact, Jordan is expected to continue to benefit from concessional debt, though its own market access is also expected to prove beneficial. External financing requirements are expected to increase in the medium term, in good part because external grants are expected to decline. Additionally, the macroeconomic and geopolitical shocks that Jordan is susceptible to can also be expected to impact the external account, and likely external debt as well. Risk from rising global interest rates are expected to be partially mitigated by Jordan's access to concessional loans.

- Downside risks are very significant. Jordan's long-term macroeconomic vulnerability stems from sizable 37. internal and external imbalances that generate large financing needs, which are typically met via international assistance and transfers from the region. When these sources of finance are reduced, financial and economic stability can be compromised. External risks stemming from the persistence and/or escalation of the conflicts in Syria and Iraq and from the impact on Jordan of the adjustment efforts in GCC countries, are significant. Additional refugee inflows could exacerbate the pressure caused by the existing refugee population on Jordan's fiscal accounts, infrastructure, and the quality of government services. A faster recovery in oil prices or a sharp appreciation of the US dollar would put additional pressure on Jordan's external accounts, but will also negatively impact growth due to the loss of competitiveness of its exports. Additionally, the impact of trade tensions on global economies and financial markets is, so far, subdued, yet remains uncertain. A sustainable downward trend in debt s is contingent upon the successful implementation of reforms. Reform implementation risks remain a concern given the country's difficult regional, security, and socio-political environment. Fiscal risks, including contingent liabilities, a further buildup of arears, and slower growth could undermine debt sustainability and increase financing needs. On the upside, a resolution of the Syria crisis could generate a boom for Jordan as the country can be used as a platform for reconstruction.
- 38. The Government reform agenda—underpinned by Vision 2025 and Jordan Economic Growth Plan supported by the donor community—is appropriately focused on the long-term objectives of reducing reliance on foreign aid and achieving sustainable growth. Moving forward the Government's objectives include: achieving fiscal consolidation; reforming its labor market, which continues to face significant stress and suffer from severe gender-based heterogeneity and youth marginalization; building the capacity of its industrial sector by strengthening its infrastructure; and improving its business climate to set in place a virtuous cycle of stronger investments and output growth.
- 39. Jordan's macroeconomic policy framework is adequate as long as sizable international support continues and is used to mitigate the adverse impacts of a strong reform drive and spillovers from regional conflicts giving policymakers the assurance to commit to difficult measures. Stabilization and reduction of the public debt provides the medium-term anchor for macroeconomic policy, and the cumulative effect of adverse shocks means that the headroom for any further increase in the debt ratio is essentially gone. This has highlighted the narrowness of the revenue base and the rigidity of recurrent expenditures the fiscal gap while the large current account deficit points to continued dependence on external financing. The general parameters of adjustment therefore

¹⁷ Since October 2013, Jordan has issues US\$6.75 billion in Eurobonds of which US\$3.75 billion were guaranteed by the United States.

involve revenue mobilization, containment of recurrent expenditures, with a social safety net capable of mitigation, and reigniting investment and exports.

- 40. The delay in income tax reform does not of itself worsen the macroeconomic framework, because it would only have taken effect in 2019, giving time to revamp the reform. Nevertheless, the macroeconomic policy framework will only remain adequate if the Government maintains the reform objectives outlined in the Letter of Development Policy, which in turn will depend on adequate external financing being mobilized. The authorities remain strongly committed to continue a path of fiscal consolidation, which would maintain the debt and international reserves at a sustainable level. Further comfort is provided by the track record built with the successful fiscal deficit reduction and moderate debt increases in 2017.
- 41. The prior actions and indicative triggers supported by this DPF series complement fiscal consolidation and lay the foundation for a growth payoff from structural reforms. In particular, the actions under pillar 1 will help boost confidence in the business environment and attract investment, while the reforms under pillar 2 will help reduce costs to labor participation, and are also expected to enhance growth. Reforms under pillar 3 will bring efficiency into public investment spending, provide opportunities for private investment, thus supporting growth, as well as improve revenue gains and the measurement of risk, thus boosting confidence in fiscal consolidation.

2.3. IMF RELATIONS

42. A three-year IMF EFF program was approved in August 2016; the 1st Review was completed in June 2017; completion of the 2nd Review is pending. The EFF focuses on maintaining macroeconomic stability and fiscal consolidation to reduce the debt-to-GDP ratio to a more sustainable level, which was to reach 77 percent by 2022 in the extant EFF framework. The program is focused on broadening the tax base, addressing tax incentives, income taxation, improving tax administration and monitoring growth in spending. In addition, the EFF provides a broader structural reform agenda that is intended to stimulate inclusive growth, particularly as related to boosting the business environment, strengthening the financial sector, improving access to finance, and supporting the water and energy sectors. Many of the program's benchmarks were designed in consultation with the World Bank. Of the total program amount of US\$723 million at the time of approval, the EFF has made available about US\$140 million through the completion of the 1st Review. The IMF's most recent mission to Amman was on May 20-31, in which significant progress was made towards the completion of the 2nd Review; completion of the Review is pending.

3. GOVERNMENT PROGRAM

43. Jordan's newly appointed government's objectives are fully consistent with the Jordan Vision 2025 and the Jordan Economic Growth Plan 2018-2022. Jordan's ten-year vision - Jordan 2025: A National Vision and Strategy - was developed in 2014. It puts the citizens at the center of development and sets out goals for improving social outcomes, the business environment and the functions of government. The citizens' well-being is improved through a better governance system, access to services and employment. Economic transformation rests on export development and is attained by building on existing strengths in various sectors, ¹⁸ improvements in export promotion, and improvements in natural resource management, infrastructure, and finance, as well as the

For instance, in construction and engineering, transport and logistics, tourism, health and life sciences, digital and business services, and education and governance.

macroeconomic environment. In 2017, the Jordan Economic Growth Plan (JEGP) 2018-2022 was developed by the Economic Policy Council. This Economic Policy Council is headed by the Prime Minister and includes the Governor of the Central Bank of Jordan, private sector organizations and experts. The JEGP is comprised of economic, fiscal and sectoral strategies that outline the vision and policies pertaining to each sector. It further identifies the required policy interventions, public projects and private investments that must be undertaken to realize these sectoral visions. The new government, which was appointed with a mandate to increase investment, develop an efficient government, and bring the country together around a fair and just tax system, has confirmed its commitment to the business environment, the labor market reforms, and well as fiscal consolidation efforts as long as there is due consideration of social impacts and growth.

- 44. While the Vision 2025 and the JEGP are designed to set a vision for the overall economy and to jump-start growth, the Government has specific plans for supporting almost 1.3 million Syrians that are in the country. These are articulated in the most recent rolling three-year Jordan Response Plan (JRP) 2018–2020. The JRP adopts a resilience-based approach to respond to and mitigate the effects of the crisis on Syrian refugees and Jordanian people, host communities and institutions. The JRP integrates humanitarian and development responses into one comprehensive vulnerability assessment and one single plan for each sector. The aim of this resilience-oriented approach is two-fold: on one hand, to ensure that the impact of the crisis does not lead to lasting negative effects on the well-being of individuals, households, communities, institutions and systems; and, on the other hand, to build national capacity to absorb future external shocks and deal effectively with related stresses.
- 45. The Government is seeking to consolidate implementation of the multiple Jordanian and donor initiatives and has requested the World Bank support. While the Government annually prepares rolling Executive Development Plans that identify all projects and programs funded by the budget following parliamentary approval, a similar process or prioritizing and managing multiple reform initiatives (and their implementation) is not yet developed. The Government has requested the World Bank to work with development partners and line agencies to develop a five-year reform matrix that prioritizes reforms critical to the course of the economy. The implementation of the five-year priority reform matrix will benefit from the support of a Multi-Donor Trust Fund.

4. THE PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

46. The proposed DPF directly supports the Government's reform goals. The analytical basis comprised the recent Jordan Systematic Country Diagnostic: Promoting Poverty Reduction and Shared Prosperity (2016) and the Jordan Development Policy Review: Policies for High and Sustained Growth and Job Creation (2012), which remain highly relevant today, and of course, country team knowledge. The World Bank assessment is that for the Government to achieve its development objective of a more diversified and resilient economy, it needs to achieve productivity gains by introducing cost reductions across the board and by reducing inefficiencies. Areas identified in the Jordan Vision 2025 but not perhaps not emphasized enough are: (i) the quality of fiscal adjustment and of reform management, (ii) poor predictability and implementation of business environment reforms, including the support to the development of exports, (iii) access to finance especially for smaller and medium-size companies, (iv) greater flexibility in the labor market, and (v) developing a more efficient social assistance mechanism. Finally, while the Government has employed humanitarian and other programs to support refugees, this DPF seeks to move support towards development side of the humanitarian-development spectrum. The DPF-supported program recognizes that effective support rests on a well-rounded medium-term development strategy for Jordan that creates economic opportunities for all, including refugees and host communities.



The most relevant lessons learned emerge from the 2017 Implementation Completion and Results Report (ICR) for DPFs I-II (2012-2015) and from consulting with development partners. The critical takeaway is to heed implementation challenges. The 2017 ICR¹⁹ notes the need to: (i) incorporate legal and institutional reforms in the results framework, (ii) have strong collaboration between IFC and WB, (iii) take advantage of flexibility to adjust triggers (and results) to best support achievement of the program development objectives, (iv) provide rigorous supervision response, and (v) identify a clear implementation strategy with the Ministry of Planning and International Cooperation (MOPIC), in practice, and in the Program Document. .

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

48. The proposed Equitable Growth and Job Creation Programmatic DPF series will help Jordan set the foundations for higher growth. The DPF is structured around three pillars/objectives: (i) reducing business costs and improving market accessibility, (ii) creating more flexible and integrated labor markets and providing better and more efficient social assistance, and (iii) improving fiscal sustainability and taking more informed decisions regarding risk.

Pillar 1: Reducing business costs and improving market accessibility

- 49. Pillar 1 supports measures that improve the competitiveness and 'ability to export' of Jordanian businesses. This will be achieved, on the one hand, through measures that reduce the cost-base and ease access to finance for Jordanian businesses, and on the other, by measures that improve the ability of those businesses to access markets. Beyond the direct effects, an important by-product of the reforms will also be a positive signaling effect to both domestic and foreign investors on the GoJ commitment to strengthening the investment climate.
- Jordan's business environment continues to act as a drag upon growth. The correlation between a highquality business environment and realized growth is well established. Jordan remains outside the top 100 in the World Bank's Doing Business rankings. The GoJ has recognized the importance of business environment reform for some time, with several initiatives either underway or in design in areas such as investment policy and promotion, and reform of selected elements of the legal framework for business. Implementation effectiveness to date, however, has been mixed and new approaches should be considered.
- 51. Beyond the measures outlined below, a range of additional actions will also be taken under the Five-Year **Reform Plan.** These include the establishment and implementation of system for 'Good Regulatory Practices' to increase predictability of the business environment; the mandating of 'Regulatory Impact Assessment' procedures, supported by a dedicated central support unit; and an overarching inter-ministerial oversight structure for regulatory reform. Further reforms are also planned to drive improvement in Jordan's 'Doing Business' indicators, such as streamlining business start-up procedures.

Inspections and licensing reform

Business inspections are an essential part of a country's regulatory environment, ensuring compliance with important public policy objectives. Inspections reform has become an increasingly prominent aspect of efforts to improve the investment climate, with programs usually shaped to deliver improvements in three areas: decreasing

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the administrative costs faced by businesses and increasing their competitiveness; improving and protecting public policy outcomes; and using state resources more efficiently to help control state spending.²⁰

Box 5. Links with the Economic Opportunities for Jordanians and Syrian Refugees Program-for-Results (PforR)

The Equitable Growth and Job Creation DPF series has significant synergies with the objectives of the PforR:

The PforR objective is to *improve economic opportunities for Jordanians and Syrian refugees in Jordan*. The PforR addresses this objective through three themes: improving the labor market; improving the investment climate; and improving investment promotion.

The PforR and the proposed DPF are mutually reinforcing: higher growth supported under the DPF helps improve economic opportunities for Jordanians and Syrians; while labor market reforms, investment climate reforms, and stronger investment promotion efforts supported under the PforR help improve the conditions for higher growth.

For investment climate reform, the DPF builds on the achievements of the PforR by addressing additional areas of regulatory inefficiency, such as Jordan's inspections and sectoral licensing regimes, while also serving as a springboard for reforms to be implemented with PforR support.

The DPF-supported investment climate reforms will build on more predictable business regulations as achieved in the context of the PforR's Disbursement-Linked Indicator (DLI) 3.1 through the enactment in April 2018 of the predictability code. This code dictates the conditions under which new business regulations should be issued, i.e. following a consultation process, regulatory impact assessment, publication of drafts and delayed entry into force. Moreover, a regulatory impact assessment policy has been issued by the Prime Minister to accompany the predictability code.

Similarly, the DPF2 trigger on licensing reforms will support reforms that will complement the PforR Disbursement-Linked Indicators 3.2 and 3.5 related to a regulatory reform reducing compliance costs for small and medium enterprises (SMEs). The licensing regimes in Jordan are very burdensome and require annual renewal of licenses.

As a result, the conjunction of reforms under the DPF and the PforR will lead to more predictable and simplified business regulations thereby contributing to reduced costs and enhanced competitiveness for Jordanian SMEs.

53. **Business inspection in Jordan faces several challenges related to the efficiency, effectiveness, and predictability of the national inspection regime.** These include the large number of inspectorates with overlapping mandates; a lack of risk-based inspection systems leading to frequent and haphazard inspection visits; unclear procedures and technical requirements that require compliance; and unsatisfactory competencies and behavior of inspectors. The proposed prior action 1 supports enactment of the *Business Monitoring and Inspection Law #33* of September 2017 that reduces overlap and duplication, and establishes an integrated inspection management system. The law also streamlines inspection processes and procedures using risk-based principles. While reforms such as this reduce business costs for businesses of all sizes, they are relatively more important for SMEs, as they do not have the same level of internal resources available to navigate complex bureaucratic requirements that larger firms do. The law will be supported by bylaws (trigger 1a of the DPF2) that will further elaborate the

²⁰ The World Bank. How to Reform Business Inspections: Design, Implementation, Challenges (2011).

principles and methodologies for inspection procedures; risk-based approaches; collaboration and coordination among inspectorates; businesses' right to appeal; and inspectors' qualifications, duties, and authorities.

- 54. **Business licensing is a regulatory tool used to govern entry and conduct in specific sectors.** Ideally, licenses are used to serve public policy objectives such as protecting health, safety, security, or environmental risks. However, if misused or poorly administered, licensing can create unnecessary costs and risks such as impeding healthy competition and the operation of effective markets, unnecessarily raising business costs and consumer prices, and generating scope for corruption. ²¹
- 55. Jordan's licensing and permit regime has several challenges that create unnecessary burdens for business. These include the tendency to regulate businesses using licensing when other alternatives such as notification will suffice; burdensome and complex procedures for issuing licenses and permits; a lack of risk-based approaches for licensing; a lack of transparency and predictability in process; and difficulty in obtaining information about procedures, requirements, fees, and documents as these are not necessarily published online. A detailed assessment being undertaken by the World Bank (preliminary results) revealed that for the various sectoral licenses in Jordan, only 48 percent of the laws governing licenses have their bylaws and instructions issued; 96 percent of licenses do not apply risk-based approaches; 69 percent of licenses do not have well-elaborated legal and technical requirements; 89 percent do not have clear and detailed standard operating procedures; 96 percent do not have clear and controlled timelines for issuing the license; and 36 percent do not have clear basis for collecting fees. As is the case for inspections, the compliance costs of licensing are relatively more burdensome for the SME sector. Building on the results of the World Bank assessment, a set of measures will be identified and implemented, including streamlining key sectoral licenses (DPF2 trigger 1b).

DPF1 Prior Action 1: The Borrower enacted the Monitoring and Inspection Law to reduce the burden on businesses by improving the inspections and monitoring framework.

DPF2 Trigger 1a: The Ministry of Industry, Trade, and Supply implemented reforms to the business inspection and monitoring framework by Council of Ministers' approval of the Bylaws of the Monitoring and Inspection Law.

DPF2 Trigger 1b: The Borrower reduced the burden on businesses by implementing business regulatory reform measures such as streamlining key sectoral license(s).

56. **Expected results.** Rationalizing and streamlining Jordan's inspections regime will lessen the time and cost burden on businesses resulting from unnecessary inspections, and improve the transparency and predictability of those inspections that are necessary. A more efficient and effective approach to inspections will also improve awareness and compliance by the private sector with underlying technical requirements. The measures outlined above are expected to result in a 30 percent reduction in aggregate business compliance costs from both sector licensing and inspections in 2021.

Supporting exports

57. Jordanian exporters have suffered several adverse shocks in recent years that were beyond their control. The loss of key export markets in Syria and Iraq due to conflict, the easing of growth in GCC export markets, and adverse global price movements for key exports such as potash have hit Jordan hard. With volatility likely to remain

²¹ How to Reform Business Licenses, (2010), The World Bank.

a feature of the region at least in the medium term, Jordan can respond by diversifying risks: expanding its export foothold in more stable markets beyond its immediate region, and expanding the number of Jordanian companies that export, and the diversity of their products.

- 58. Export finance is not widely available in Jordan: banks provide limited post-shipment export finance (mostly collection and payment services). This financing constraint raises the degree of difficulty for potential new exporters. SMEs cannot use their trade receivables to expand their borrowing capacity, and instead finance their sales through general banking facilities secured by a mortgage on real-estate assets and owners' personal guarantees, which are expensive and restrict access to export finance. Export credit insurance is an important element of a country's export finance infrastructure, and has a positive impact on value-added, market penetration, and geographic diversification. Public intervention is needed to support the export finance infrastructure as private sector solutions seldom emerge spontaneously (even in economies with exports significantly larger than Jordan). The Government is committed to developing export finance through improved access to trade credit insurance. Jordan Loan Guarantee Corporation (JLGC), the implementing entity, is run in a professional and commercial way and is deemed to be an adequate vehicle to expand the state export credit insurance scheme. However, due to lack of underwriting capability, JLGC insures only 1 percent of Jordanian exports (the insured trade volume reached JD 60 million in 2017). Globally, econometric studies have estimated the short-term multiplier effect of credit insurance on cross-border trade at between 2.3 to 3.2, with the long-term multiplier being higher still.
- 59. To increase its ability to support Jordanian exporters, JLGC has adopted a three-year strategic plan (2017-2019) underpinned by a JD 100 million long-term loan extended by the CBJ to expand reinsurance capacity. The strategic plan includes capacity building activities to support the increased resourcing that will allow JLGC to increase its underwriting capacity on foreign buyers of Jordanian exports. To maintain its underwriting, JLGC reinsures all export credit risks through treaty reinsurance with a leading international credit insurer. The direct impact of the enhanced reinsurance capability is to create some underwriting flexibility for JLGC around the credit decisions made by the reinsurer, which will make it possible to increase its client credit satisfaction ratio (which to date has been poor). The additional resources will also increase premium revenue both directly and indirectly because better service will encourage exporters to insure more export flows with JLGC. Finally, a larger premium volume will give JLGC greater ability and credibility in their interaction with commercial reinsurers, for example, in seeking reinsurance to introduce new products to support a broader range of export (such as insurance for engineering services, which it currently does not offer). To support the expansion of this activity and enhance responsiveness to the market, JLGC has changed the composition of its board to include independent directors: since March 2018 the board has been comprised of four private sector representatives (from non-bank sectors), two members representing the Central Bank, and five members from the banking system (DPF1 prior action 2).

DPF1 Prior Action 2: The Borrower's ability to serve Jordanian exporters improved by: (a) the Central Bank's and the JLGC's agreement dated March 12, 2017, expanding the resources available for reinsurance and strengthening JLGC's financial capacity to deliver trade insurance products; and (b) restructuring JLGC's Board to include independent directors, as evidenced by the minutes of JLGC's Board 24th annual regular general assembly meeting, dated March 28, 2018.

60. Key to expanding Jordan's footprint in more stable markets (such as Europe), is the capacity to produce goods and services that meet the standards those markets require. To achieve this, it is critical for Jordan to have an appropriate 'national quality infrastructure' (NQI). An effective NQI system supports the application of modern innovative standards in manufacturing, and is essential to facilitate exports to more sophisticated markets. The

existing NQI system in Jordan does not correspond to international best practice for technical regulation systems, as there are several agencies authorized to set compulsory requirements and responsible for the control of compliance with these requirements. The process of setting the requirements is neither transparent nor predictable. Integration of functions of standardization, conformity assessment, metrology, market surveillance in the single agency – Jordan Standards and Metrology Organization (JSMO) – creates conflict of interests and inhibits the ability of the agency to work effectively. Going forward, it will be important to unwind functional conflicts of interest within the current mandate of JSMO (standardization, conformity assessment, metrology, and market surveillance are currently in a single agency); reform the processes for setting requirements to enhance transparency and predictability in line with international good practice; improve standards harmonization with key trading partners; introduce a risk-based market surveillance system; and secure global recognition for Jordan's national accreditation agency and conformity assessment body (DPF2 trigger 2).

DPF2 Trigger 2: The Borrower's Council of Ministers approved a Plan and implemented actions to reform and improve Jordan's National Quality Infrastructure institutions to eliminate internal conflicts of interest, increase transparency and predictability of the process for adopting mandatory requirements, and provide a full range of NQI services to Jordanian customers - conformity assessment, metrology, surveillance.

61. **Expected results.** Both the strengthened reinsurance capacity of JLGC and the improvement in National Quality Infrastructure will contribute to enhanced product and market diversification. The expected results include: (a) increase in guaranteed exports from 1.09 percent of total exports in 2017 to 2.40 percent in 2021, and (b) a 10 percent reduction by 2021 in the cost of proving compliance (testing; conformity assessment) with the requirements of foreign markets. This will in turn deliver risk diversification benefits to Jordan insofar as further outbreaks of instability in its regional markets are concerned, building up a 'shock absorber' capacity over time.

Enhancing transport competitiveness

- 62. The Government of Jordan has recognized that open and competitive markets are essential to ensure competitiveness and deliver the best outcomes to Jordanian citizens. As the Jordan 2025 National Vision and Strategy recognizes, market concentration in important sectors creates barriers to entry for new players and can harm consumers. In some cases, lack of competition is magnified by preferential legislation that enables industry incumbents to maintain their dominant position.²² The five-year reform plan under preparation envisages the development of a new National Competition policy, and initiatives to strengthen analytical and enforcement capacity, and sectoral regulatory frameworks. However, there is currently no policy in place to enhance the effectiveness of competition law enforcement, clarify the use of price regulation in exceptional circumstances, and introduce a mechanism to integrate competition principles into the design and amendment of market regulations. Nevertheless, while this is far from ideal it does not preclude efforts to enhance competition at the sector level.
- 63. The transport and logistics sectors contribute 9 percent to GDP in Jordan, and are recognized as important drivers of competitiveness, growth, and job creation. Consideration of options to restructure Jordan's transport sector culminated in the 2015 Long-term National Transport Strategy and Action Plan. A key area of concern is trucking, which is highly fragmented both in terms of firm characteristics and market structure, and runs an aged fleet that is subject to a range of regulatory constraints, including access restrictions at Aqaba port. To reform the sector and reap the benefits of efficiencies of scale and scope, it is necessary to develop and agree with relevant stakeholders an action plan that will upgrade the sector through fleet renewal, professionalization, and firm consolidation, while increasing overall trucking and logistics sector efficiency and reducing market distortions

²² Jordan 2025 National Vision and Strategy, p. 37.

resulting from government interventions and firm behavior (DPF2 trigger 3). The primary emphasis will be on containerized cargo for international trade.

DPF2 Trigger 3: The Borrower implemented actions that reduce market distortion and defines an incentive mechanism to reduce, renew or consolidate the truck fleet to enhance the efficiency of cargo transport for containers on the Aqaba-Amman corridor.

64. **Expected results.** The reforms will deliver a more balanced market structure with better fleet utilization and, lower prices, and higher quality of service. The expected result is a 10 percent reduction in the cost of cargo transport for containers on the Aqaba-Amman corridor from US\$408 in 2017 to US\$368²³ in 2021.

Building out Jordan's financial sector's credit infrastructure

- 65. An effective insolvency system is a critical pillar of the financial system's architecture, improving access to credit especially for SMEs. In economies with sound insolvency regimes, creditors are more willing to lend because they are more likely to recover their loans. Additionally, efficient insolvency laws provide mechanisms for business rescue which reduces the failure rate among firms (and the associated costs), help maintain a higher overall level of entrepreneurship in the economy and preserve jobs. By facilitating the efficient exit and liquidation of non-viable companies, an insolvency framework supports better allocation of resources across the economy, delivering a more flexible economy more able to adjust to shocks, and to capitalize on new opportunities for growth. ²⁴
- 66. An insolvency law has been passed by the Jordanian Parliament. The reform supports the establishment of an efficient loan recovery, restructuring and insolvency system that promotes growth and stability by allowing unviable firms to exit efficiently, and viable (although financially distressed) firms to reorganize operations and restructure debt. The reform supports the development of a "rescue culture" whereby insolvency is looked at as an ordinary market instrument and viable businesses are given a second chance and continue operating for the benefits of the debtor, the creditors and the overall economy. These new procedures—focused on the end of the business life cycle—will also have a profound impact on the beginning of the cycle. In particular, credit institutions (banks, micro-credit institutions, leasing companies, etc.) will be more willing to lend, especially to SMEs, with a modern and efficient legal framework protecting their rights, as well as lowering both the level of non-performing loans and provisioning effort they face. Effective insolvency frameworks are critical to restore lender's appetite toward credit risks. The introduction of new business insolvency procedures is supported through enactment of the Law (DPF1 prior action 3) and approval of its bylaws by the Council of Ministers (DPF2 trigger 4a).

DPF1 Prior Action 3: The Borrower has enacted the Insolvency Law introducing business insolvency procedures.

DPF2 Trigger 4a: The Borrower adopted the Bylaws for Insolvency, approved by the Council of Ministers.

67. Modern Secured Transactions Laws and Collateral Registries have a dramatic impact on access to finance. Collateral provides the basis for free-flowing credit markets, reducing the potential losses lenders face from non-payment. While land and buildings are widely accepted as collateral for loans, the use of movable collateral (such

Average of domestic transport import and export costs from Doing Business 'Trading Across Borders' indicator (Doing Business 2018). Target will be adjusted for exogenous supply and demand factors, as fuel prices and/or inflation. The baseline of \$408 is the average of the import (\$395) and export (\$421) domestic transport cost for Jordan in the Doing Business Indicators published in 2018.

²⁴ Doing Business: Measuring website, http://www.doingbusiness.org/data/exploretopics/resolving-insolvency/reforms, accessed online on April 25, 2018. The World Bank.

as inventory, accounts receivables, crops and equipment) is restricted because many countries do not have functioning laws and registries to govern secured transactions. This represents even a greater challenge for female entrepreneurs, who tend to have less access to immovable assets to pledge as collateral. Reforming the framework for movable collateral lending allows businesses—particularly SMEs—to leverage their assets into capital for investment and growth. Modern Secured Transactions Registries increase the availability of credit and reduce the cost of credit.²⁵

68. **Developing a secured transactions framework has been the GoJ objective for many years**. A best practice draft law on Secured Transactions was enacted by Parliament in April 2018. This law will be supported by bylaws (DPF2 trigger 4b), which will further elaborate the principles of the secured transactions regime.

DPF2 Trigger 4b: The Borrower adopted the Bylaws, approved by the Council of Ministers, for the Secured Transaction Law.

69. **Expected results.** The above actions will contribute to improving the following *Doing Business* indicators: (a) Insolvency Framework Index²⁶ from 5 in 2017 to 10 in 2021, and (b) Legal Rights Index²⁷ from 0 in 2017 to 6 in 2021. Establishment of the secured transactions framework will facilitate an increase in the volume of financing provided to SMEs, which is currently only 11 percent of total bank credit facilities. The impact of this reform will benefit all categories of firms engaged in entrepreneurial activity, as it will support financial institutions in developing product types suitable for underserved segments such as youth and women. Financial institutions will be able to expand their lending operations against movable collateral and firms will have more options to access credit facilities.

Reflecting electricity cost of service in tariffs structures to lower the cost of electricity to businesses

- 70. Compared to its peers, Jordan has a steady track record of electricity sector reforms. As a result, Jordan today has an unbundled, single-buyer electricity market structure, with an independent sector regulator, private sector participation in electricity generation and distribution, and significant installation of renewable energy. This institutional structure and asset base remain strong despite the strains caused by the overreliance on imported pipeline gas and the lack of pass-through of the 2011 price increases when the pipeline supply was disrupted. Despite a legacy of continued reforms, the electricity sector in Jordan continues to face new challenges arising from the falling price of renewables, as well as a need to address the unfinished reform agenda from the adjustment to the NEPCO shock.
- 71. Cross-subsidies are built into an otherwise overall cost-covering tariff structure, and this is now affecting the economic competitiveness of Jordanian businesses and is increasingly difficult to sustain. Although tariff increases over the last few years helped achieve cost-recovery on average, the electricity tariffs in Jordan still entail a heavy cross-subsidy from large to small consumers. Under the prevailing telescopic tariff structure, the benefit of cross-subsidy in initial consumption is delivered to all household consumers regardless of income or total

http://www.worldbank.org/en/topic/financialsector/brief/collateral-registries, accessed on April 25, 2018. The World Bank.

The strength of insolvency framework index measures the extent to which key aspects of a 'best practice' insolvency framework are present. It is based upon four other indices: commencement of proceedings index, management of debtor's assets index, reorganization proceedings index and creditor participation index. The index ranges from 0 to 16, with higher values indicating insolvency legislation that is better designed for rehabilitating viable firms and liquidating nonviable ones.

The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending. The index includes 10 aspects related to legal rights in collateral law and 2 aspects in bankruptcy law. The index ranges from 0 to 12, with higher scores indicating that collateral and bankruptcy laws are better designed to expand access to credit.

electricity consumption levels — making it a poorly targeted subsidy. More than 25 percent of the revenue requirement for the sector is being met through cross-subsidy, while the highest tariff slab requires a payment of nearly three times the average cost of service — implying a significant cross-subsidy burden. Meanwhile, inadequate price signals under the prevailing tariff structure and the absence of a direct subsidy delivery mechanism also discourage the adoption of energy efficiency and conservation measures.

- 72. Many large electricity consumers are opting for grid-connected self-generation. However, below-cost charges for grid-support services and reduction in cross-subsidizing consumption are threatening overall sector financial sustainability. Self-generating consumers retain connection to the grid to wheel self-generated power, bank excess generation with the grid for later consumption, and draw electricity from the grid to fulfill any demand not met from self-generation. These consumers rely on grid-support to address daily and seasonal variations in solar energy availability, and lack of night-time self-generation from the solar photovoltaic technology. Self-generating consumers bank cheap power during off-peak hours, while drawing expensive power during peak hours. As a result, the grid not only loses 'subsidizing' consumption, but also bears an additional burden from capacity support, net-metering, and wheeling arrangements, which is not adequately compensated under the prevailing commercial arrangements. Currently, less than 10 percent of grid-support costs are being charged to self-generating consumers. The twin challenges of high tariff cross-subsidy among grid-reliant consumers and below-cost grid-support charges for self-generating consumers need to be urgently addressed to ensure continued financial sustainability of the sector.
- 73. The approach for cross-subsidy rationalization needs to be flexible. Tariff rationalization to remove cross-subsidies requires a transparent, gradual and flexible approach to ensure that the revision of tariffs is practical in the prevailing political context, and to minimize sudden shocks to the consumers especially the poor and vulnerable segments of society. While a wide range of measures can help reduce tariff cross-subsidy, the specific structure needs to be left to the discretion of the independent regulator, who can balance trade-offs between various sector objectives. A tariff restructuring roadmap approved by the GoJ (DPF1 prior action 4) establishes ceiling values for year-on-year improvement (reduction) in an index for grid-subsidy for self-generation (defined as the share of grid-support costs not charged to the self-generating consumers) and a tariff cross-subsidy index (defined as the share of overall revenue requirement that is provided by cross-subsidy), while allowing the regulator flexibility in choice of specific tariff restructuring measures. For DPF2 the Government has adjusted tariffs in line with agreed objectives under DPF1 to address the grid subsidy for self-generation.

DPF1 Prior Action 4: (a) The Borrower, through the MEMR, has adopted indicators, targets and a timeline to address grid-subsidy for self-generation and reduce cross-subsidies, as evidenced by MEMR's letter No. 1/10/3/74 dated May 17, 2018; and (b) EMRC has taken initial actions consistent with them, as evidenced by EMRC's letter No. 1/3/11/38 dated May 27, 2018.

DPF2 Trigger 5: The Borrower rebalanced electricity tariffs to address grid-subsidy for self-generation and to reduce the cross-subsidy burden, consistent with the targeted values of the indices for Grid-Subsidy for Self-Generation and the Tariff Cross-Subsidy Index in the roadmap.

74. **Expected results.** Energy is a key business input for many firms in Jordan, and these reforms will reduce costs and increase competitiveness from where it would otherwise have been. The tariff cross-subsidy index (which measures the percentage of total tariff revenues that is provided by cross-subsidy from more intensive energy users) will fall from 25.5 percent in 2017 to 21 percent by 2021. The heaviest electricity users will benefit further through the imposition of a 'cap' on the maximum tariff rate they will pay at 200 percent of the average cost of

service, down from 275 percent at present. Finally, the financial sustainability of the grid will be maintained through the elimination of subsidies in grid-charges levied on grid-connected self-generating consumers by 2020 (down from 90% at present). This would enhance the 'fairness' of the sector, creating a level playing field for both self-generating and grid-reliant consumers, with consumers who do opt for self-generation not imposing any additional burden on those that chose to remain grid-reliant.

Pillar 2: Creating more flexible and integrated labor markets and providing better and more efficient social assistance

- 75. The second pillar of the proposed DPF will support the Government's efforts to foster a more flexible and inclusive labor market and develop a more effective social safety net. The proposed prior actions and triggers aim to reduce labor market segmentation. Jordan's labor force may be one of the most segmented in the world: legal segmentation exists between genders, occupations, nationalities, sectors and geography, i.e. in addition to segmentation based on education, experience and age that exists in many labor markets. This kind of segmentation adds costs to the economy. First, there is regulatory arbitrage; the hiring of a worker simply to get around a rule or only because their compensation is in some way made lower by regulatory dictate. Hand in hand with that is the cost of informality that this segmentation creates. Given the complexity of the labor market, the reforms supported by the first DPF can only begin to address, but not complete the series of reforms required to integrate the labor market. Judged on their own, these actions will be incomplete. Assessed as part of a broader set of reforms to dramatically reduce segmentation in the labor market, they are necessary first steps.
- 76. Because of inflexibilities and labor market segmentation, Jordan's unemployment problem is substantial and low labor force participation rates are dramatic. The Ministry of Labor reported unemployment at around 12 percent, and 18.3 percent in 2017. Taking workforce participation into account worsens the employment picture. Jordanian women make up about 56 percent of university graduates but have a participation rate of just 13 percent in the job market. While there are many women graduates who would not be in the workforce for family reasons, others are absent due to a lack of jobs. Even male participation among Jordanian citizens remains low at 58 percent. According to the World Bank, the global average is 76 percent—only seven other countries have male participation rates this low. In addition, the structure of employment in Jordan has basically remained stagnant over the last 17 years. The share of people out of the labor force is high and increased since 2009. The increase was larger for male and prime-aged people, who dropped out of the labor force by an additional 4.5 percentage points from 2009 to 2016. The increase for female and young workers was smaller (1.6 percent) although their inactivity rates are already staggering high. In fact, Jordan has one of the lowest rates of female and youth labor force participation in the world.
- 77. To address high rates of unemployment and low (especially female and youth) labor force participation rates, this DPF includes actions to stimulate demand for part-time and temporary employment. Making part-time work possible is one institutional change that can increase female labor force participation. In Jordan, existing regulations do not prohibit part-time employment, but they do make the transaction costs of negotiating a part-time job more difficult. Women and young workers, who are most likely to seek part-time employment disproportionately bear the burden of these difficulties. Because women tend to be disproportionally responsible for housework, and thus have less time for other activities, the limited or non-availability of reduced-hour employment diminishes their ability to participate in the formal sector and increases the probability that they work in the informal sector. In Argentina, both female labor force participation and employment in the formal sector increased with part-time contracts, and female formal employment grew more in sectors with more part-timers. Married women with children increased their participation in formal employment 9 percent and reduced their self-

employment 7 percent, compared with married women without children. That is equivalent to a fall in female informality of about 4–5 percent.²⁸

Box 6. Synopsis of how DPL Prior Actions benefit women and the theory of change behind them

We expect that the DPL reforms will provide a more enabling environment for women to access work opportunities, therefore promoting their economic empowerment. While it is increasingly clear that intra-household expectations (i.e. expectations of respondents about their counterpart's beliefs) also matter in female labor force participation (FLFP) decisions, we also know that there are binding constraints that affect their participation. Some of the most significant binding constraints include flexibility and the ability to work part time. The DPL reforms integrate these elements under the Safety Net Results Area and women are likely to benefit greatly. It is important that these reforms be accompanied with awareness raising efforts targeting both men and women to reap their full benefits.

Some of the most important areas supporting women's economic empowerment in the DPL are under *Pillar 2: Creating flexible and integrated labor markets and better, more efficient social assistance.*

Area: Create more flexible labor markets for job creation.

Making the labor market more flexible has the potential to directly benefit women, as confirmed by a recent study ("Understanding Social Norms around Women's Employment in Jordan", by the Bank's GSURR MNA and eMBed teams). Flexible (working from home) and part-time opportunities are particularly relevant and likely to be impactful. Promoting a safe workplace may also contribute to increase participation of women in the labor market.

<u>Prior Action 6</u>: Flexible work: The Borrower's Council of Ministers has approved Bylaw on Flexible Work that benchmarks the minimum wage rate by unit of hours. The DPL is expecting an increase in growth of formal, private, part-time female workers from 31.6 percent (2014-2016) to 35 percent during (2018-2019).

• The government introduced the Flexible Work System to help increasing women participation in the labor market. The system is mainly targeting workers with family responsibilities such as pregnant women; workers caring for a child, a family member or older persons due to disability or illness; workers who are studying in the university, and workers with disabilities. This system encourages contracts other than full-time work, and would likely benefit women who often search for employment that is flexible and to use part-time work to enter the market to gain valuable experience and work history.

Area: Expand and Improve Social Safety Nets to Better Protect the Poor and the Vulnerable

<u>Prior Action 8:</u> Poverty: The Borrower, through the Council of Ministers, has approved plan to improve and expand the coverage of the National Aid Fund (NAF) cash transfer program to cover at least 85,000 additional households between 2019 and 2021).

- The Cash Transfer program gives preferences to female beneficiaries e.g. prioritizing women-headed households, families with children, and working poor (including working women). International best practices show that giving benefits to women will result in better outcomes particularly for children. Transfers also increase women's empowerment.
- 78. The DPF reforms are expected to provide a more enabling environment for women to access work opportunities, therefore promoting their economic empowerment. While it is increasingly clear that intrahousehold expectations (i.e. expectations of respondents about their counterpart's beliefs) also matter in female labor force participation decisions, we also know that there are binding constraints that affect their participation. Some of the most significant binding constraints include flexibility and the ability to work part time. The proposed reforms integrate these elements under the Safety Net Results Area and women are likely to benefit greatly. It is

Bosch, M. and W. F. Maloney (2010) "Comparative Analysis of Labor Market Dynamics Using Markov Processes: An Application to Informality." *Labor Economics* 17 (4): 621–31.

important that these reforms be accompanied with awareness raising efforts targeting both men and women to reap their full benefits.

- 79. One of the most pressing problems in unemployment and underemployment is found in the Syrian refugee community. Many Syrian refugees have yet to receive work permits, but they nevertheless have high employment rates. Their drive to work, regardless of their qualifications, likely means they seek and gain employment in the informal sector. To increase formal participation of Syrian men and women in the Jordanian labor market, the GoJ has instituted a set of reforms that facilitate refugee access to the formal labor market. But these reforms have yet been insufficient. In 2017, because of policy reforms, the GoJ issued 46,717 work permits, of which 5 percent were issued to women. This takes the total number of work permits issued to 102,952 as of May 29, 2018, of which about half are currently active. The Jordan Compact targeted 200,000 job opportunities for Syrians. The DPF series support reforms to provide more jobs opportunities for Syrians and to increase economic opportunities in the Jordanian labor market.
- 80. To address other aspects of labor market segmentation and adding job opportunities for Syrian refugees, the DPF-supports reforms to reduce sector and nationality quotas. At present, hiring more refugees in formal positions requires adding more Jordanians to the payroll to maintain the ratio between Jordanians and non-Jordanians. The quota, along with many others, have slowed progress in providing economic opportunities to refugees and is likely holding back expansion and overall job creation.
- 81. Jordan's current social safety nets do not provide adequate protection to the poor and vulnerable. In 2010 (latest data), 14.4 percent of the population were poor, and an additional 18.6 percent were vulnerable to poverty. Although recent estimates are not yet available, the deteriorating performance of the labor market (the main determinant of poverty) since 2015 is likely to have pushed poverty and vulnerability up. Ongoing and planned economic reforms (e.g. in electricity tariffs, tax exemptions) and fiscal consolidation efforts will likely add to the burden in the next few years. Jordan's current social safety nets are inadequate to respond to this challenge. The largest poverty reduction program, the National Aid Fund (NAF)'s cash transfer program, only covered around one-third of the poorest 10 percent of the population in 2010. Although the program has expanded since 2010—reaching JD 104 million in 2017, benefiting about 93,000 households, it is still a very small program relative to the levels of poverty and vulnerability in Jordan. The planned reduction in cross-subsidies for electricity tariffs (a prior action under this DPF) will also require some compensation scheme for poor and vulnerable consumers.
- 82. Improvements in the cost-effectiveness of the NAF's cash transfer program will have a positive impact on poverty when the program is significantly expanded. The need to improve efficiency, targeting and have a program to graduate people as they no longer need a safety need is what is reflected in the DPF prior action that focuses on approval of a Plan to improve the coverage of the NAF's cash transfer program. The Plan will both improve and significantly expand NAF's cash transfer program in 2019, using an improved version of the targeting formula put forward in the 2010 DPF. Although the formula was never implemented, the NAF has been improving its poverty targeting, resulting in the removal of over 33,000 families from the beneficiary list since 2014. The improved targeting formula under the Plan will also have significant poverty-reduction gains over the 2010 formula because of the expansion of the program, which was not contemplated in 2010. Furthermore, the Plan goes well beyond improvements in the targeting formula to include, among other things, an automated data exchange system to verify NAF's eligibility information (under implementation), a graduation strategy for beneficiaries, and a new digital payments system. A positive impact on poverty particularly for female-headed households is expected. Cash transfers have shown to have a positive impact on the well-being and economic empowerment of women and girls. The NAF and the Ministry of Social Development are fully committed to the implementation of the Plan, with the World Bank and other donors also fully committed to supporting these efforts.

Reducing labor market segmentation and quotas

- 83. The proposed prior action and triggers recognize that much labor market segmentation has its roots in the legal framework regulating this market. Jordan has designed a complex legal framework to regulate an equally complex labor force. From work permits for foreign workers that exempt some of them—Syrian refugees—to occupations and sectors open only to Jordanian citizens, to the existence of a Jordanian and non-Jordanian minimum wage, the labor market regulatory system is hard to keep up with, interpret, abide by and manage. As a result, the legal framework is not as effective as it could be and it is cumbersome. Most importantly, the implementation of laws and regulations and their enforcement is weakened by this complexity. Understanding how the legal framework contributes to this segmentation (DPF 1 prior action 5) is the first step in the reform process supported in this DPF and by the 5-year reform program. Amending the legal framework, based on the findings of this review (DPF 2 trigger 6b), accomplishes the first set of legal and regulatory reforms to reduce labor market segmentation.
- 84. The reduction of sector nationality quotas is another step into integrating the labor market. Jordan has strict ratios of Jordanian nationals to foreign employees. Hiring more refugees in formal positions requires adding more Jordanians to the payroll to maintain the ratio. In addition, quotas are to be counter to economic growth and employment expansion. They hinder businesses from hiring what they need to meet market demand and adds costs to their wage bill. Unless the quota happens to match exactly a firm's labor demand, the firm is likely to not produce at full capacity. Underproducing is a hedge against labor adjustments that must be made in case of downturns. On the flip side, the firm is likely not to hire as many workers in case of upturns. In sum, labor becomes lumpier and it would be difficult to release either a foreign or Jordanian worker and at the same time comply with the quota. Finally, the reduction of quotas increases employment opportunities for non-Jordanians and improves incentives to stay or enter formal employment. But most importantly, reducing quotas to fewer sectors will decrease labor segmentation between foreign and Jordanian workers.

DPF1 Prior Action 5: The Borrower's Council of Ministers instructed the Minister of Labor to carry out a review of the legal framework to identify causes of segmentation in the labor market, as evidenced by Decision No. 8036, dated May 28, 2018.

DPF2 Trigger 6a: The Borrower's Ministry of Labor has reduced the number of sectors with quotas which limit foreign employment.

DPF2 Trigger 6b: Based on the results of the review of the legal framework, amendments to the legal framework adopted to reduce labor segmentation.

85. **Expected results.** The reduction in the number of sectors in which hiring quotas will apply will reduce the underproduction that takes place as productive firms in those relieved sectors respond. At present, firms in sectors where hiring quotas are applicable are not allowed to grow and hire in the mix of talent that they need. This underproduction by growing, productive firms has substantial economic costs and makes the economy poorer and less competitive. Most importantly, this reform will produce jobs. Average growth for formal, private, full-time employment was 3.4 percent between 2014-2016. With this reform, it is expected that average growth for formal, private, full-time employment will reach 3.6 percent between 2017-2019.

Flexible work

- 86. This completed action (DPF1 prior action 6) improved labor market flexibility by facilitating varied forms of employment contracts. Until recently, it was unclear how to compensate someone earning the minimum wage but working fewer hours per month than used to estimate that wage. The benchmark minimum wage was based on a monthly minimum; not hourly. To come to agreement on how much to pay a worker for hours worked, likely meant a one-on-one, employer-employee negotiation for part-time and/or temporary compensation. Unless the employer and worker make a side agreement, an employee working 10 hours a month could have demanded the same monthly minimum wage as the one who worked substantially more that month—the regulations allowed that. A benchmark rate based on an hourly rate eliminated the need to negotiate part-time and temporary work that was only implicitly allowed. Specifically, the Flexible Work System included the following, five types of flexible work contracts:
 - Part time: if the type of works allows, the employee can work for less hour;
 - Flexible working hours: working within flexibly hours daily given that number of working hours will not be less than the minimum hours per day;
 - Intensive work weeks: distributing the working hours in the work days in a way that it will not exceed 10 hours per day;
 - Flexible year: working on agreed number of months per year that shouldn't exceed the law provisions; and
 - Telecommuting (working from distance).
- 87. The Government introduced the Flexible Work System to help increasing women participation in the labor market. The system is mainly targeting workers with family responsibilities such as pregnant women; workers caring for a child, a family member or older persons due to disability or illness; workers who are studying in the university, and workers with disabilities. This system encourages contracts other than full-time work, and would likely benefit women who often search for employment that is flexible and to use part-time work to enter the market to gain valuable experience and work history. This change will encourage contracts for part-time and temporary work that will largely benefit youth and women. Women often search for employment that is flexible and the young use part-time and temporary work to enter the market and gain valuable experience to build their work history. A recent report from the ILO found that only 2 percent of those young and female workers surveyed reported to be in involuntary part-time work.²⁹ This means that part-time work, with this sector of workers, is how the desire to ingress into the labor force.
- 88. Flexible work arrangements may become more important for women as public-sector employment is likely to level out or even decrease. The public sector has traditionally been one of the largest employers in the Jordanian labor market, and a disproportionately large employer of women. One often-cited reason that women seem to prefer public sector employment is related to shorter working hours and more flexible working hours. In the past, approximately 75 percent of the applicants registered in the Civil Service Bureau database are women. The Civil

²⁹ ILO (2017) "Promoting Youth Employment and Empowerment of Young Women in Jordan: An Assessment of Active Labour market Policies" Impact Report Series, Issue 9. Geneva.

https://docs.euromedwomen.foundation/files/ermwf-

 $documents/7716_4.63. promoting you them ployment and empower ment of young women injord an an assessment of active labour market policies. pdf.$

Service Bureau is responsible for recruitment only when the candidates for the post must be university or community college graduates.³⁰

- 89. Current regulations do not require that employees working part-time or temporarily to pay social security, this DPF supports a reform (DPF2 trigger 7) that will fix this disincentive to offer full-time work. While the reform on flexible work supported by the prior action (DPF1 prior action 6) of this DPF allowed for more part-time and temporary work, it left untouched the cost advantage, to both firms and employees, of offering and taking, respectively, part-time or temporary work. This cost advantage results from the requirement that social security payments must be made, by employee and employer, for full-time employment. By requiring the same for part-time and temporary work, the reform supported by the DPF puts all potential employment contracts, part-time or full-time, on equal footing with respect to costs.
- 90. The 2014 Social Security Law will need to be amended to mandate employer and part-time employee contributions to social security (DPF2 trigger 7). This change in the law will eliminate the opportunity for regulatory arbitrage between full-time and part-time, or temporary, labor contracts. Without this reform, the marginal cost of full-time contracts will be higher than that for other contracts. This higher cost would incentivize firms to substitute full-time work for other arrangements for no other reason than to avoid paying the costs of social security contributions. Even worse, it may incentivize firms and workers, who want to hire and work, respectively, full-time, to do so under informal contracts.

DPF1 Prior Action 6: The Borrower, through Ministry of Labor, has issued Instructions on flexible work with minimum wage rates by unit of hours, published in the Official Gazette on April 1, 2018.

DPF2 Trigger 7: The Borrower amended Social Security Law of 2014 for compulsory employer and part-time employee contributions to Social Security.

91. **Expected results.** The DPF-supported reforms are expected to lead to an increase in formal, private sector part-time and temporary contracts for young, female and workers. Explicitly sanctioning part-time and temporary work arrangements increases clarity in the labor market, which is particularly important for labor market entrants, including refugees, who face a lot of information asymmetry. This will translate into reduced labor costs for firms and increased competitiveness. The actions are expected to grow formal, private, part-time workers from 31.6 percent average annual growth, seen between 2014-2016, for women to an expected 35.0 percent average annual growth from 2017-2019.³¹ In addition, the actions are expected to grow formal, private, part-time workers from 0 percent average annual growth, seen between 2014-2016, for youth to an expected 10.0 percent average annual growth from 2017-2019.

Increasing economic opportunities and reduction of employment costs for Syrians

92. The DPF-supported reforms that aim to widen the economic opportunities available to Syrian refugees. As part of the Jordan Compact, the Government of Jordan committed to offer job opportunities to Syrian refugees. This commitment translates into the right to work and the issuance of work permits to Syrian refugees. These work permits were provided for free in early 2016 to ease Syrians' access to job opportunities (DPF1 prior action 7). This

European Training Foundation (2014) "Employment Policies in Jordan" page 21.

³¹ The same statistic, for men, will be estimated to provide a comparison in changes between men and women in part-time work.

translates into no cost for refugees or for their employer to get a work permit. The Government of Jordan is committing to extend the work permit fees' waiver in 2018 and 2019 (DPF2 trigger 8b).

93. The Government of Jordan is making it less bureaucratic for Syrian refugees to get work permits in construction (DPF1 prior action 7). By using the General Federation of Jordanian Trade Unions as the agent to issue these permits, instead of the Ministry of Labor, it makes the process easier and more accessible to refugees. From an economic perspective, allowing Syrian refugees the flexibility to get permits with fewer requirements in the construction sector will serve to enhance household income and self-reliance in a manner that complements job creation for Jordanians, formalizes informal employment, and avoids compromising Jordanian jobs. The broader reform of similarly reducing requirements in manufacturing and services subsectors that are already open to refugees offers more employment opportunities for this population.³²

DPF1 Prior Action 7: The Borrower, through the Ministry of Labor, has: (a) allowed the Jordanian General Federation of Trade Unions to provide work permits for Syrian workers working in the construction sector and removed the requirement of Syrian workers to show a profession practice certificate as a prerequisite to obtain the work permit, as evidenced by Circulars No. 210/2017 and No. 278/2017, dated July 23, 2017 and September 28, 2017, respectively; and (b) waived fees for Syrian workers to obtain work permits for 2018, as evidenced by Circular No. 199/2018, dated May 27, 2018.

DPF2 Trigger 8a: The Borrower's Ministry of Labor issued a decree introducing flexible work permits for Syrians to work in the manufacturing and the services sectors (in occupations that are already open to Syrians).

DPF2 Trigger 8b: The Borrower issued a waiver to fees for work permits for Syrian workers for 2019.

94. **Expected results**. These reforms are expected to increase the number of work permits in manufacturing and services that Syrian refugees receive. Specifically, the number of annual work permits issued to Syrian refugees in manufacturing plus services is expected to increase from 16,516 in 2017 to 18,435 in 2020. This expected number of permits is based on a 10 percent growth projection for permits in manufacturing, from 2017 to 2020, and a 12.5 percent growth projection of permits for services for the same years. The 2017 baseline used to reach the cumulative number consists of 10,693 service sector work permits and 5,823 manufacturing work permits. However, the indicators do not stipulate that either manufacturing or services permit issuance must grow as these rates (10 and 12.5 percent, respectively), instead these growth rates were used to calculate an estimate of expected cumulative total of permits by 2020. It is envisioned that the growth rate could be higher or lower in either one of the two sectors, but the Government is committed to allocate 18,435 permits between January 1, 2020 and December 31, 2020.³³

This section of the report utilizes the term 'flexible' as part of 'flexible work permits': these are work permits issued by the Ministry of Labor - or by an entity tasked by the Ministry of Labor - directly to the worker without going through the employer. The worker must apply and provide the necessary documents to obtain the work permit and is not required to provide a work contract.

Under services, the following industries are included: wholesale and retail trade, repair of motor vehicles, transportation and storage, accommodation and food service activities, information and communication, financial and insurance activities, real estate activities, professional, scientific and technical activities, administrative and support service activities, human health and social work, arts, other service activities, activities of households as employers, activities of extraterritorial organizations.

95. In addition to the reforms on making permit regimes more flexible for Syrian refugees in manufacturing and services, the reform to continue to provide permits for Syrian refugee at no cost between 2018-2021 means that permits that cost between JD 300–370, depending on sector, in 2017 will cost zero for refugees.

Addressing poverty

- 96. The main poverty reduction program, NAF's cash transfer program, provides inadequate support to the poor and vulnerable. The program's low coverage of the poor is overwhelmingly explained by the small size of the program. Improvements in the program targeting would only bring marginal poverty-reduction gains with the current small budget of the program. That said, the NAF has been improving its poverty targeting in recent times, resulting in the removal of more than 33,000 families from the beneficiary list since 2014. With expansion, the program is expected to cover 178,000 families by 2021 and reduce poverty by 35 percent with improved targeting (relative to 14 percent using NAF's current targeting). The expansion will also be accompanied by improvements in the program to make it more cost effective, including enhancements in poverty targeting, payments and the graduation of beneficiaries.
- 97. The Plan to expand and improve NAF's cash transfer program aims to enhance the protection of the poor and vulnerable, as well as to facilitate their transition out of poverty, in a cost-effective way. The Plan describes key actions to be implemented during 2018 in the following areas: (i) rollout and financing of the expansion; (ii) communications and outreach; (iii) program eligibility; (iv) graduation of beneficiaries; (v) benefit calculation and payments; (vi) grievance and redress mechanism; (vii) management information system; (viii) monitoring and evaluation; and (ix) human resources. The implementation of key actions will be supported by the World Bank and other development partners. One such action is already under implementation: an automated data exchange system to verify the eligibility information of NAF beneficiaries and applicants against government databases in real time. Such system is expected to improve the targeting accuracy of the program while reducing verification costs. The same system will eventually be used to verify the eligibility information of other targeted social programs. The Ministry of Planning and International Cooperation, the Ministry of Information and Communication Technologies, and the NAF provide oversight of the system, with support from the ongoing National Unified Registry Project.

DPF1 Prior Action 8: The Borrower, through the Council of Ministers, has approved plan to improve and expand the coverage of the National Aid Fund (NAF) cash transfer program to cover at least 85,000 additional households between 2019 and 2021, as evidenced by Decision No. 8057, dated May 28, 2018.

DPF2 Trigger 9: The NAF Board approved the graduation strategy for NAF beneficiaries.

98. **Expected results**. DPF-supported reforms of NAF will increase coverage of poor households from 93,000 in 2017 to 178,000 by 2021. An additional 25,000 households will be covered by the end of 2019, 30,000 by the end of 2020, and 30,000 by the end of 2021.

Pillar 3: Improving fiscal sustainability and taking more informed decisions regarding risk

99. The third pillar of the DPF will support fiscal sustainability through revenue mobilization, more efficient public investments and tracking of fiscal risks. Reversing Jordan's high debt-to-GDP ratio will require additional fiscal efforts to reduce the overall deficit and raise the primary balance in the medium term. These fiscal efforts will lead to higher revenues and pressures on spending levels and will necessarily tighten the fiscal space available



for current and capital spending. Yet, Jordan needs significant amounts of investment to boost growth and to improve the efficiency of the economy. Jordan is keen to bring in the private sector, through its new approach to investment planning. At the same time, Jordan is keen to manage the emerging contingent liabilities as part of an updated approach to managing debt.

Enhanced domestic revenue mobilization

- 100. Total tax revenues in 2016 stood at 15.5 percent of GDP, against 24.7 percent in 2007. The development represents a drop in tax-to-GDP by 59 percent, which essentially took place over 2007-2011, while 2012-2016 was close to flat, seeing an increase over the full period of 0.2 percent to GDP. The main driver behind the decline is the introduction of a series of tax exemptions in the tax bases and preferential rates, on goods and services and customs duties. Over 2007-2011, the revenues on goods and services dropped by 5.1 percent to GDP (a decline of 50 percent) over 2007-2011, while customs duties declined by 1.6 percent to GDP (equal to 53 percent). Finally, the revenues generated on corporate income fell by 0.8 percent to GDP, equivalent to a reduction of 25 percent and with exemptions in the tax bases on corporate income taxation, including on FDI-related incentives.
- 101. The GoJ has embarked on a series of tax policy initiatives with a view to increase domestic revenue, including improving fiscal management and oversight of tax expenditures. -For the first time ever, the GoJ provided in the General Budget for 2018 an estimation of revenue loss due to tax expenditures across all tax sources. The publication of such information is in line with international standards, including the IMF Fiscal Transparency code. The revenue forgone was estimated at 11.2 percent in 2015, increasing to 12.4 percent in 2016. With reference to the tax-to-GDP at 15.5 percent in 2016, for every 1 dinar in tax collection, around 0.8 dinars remained not collected, due to tax base and tax rate reductions on specific goods and services and/or to certain segments of taxpayers, including income tax on individuals and on companies. The proportion of revenue forgone is high by any international comparison. The tax expenditures on consumption – general sales tax and specific sales taxes - represented the majority at 71 percent of the total revenue loss in 2016, up from 66 percent in 2015.
- 102. Suppression of tax reliefs in consumption taxes are being addressed. The 2017 Budget Law increased the preferential rates on large number of items, as well as discontinued exemptions for specific goods and services. The revenue enhancement of these actions was estimated at JD 202 million.³⁴ Additional tax policy improvements, including excise taxation and 'other taxes', were implemented under the 2017 Budget Law, bringing the total revenue impact at JD 631 million.

DPF1 Prior Action 9: The Borrower's Council of Ministers has reduced exemptions and increased preferential rates in the general sales tax and the special sales tax consistent with the 2018 Budget Law, as evidenced in its Decisions published in the Official Gazette on January 16, 2018 and February 1, 2018.

103. Tax policy reforms will be further deepened over 2018-2020, with intentions to implement further reductions in the consumption tax areas, as well as revenue improvement due to income taxation, stemming from the adoption of an income tax reform. The GoJ is currently considering various options, including broadening the tax base on income taxation, by further inclusion of taxpayer segments currently not paying income taxes, as well as eventual adjustment of the threshold for paying income taxes.

IMF Article IV and First Review Under Extended Financing Facility, July 2017, IMF Country Report 17/231, page 14.

DPF2 Trigger 10: The borrower raised domestic tax revenues in the 2019 Budget Law through implementation of income tax reform following national consultations and further reduction of tax exemptions and preferential rates in the General Sales Tax and Special Sales taxes.

104. **Expected results.** Over 2018-2020, the Government of Jordan is expected to raise additional domestic revenues of at least JD 1,280 million from, GST, SST and/or the implementation of the new income tax law. The revenue gains would specifically be made through implementation of income tax reform following national consultations and further reduction of tax exemptions and preferential rates in the General Sales Tax and Special Sales taxes. More precise projections of revenue gains will be possible during preparation of the second operation.

Improving public investment efficiency and tracking fiscal risks

- 105. The proposed DPF will support the Government's efforts of fiscal consolidation by leveraging private sector participation in the economy through a Maximizing Finance for Development approach and updating the approach to managing debt and contingent liabilities.
- 106. Jordan is undertaking a fiscal consolidation, which will require increased efficiency and effectiveness in public investment through the effective implementation of the recently adopted PIM-PPP Governance Framework to be supervised by a new Inter-Agency PIM-PPP Committee. It will be important for Jordan to make the right decisions about what government should invest in and to create the right opportunities for the private sector to lead investments when it makes sense to do so. The setup of a Central PIM Unit at the MoPIC to manage jointly with the PPP Unit at the Ministry of Finance and the National Registry of Development Projects (NRDP) aimed at facilitating the identification, preparation and evaluation of investment projects.
- 107. The Government has reached agreement that the Central PIM unit will be located at the Ministry of Planning and International Cooperation, initially with a limited number of staff. In line with the agreement, three outside consultants will be funded by the Government to train staff and launch the process.
- 108. To this end, as part of the governance framework, the Government has revised the initial mandate of the Central PIM Unit (in MOPIC) and made its mandate complementary to the existing mandate of the PPP Unit (at MoF), and consistent with the PPP law and PPP regulations. The Central PIM-PPP Unit will work with the Inter-Agency PIM-PPP Committee, which acts as a technical secretariat of the Council of Ministers and prepares public investment and PPP decisions. The PIM-PPP Governance Framework, is made official by the Council of Ministers' Decision. The revised mandate of the Central PIM Unit is made official by Administrative Directive of the Ministry of Planning and International Cooperation.

DPF1 Prior Action 10: The Borrower's Council of Ministers has endorsed MoPIC's proposal for the Jordan 2018 Public Investment Management – Public-Private Partnership Governance Framework as evidenced by: (a) the Prime Minister's letter dated May 22, 2018; and (b) MoPIC's letters dated May 20, 2018.

- 109. While the average time to maturity of the domestic debt has been extended and the overall structure of the public debt is relatively benign, the level of debt is high, and the risk exposure to the budget is high. In a situation with rising funding needs it is critical that a medium-term debt management strategy is in place and adhered to. An important element of the risk exposure is related to contingent liabilities.
- 110. The Borrower has published a medium-term debt management strategy that is updated annually. This strategy provides the framework for all borrowing decisions of the Government. A strategy that includes policies

for issuing government guarantees would support stronger governance and provide a firmer basis for borrowing decisions. The Government can achieve the desired level or risk at an acceptable cost by preparing and publishing a public debt management strategy annually, based on a sound analysis of cost and risk.

DPF2 Trigger 11: The Borrower issued a debt management strategy that includes policies related to the monitoring and management of contingent liabilities, including those related to the electricity and water sectors, and PPPs.

- 111. While the average time to maturity of the domestic debt has been extended and the overall structure of the public debt is relatively benign, the level of debt is high, and the risk exposure to the budget is high. In a situation with rising funding needs it is critical that a medium-term debt management strategy is in place and adhered to. An important element of the risk exposure is risks related to contingent liabilities.
- 112. **Expected results**. Jordan's PIM-PPP identification, approval, implementation, and evaluation processes are expected to be strengthened by the adoption of a governance framework and the operationalization of a Central PIM-PPP unit that will guide the process. The aforementioned National Registry of Projects will help to track projects and to better manage them, and to contribute to efficiency. Thought this process, it is expected that by 2020, 100 percent of new government projects above JD 10 million in cost will be subject to rigorous economic analysis as established by guidelines. At the same time, the new PIM-PPP governance framework is expected to prove inputs to better understanding of risks and contingent liabilities. By 2020 the government expecting to able to achieve the desired level or risk at an acceptable cost by preparing and publishing a public debt management strategy annually, based on a sound analysis of cost and risk.

Analytical underpinnings and status of prior actions

113. Table 5 presents the DPF1 prior actions and the analytical underpinnings.



Table 5. Prior Actions and Analytical Underpinnings

Prior actions (PA) and triggers (TR)	Analytical Underpinnings
triggers (rriy	DPF Background for All Pillars
[All pillars]	Jordan Systematic Country Diagnostics (2016)
·	2. Development Policy Review (2012) - Policies for High and Sustained Growth
	for Job Creation
	educing business costs and improving market accessibility
PA 1: Business inspections	Inspections
	1. Legal and institutional review of inspection (2014)
	2. Inspectorates' Gap Analysis Report (2010)
	3. Private Sector Focus Groups Report (2011)
	4. Inspection Benchmark Survey (2006)
TR 1: Licensing	Licensing
	Assessment of pre-registration approvals
	2. Assessment of vocational licensing
	3. Assessment of sectoral licensing
PA 2: Export finance	1. Export Credit Insurance in Jordan - Strategic Review (October 2017)
TR 2: Quality infrastructure	2. Jordan Trade Performance & Competitiveness Diagnostic (2017)
	3. USAID trade promotion diagnostic (2017)
TR 3: Sector- level competition	Increasing the efficiency of Jordan's Freight Transport and Logistics Industries
	(Draft, January 2018)
PA 3 and TR 4a: Insolvency	Access to finance review (June 2016)
TR 4b: Secured transactions	(=
PA 4 and TR 5: Electricity tariffs	Continuation of Energy and Water DPF 2 reforms (2017)
	Electricity Tariff Cross-Subsidy Rationalization and Protection of Poor and
	Vulnerable Consumers (Draft, May 2018)
Pillar 2: Creating more flexibl	e and integrated labor markets and providing better and more efficient social assistance
PA 5: Segmentation	1. Jordan Jobs Diagnostic (draft)
TR 6a: Quotas	2. ILO (2017) "A Challenging Market Becomes More Challenging: Jordanian
TR 6b: Segmentation	Workers, Migrant Workers and Refugees in the Jordanian Labour Market"
PA 6 and TR 7: Flexible work	1. Jordan Jobs Diagnostic (draft)
	2. ILO (2017) "A Challenging Market Becomes More Challenging: Jordanian
	Workers, Migrant Workers and Refugees in the Jordanian Labour Market"
PA 7 and TR 8a and b: Increased	1. Jordan Jobs Diagnostic (draft)
economic opportunities	2. ILO (2017) "A Challenging Market Becomes More Challenging: Jordanian
	Workers, Migrant Workers and Refugees in the Jordanian Labour Market"
	3. ILO (2017) "Work Permits and Employment of Syrian Refugees in Jordan:
DA 9 and TD 0. Dovorty	Towards Formalizing the Work of Syrian Refugees"
PA 8 and TR 9: Poverty	1. Jordan Jobs Diagnostic (draft) 2. ESMAP supported ASA
Pillar 3: Improving fi	scal sustainability and taking more informed decisions regarding risk
PA 9 and TR 10: Revenue	Public Finance Review 2012
mobilization	
PA 10 and TR 11: Public	Ongoing technical assistance
investment and debt	
management	

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

- 114. The World Bank Group Country Partnership Framework (CPF) for Jordan (2017–2022) focuses on mitigating the immediate impact of the regional crisis while at the same time supporting long-term development objectives and structural reforms, to improve the equity and quality of public service delivery. Since the preparation of the CPF, the macroeconomic framework has deteriorated.
- 115. Nevertheless, the CPF remains relevant to the current challenge of setting the foundations for equitable growth and job creation. The first pillar of the CPF supports fostering conditions for private sector led growth and better job opportunities for Jordanians and non-Jordanians.
- 116. The proposed DPF contributes to the objectives of improving economic opportunities for Jordanians and Syrians, improving the institutional and regulatory environment for private sector activity and public investments, and improving access to finance and export development.
- 117. The proposed DPF also contributes to implementation of the Middle East and North Africa Regional Strategy, presented to the Board in 2015 and updated annually, particularly its pillars on renewing the social contract; resilience to shocks, and to some degree regional cooperation. The proposed DPF is also supporting the maximizing finance for development approach (though Prior Action 10), and the regional climate change mitigation and adaptation agenda (Prior Action 4).
- 118. Policies supported by the proposed DPF will contribute to the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. Reducing business costs and improving market accessibility will improve productivity; creating flexible and integrated labor markets and better, more efficient social assistance will allow more Jordanians and non-Jordanians to work, and allow those that do not have employment or decent incomes to benefit from social assistance; and improving fiscal sustainability through more efficient public spending and better management of risks will support the attainment of fiscal objectives.
- 119. The proposed DPF draws on, supports, and complements ongoing World Bank-financed operations, including the Economic Opportunities for Jordanians and Syrian Refugees PforR (FY17). It also builds on the Energy and Water Reforms Programmatic DPF series (FY16 and FY17) which supported Jordan to achieve cost recovery in energy tariffs. Its design was informed by the relevant World Bank and IFC advisory services and analytics (ASA).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

CONSULTATIONS

120. The reforms supported by the programmatic DPF are part of Jordan's five-year priority reform roadmap. These are drawn from two strategic documents widely consulted by government, namely the Government, the *Jordan 2025: A National Vision and Strategy* and the *Jordan Economic Growth Plan 2018-2022*. The Vision 2025 was prepared following a national consultation process under the leadership of the Prime Minister. The JEGP was prepared by the Economic Policy Council, which includes Governor of the Central Bank of Jordan, private sector organizations and experts. The JEGP takes the Vision 2025 as a starting point and focuses more on public and private sector inputs for particular industries and sectors. Nevertheless, recent developments have shown the need for greater consultations with stakeholders.

COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

- 121. Jordan's five-year matrix of priority reforms has been developed in close collaboration with Jordan's development partners, in particular DFID, USAID and JICA, with inputs from EU, Germany and Canada. DFID, USAID and JICA participated in the Bank-led DPF preparation.
- 122. The Bank maintains close collaboration with the IMF, especially on the EFF program and assessment of the overall macroeconomic framework. The IMF EFF program and the proposed DPF will complement each other, with the former focusing primarily on reducing macroeconomic imbalances and the latter on productivity gains while also contributing towards a more efficient public spending and more informed risk taking. The Bank closely cooperates with the IMF on competitiveness, labor market reforms and social assistance.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

- 123. The reform program supported by the multi-year DPF programmatic series is expected to have positive effects on the economy and social welfare in the long term, but potentially to have some negative effects in the short term, which require mitigation. The electricity price adjustments are aimed at discouraging wasteful consumption, reducing pressure on the environment, and increasing the competitiveness of energy-dependent sectors. Reducing exempt and preferential GST rates for a range of goods and services will increase government revenues. At the same time price increases will yield important savings that can be redirected toward mitigation measures that are better targeted to low-income households and activities that enhance inclusive growth. Tariff adjustments also help enhance the financial viability of the providers, allowing them to invest in measures to improve security and reliability of supply. In the long-term, the economy-wide effects of the reforms are expected to contribute to the increase, inclusiveness and sustainability of growth. These positive long-term effects are expected to outweigh the losses in the short run, which themselves can be mitigated, the focus of the analysis below.
- 124. The poverty and social impact analysis (PSIA) focuses on identifying potential negative short-term impacts of the program's prior actions on households and discusses mitigation measures. Prior Actions 4, 6-9 are the focus of the PSIA: development of a plan to adjust electricity prices to recover costs; the adjustment of non-Jordanian quotas in selected sectors; the development of a plan to reform the targeted cash transfer program; the reductions in exemptions and preferential rates to the GST. The short-term distributional impacts of these prior actions are important to analyze because they affect poor and vulnerable households by either potentially changing their income levels or the consumption prices they face. The remaining prior actions were also reviewed for their potential impact on poor households via price or employment effects (see summary in Annex 3). The PSIA has examined the other prior actions, but they are not anticipated to have direct and adverse poverty and social impacts. For example, Actions 1 and 3 could benefit the less well-off indirectly if the actions facilitate job creation in sectors employing low-skilled workers.
- 125. Some of the PSIA analysis has been conducted on older data. Analysis of the potential impacts of change to non-Jordanian quotas has been conducted using the latest available Employment and Unemployment Survey, which is from 2016. However, the latest Household Income and Expenditure Survey (HIES) data are from the 2010 survey, which is used as the basis for analysis of the potential impacts of the electricity tariff reforms and the

offsetting NAF expansion. Given the significant changes in Jordan since 2010, the direct poverty impact estimates discussed below indicate the order of magnitude, rather than precise estimates.

- 126. However, new data will be available before the implementation of key actions, and further analysis can be conducted before the second year of the programmatic DPF. The prior action on electricity tariff reform requires the development of a plan and timeline to implement cost-recovery from consumers. Until this plan and tariff structure are developed, a full analysis of the impacts on poverty cannot be made, as the precise tariff plan matters (for example, whether cost-recovery is achieved through flat pricing across consumption groups or with a degree of cross-subsidization of smaller consumers by larger consumers). Moreover, a new HIES is currently in the field and will become available in late 2018. Not only will this HIES provide a current picture of current Jordanian and non-Jordanian household welfare, once completed in August, it will span a full year, which is critical for examining the seasonal electricity consumption, as well as seasonal goods and services affected by the tax changes. Thus, a full analysis of the final plan can be conducted prior to implementation of the plan to implement cost recovery to determine the likely impacts and potentially inform the design of the reforms. Similarly, the effect of 2018 reductions in GST exemptions and preferential rates can also be evaluated.
- 127. **The reforms proposed in Pillar 2 are expected have a positive effect on income and poverty.** Prior DPF1 prior action 6 and DPF2 trigger 7 support new flexible work arrangements. These new work arrangements will likely positively affect labor force participation of youth and women. As there are few formal part time workers in the private sector, ³⁵ this action will add to the portfolio of work arrangements provided to meet supply of workers sitting on the sidelines. DPF2 trigger 6 proposes to relax quotas on non-Jordanians workers. DPF1 prior actions 7a and 7b ease permitting of Syrian workers in the construction sector, manufacturing and services sectors. DPF2 triggers 8a and 8b eliminate the cost of work permits for Syrian refugees. The permitting actions could lead to more formalization of Syrian workers (who are 91 percent informal).³⁶ At the same time, there is unlikely to be a significant negative impact on current Jordanian workers in the construction sector, as only 6 percent work in construction and they are generally more skilled than non-Jordanians in the sector.³⁷
- 128. Prior action 4 proposes a plan and timeline to reduce cross-subsidization of consumer electricity tariffs, which would increase the cost of electricity for many households, but with limited impact on the poor given appropriate mitigating measures. Poor and vulnerable households allocated 3.5 percent of their budgets to electricity spending in 2010 (Figure 9), as well as additional spending indirectly via their consumption of other products. The exact impacts will need to be analyzed once the plan has been developed. However, the potential extent of the impact can be analyzed now based on the degree of subsidization enjoyed by poorer households, both before and after the 2015 reforms. Various studies have already done this using the 2010 HIES.³⁸ They find little impact of the 2015 reforms on households, including the poor and vulnerable, as most households were exempt from the 2015 increases. Overall, the impact on poverty and inequality can be softened by retaining a degree of cross-subsidization and progressive tariffs, or even eliminated through partial subsidization and

The 2016 EUS indicates less than 10,000 formal private sector part time workers. Of these, some might gain from higher wages while others might lose employment or see a reduction in hours.

³⁶ Krafft, C., Sieverding, M., Salemi, C. and Keo, C. (2018) 'Syrian Refugees in Jordan: Demographics, Livelihoods, Education and Health', Economic Research Forum Working Paper 1184.

³⁷ Twenty-one percent of Jordanians in construction finished high school or more, while only 4 percent of Syrians did so.

Verme, P. (2011) 'Electricity Subsidies and Household Welfare in Jordan Can households afford to pay for the budget crisis?', background paper for the Jordan Poverty Reduction Strategy. World Bank (2012) Hashemite Kingdom of Jordan Options for Immediate Fiscal Adjustment and Longer Term Consolidation. Atamanov, A., Jellema, J. and Serajuddin, U. (2015) 'Energy subsidies reform in Jordan: welfare implications of different scenarios', Policy Research Working Paper WPS7313. World Bank (2017) Jordan Economic Monitor (Spring), Special Focus Section.



progressive pricing. The roadmap does not eliminate cross-subsidization but instead caps it, with a target initial reduction of 1.5 percentage points of cross-subsidies currently being discussed. With the retention of partial crosssubsidization and progressive pricing, the best current estimate of the impact on poverty is closer to the 0.5 percentage points in the third scenario in Table 6, and there could even be no impact should tariffs for the lowest consumer slabs remain unchanged.

129. However, any potential impact on poverty can be mitigated through a range of possible measures, including options such as: (i) consumption-based targeting of cross-subsidies; (ii) income-based targeting of lifeline tariffs; (iii) electricity sector cash transfers for low-income consumers through the NAF targeting system; (iv) targeted energy efficiency programs; and (v) some combination of the above, with some being available for immediate use and others in the future. As the pricing structure is finalized, the impact on poverty of different pricing scenarios will be analyzed using the new 2017 HIES data and the most appropriate set of mitigating actions can be determined.

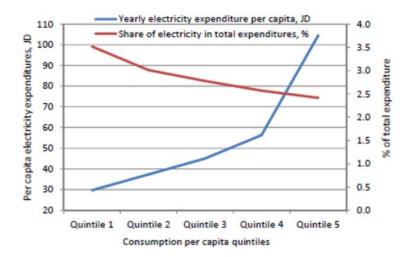


Figure 9. The potential impact of electricity subsidy reform on poverty and inequality

Source: Atamanov, Jellema and Serajuddin (2015) based on 2010 HIES

	Change in Poverty	Change in Gini
Reform Scenario	Rate (points)	(points)
Cheapest two blocks subsidized, progressive tariffs after,	+0.5	-0.2

Table 6. The potential impact of electricity subsidy reform on poverty and inequality

Source: Atamanov, Jellema and Serajuddin (2015)

Full elimination of subsidies, some cross-subsidization

Full elimination of subsidies, no cross-subsidization

incomplete elimination of subsidies

130. Prior Action 9 sees reduced exemptions and preferential rates under the GST. The resulting impact on poverty will depend upon how much the poor and vulnerable consume these items. In 2018, exemptions and preferential rates for GST on a broad range of goods and services were removed, while further reductions are

0.0

+1.9

+1.7

+2.4

planned for FY19. The precise impact on poverty cannot be assessed until later in 2018 once the 2019 planned reforms are finalized and the new HIES is available. The potential impact will depend upon which goods and services see higher rates and how much of the consumption basket for the poor and near poor they represent. Historically, indirect taxes have had little effect on household poverty, being 0.3 points higher due to sales taxes, ³⁹ a relatively moderate impact compared to many other countries and reflecting the large number of exemptions and preferential rates on items consumed by the poor. The 2017 tax reforms did increase rates for some food items representing around 4 percent of total poor consumption in 2010, ⁴⁰ as well as on many items the poor do not consume such as fertilizer and chemical inputs but which could indirectly lead to higher food prices. The impact of the wide reductions in exemptions and preferential rates in 2017 has yet to be assessed, but if even half of the 3.1 percent increase in CPI was driven by these reforms, ⁴¹ then the impact on poverty is likely to have been under a percentage point, particularly given the 23 JD per person universal cash transfer introduced to help cushion the impact of the bread subsidy removals and GST reforms. ⁴² The exact impact of the 2018 changes will depend upon the items facing increasing rates, while the new data will allow an assessment later this year.



Figure 10. The impact of improved NAF targeting and expansion of coverage

Source: 2010 HIES and World Bank calculations

of an Action Plan to improve and expand the National Assistance Fund (NAF). The targeting improvements and expanded budget will have significant benefits for poverty reduction. Improving targeting from the current categorical approach (all people within a certain category are eligible, for example, female-headed households, regardless of income level) to a poverty-targeted approach, such as Proxy Means Testing (PMT) has the potential to reduce poverty by including more poor households. The extent of poverty reduction can be simulated using the 2010 HIES data to compare the relative poverty impacts of the two different approaches, under both historic and planned expansion number of beneficiaries. For example, the current NAF targeting reduces poverty (1.5 points) about as well as a PMT approach would (1.8 points) for its current budget size (67m JD; Figure 10). Thus, at its current size, the proposed targeting improvements alone will have only a modest impact on poverty. However, tripling the budget (210m JD) with PMT targeting would lead to an extra 3.6 points of poverty reduction (Figure 10). This 210m JD NAF budget scenario is roughly equivalent to the planned expansion to 85,000 new households,

considered.

Alam, S., Inchauste, G. and Serajuddin, U. 'The Distributional Impact of Fiscal Policy in Jordan' in G. Inchauste and N. Lustig (2017) *The Distributional Impact of Taxes and Transfers: Evidence from eight low- and middle-income countries*, World Bank. Poverty impact from indirect taxes taken directly from CEQ workbook, not presented in paper.

 $^{^{40}}$ An initial estimate based on reviewing the 2017 GST schedule changes and analyzing the 2010 HIES.

⁴¹ Jordanian Economic Monitor, Fall 2017.

This assumes that household consumption patterns remain unchanged in the face of new prices; that is, no substitution effects are

bringing the total beneficiaries to 180,000 households, and thus indicates the likely positive impact on poverty of the DPF action.

132. The current NAF reforms would likely offset much of the adverse impacts of price increases due to electricity and tax reforms, but the exact net impact will require further analysis. As discussed, an expanded NAF with improved targeting can be used to mitigate the adverse poverty effects of otherwise important reforms in energy and tax. Once the new electricity pricing structure is decided, final analysis can be done. The poverty reducing impact of the NAF expansion is estimated at 3.6 points. Whether the poverty reducing effect would be sufficient to mitigate the electricity and tax reforms requires additional analysis later in 2018, and which can form the basis of the PSIA for the second year of the programmatic DPF. The NAF could potentially be further expanded if future analysis indicates this is necessary. An additional benefit of the new social protection infrastructure is that it can facilitate future reforms. Investing in an improved NAF in terms of both coverage and targeting not only helps offset the poverty impacts of current reforms, it can be used to facilitate the implementation of future reforms.

5.2. ENVIRONMENTAL ASPECTS

- 133. The reforms supported by the proposed DPF are not likely to cause significant impacts on the country's environment or natural resources. This operation aims to improve the policy and regulatory framework for enhancing fiscal sustainability, business competitiveness, labor markets and social assistance, and governance for growth. The overall emphasis on improving governance should improve environmental spending along with other categories. It is expected, however, that regular private and public investment activities which may result from improving such policy and regulatory framework could have impacts on the environment.
- 134. The Environmental Law is comprehensive legislation that provides a legislative framework for environmental protection. Article (13) of the Jordanian Environmental Law number 52 of year 2006, and the Environmental Impact Assessment (EIA) regulation number (37) of year 2005 Regulation on Environmental Impact Assessment- provide direction for conducting environmental impact assessments for all types of projects including the main issues to be covered by an EIA, reporting procedures, and the approval process. "Every institution, company, plant or any party that, after the enforcement of the provisions of this law, exercising an activity which has a negative impact on the environment, shall be obliged to prepare a study of the environmental impact assessment for its projects, and refer same to the Ministry in order to make the necessary resolution in this effect"⁴³.
- 135. It is not expected that there will be a need to introduce any additional or special measures since all activities to be carried out as part of the reforms supported by the proposed operation are subject to the Jordanian legal framework for the protection of the environment. Thus, neither specific environmental studies nor environmental impact management measures are required at this time

Climate Change and Disaster Risk Screening

136. The proposed project was screened for climate and disaster risk. Climate change risks on the operation sustainability is considered "low". The main vulnerabilities to climate change in Jordan are related to change of rainfall levels, increased temperature, and potential increase of sea level. Climate change is likely to impact water resources, human health, agriculture sector and coastal areas. Jordan is water-stressed country with water

⁴³ Article number (13), Jordan Environmental Protection Law no. 52 of 2006.

resources which are rainfall-dependent. Climate change which has already decreased rainfall levels and increased temperatures, is likely to exacerbate water scarcity. Potential consequences for such vulnerabilities on human health include increased incidence of foodborne diseases through crop contamination due to the reuse of grey or treated wastewater in irrigation as an adaptation measure to the shortage of irrigation water. Waterborne diseases and increased food insecurity and malnutrition are potential effects of climate change on human health. In the agriculture sector, the diminished rainfall could result in reduced agricultural productivity which will threaten livelihoods, particularly of poor people. Other potential impacts of climate change include impacts on coastal areas in Aqaba which are expected to occur through sea level rise, extreme rainfall events or droughts. Climate benefits are expected from a reduction in use of fossil fuels for peaking power (including less liquid fuel based power generation), resulting from a reduction in electricity tariff cross-subsidy and implementation of cost-reflective tariffs that would reduce evening peak demand and shift demand towards day-hours when more renewable energy is available.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

- 137. In recent years, Jordan has been progressing in reforming its public financial management (PFM) systems. Among the key reforms with importance in the fiduciary context, notable progress has been achieved in the following areas:
 - (a) Adoption of an early budget preparation calendar (starts in January of each year) that allows more time for budget policy and strategy analysis and development. The calendar comprises four distinct phases covering: (i) initial strategic review and planning, (ii) medium-term budget preparation, (iii) draft budget finalization, and (iv) budget approval. This includes preparation and discussion of: (i) budget policy and priorities paper which contains updating macro-fiscal outlook and sets out the underlying policy stance and spending priorities to be addressed in the preparation of the budget, and (ii) Medium-Term Expenditure Framework (MTEF).
 - (b) Adoption of a robust budget classification system which includes the most important classifications and is broadly consistent with the IMF Government Finance Statistics Manual 2001, including administrative, economic, functional, geographical, and program classifications.
 - (c) Maintenance of a robust system for monitoring progress of line ministries toward achieving their strategic objectives as per the published budget law using specific key performance indicators. All line ministries and government units annually publish—on the General Budget Department website—their strategic objectives, key performance indicators, and outputs of the preceding two years and projections for the ensuing three years. This provides a sufficient basis of tracking and evaluating service delivery by ministries and public entities.
 - (d) Transparent and comprehensive budget documentation, as well as a defined budget process with both executive and legislative branches adhering to the schedule, and a budget classification which complies with international standards, after which the annual budget and final accounts are published on the MoF website.
 - (e) Government-issued audited financial statements for the years 2015 and 2016 based on accounting cash basis in accordance with International Public Sector Accounting Standards (IPSAS). The MoF is

- considering the adoption of IPSAS accrual accounting to replace the existing IPSAS cash accounting within the coming 3-5 years.
- (f) Completion of the rollout of the Government Financial Management Information System (GFMIS) for budget preparation and execution to all 53 budget units (ministries, departments, and regional financial centers). In the next phase, the GFMIS will be rolled out to independent units.
- (g) Establishment of mechanisms designed to facilitate regular monitoring of arrears and introduction of a more effective commitment control system to prevent arrears accumulation. This monitoring has entailed a team designated by the MoF to track and monitor arrears and to introduce annual and quarterly commitment requests and financial plans, which together with the GFMIS monthly financial position reports show uncommitted balances.
- (h) Establishment of a unified Financial Controls Bylaw that is applied to all government institutions, including independent institutions aiming to address the redundancies and multiplicity of controls.
- (i) The Jordan Audit Bureau has withdrawn from ex-post controls from all line ministries which is considered a significant step towards strengthening its independence from the Government operations. Also, starting in 2015, the Audit Bureau has been providing an executive summary for the Parliament reflecting the major issues identified during the annual audit on the line ministries and other government agencies.
- 138. Looking forward, the Government aims at sustaining implementation progress in the PFM reforms agenda. While many PFM reforms have been progressing, addressing the following issues would help fully realize the benefits of the above reforms and help the Government restore fiscal sustainability:
 - (a) The initial strategic planning phase of budget preparation is not sufficiently developed, and the subsequent budget preparation phase is characterized by spending plans and budget requests that greatly exceed the eventual budget settlement.44 The macro-fiscal framework should be strengthened, sector strategy review and planning should be effectively integrated into the budget process, and a stronger commitment to MTEF indicative allocations.
 - (b) Public sector expenditure arrears continue to be a problem. The GFMIS does not allow multiple quarter and multiyear commitment entries and capturing and populating the outstanding commitments and outstanding invoices for arrears monitoring. As a result, the Government has not fully benefited from the GFMIS to monitor the problem.
 - (c) While the unified Financial Controls Bylaws have some positive elements (for instance, regulating the internal controls and internal audit functions, setting national standard procedures, and requiring regular planning and reporting), the bylaws have done little to dispel the confusion over the definitions and functions of the various parties responsible for internal control and internal audit. The revised Financial Controls Bylaws (No. 114 of 2015) was issued, which includes positive elements such as establishing the internal audit function within the existing internal control units, defining broadly the role of internal audit and internal control functions with separation of responsibilities and duties, and having new members from academia and Jordan Association of

⁴⁴ The World Bank is providing a substantial technical assistance that aims to improve Jordan Public Investment Management System, which will address weaknesses in investment planning and budget preparation and execution.

- Public Accountants to the Central Committee for internal financial controls responsible for reforming and developing the internal financial controls function in the public sector. Despite the issuance of the revised Financial Controls Bylaws of 2015, it has not yet been fully adopted the by line ministries.
- (d) Jordan Supreme Audit Institution (Audit Bureau) needs to revise its law to strengthen further its administrative independence. Some of the areas of strengthening is providing better immunity for the president from dismissal with a fixed service term. Furthermore, the World Bank has been supporting the Audit Bureau in enhancing its capacity in performing quality audit of PPPs and financial audit of State-Owned Enterprises.
- 139. **Foreign exchange.** The foreign exchange control environment is assessed to be generally sound. In November 2017, the CBJ was subject to the IMF safeguards assessment in connection with the IMF EFF extended arrangement approved on August 24, 2016. The report updates the findings of the previous assessments conducted in 2003 and 2013. The CBJ annual financial statements are subject to auditing by a private sector audit firm. The auditor issued a qualified opinion on the CBJ's financial statements for the year ended December 31, 2016. The main qualification is the same as that of 2011, 2012, 2013, 2014, and 2015 related to no provisions were made in the financial statements for doubtful debts on other financial institutions. No material internal control issues that could affect the disbursement from the proposed DPF were reported by the auditor. The audit report and financial statements of the CBJ are available on its website. Considering the status of the assessments mentioned and the review of the CBJ audit report of the year 2016, the foreign exchange control environment is assessed to be generally satisfactory.
- 140. **Disbursement arrangements**. The proposed loan will follow the World Bank's disbursement procedures for Development Policy Financing and will be disbursed in a single installment. Once the loan is approved by the World Bank's Board of Executive Directors and becomes effective, the proceeds of the loan will be disbursed in compliance with the stipulated release conditions and will be transferred by IBRD directly to the Government Treasury account at the CBJ. The amount will be transferred by IBRD in US dollars and an equivalent amount in Jordanian dinars will be credited to the treasury current account by the CBJ. The MoF will furnish to the World Bank, within 30 days, a confirmation of this transfer, advising that the total amount of the loan has been received. The administration of this loan will be the responsibility of the MoF. If the World Bank determines at any time that an amount of the loan was used to make payment for excluded expenditure, the Borrower shall refund an equal amount of such payment to the World Bank and such amount repaid to the World Bank shall be canceled.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

141. The overall responsibility for monitoring implementation of the DPF program rests with the MOPIC. The ministry will be responsible for coordinating, and reporting to the World Bank on the progress of implementing the DPF policy programs with the Government authorities responsible for the program implementation, including the Ministry of Trade, Industry and Supply, ministries and municipalities issuing vocational and sectoral licenses, the Central Bank of Jordan, the Jordan Loan Guarantee Corporation, the Jordan Standards and Metrology Organization, the Ministry of Transport, the Ministry of Energy and Mineral Resources, the Ministry of Labor, the Ministry of Social Development, the Ministry of Justice, the Ministry of Finance, and the Council of Ministers. Throughout implementation, the World Bank will undertake intensive supervision missions and provide technical assistance and policy advice to support the implementation and monitor the DPF-supported program. The proposed results indicators will be monitored to evaluate the achievement of the DPF objectives. Monitoring and evaluation of the results indicators will be based on data made available by the Government implementing authorities and verified

by the World Bank throughout the DPF supervision. Given the large number of agencies involved, the establishment of an effective cross-ministerial mechanism for regulatory reform in particular will be needed to support effective implementation. Such a mechanism will be supported by a reform unit based in the Prime Minister's office that requires: 1) annual regulatory plans and reform targets from regulators with direct progress reporting to a Prime Minister-led committee on identified high priority reforms, 2) regulatory impact assessment conducted on all major regulatory proposals, 3) simplification, 4) systematic consultation with public and private sectors, and 5) access to and transparency of regulations.

142. "Grievance Redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org."

6. SUMMARY OF RISKS AND MITIGATION

- 143. **The overall risk rating is assessed to be high**. The success of the DPF-supported reform program and the achievement of the results require continued fiscal consolidation efforts and a significant advancement in the implementation of structural reforms in a context where there is not a consensus on burden-sharing either internally or vis-à-vis external partners. The following are the key risks identified:
 - Macroeconomic risk. Jordan's long-term macroeconomic vulnerability stems from sizable external and internal imbalances that generate large financing needs. To meet these financing needs, Jordan relies heavily on international assistance and transfers from the region. If these financing sources are not sufficient, financial and economic stability may be compromised. In addition, the Government's efforts to keep debt dynamics sustainable hinges on continued fiscal consolidation which impacts the population. The example of the postponed fuel and electricity tariff adjustments is illustrative of how macroeconomic risks materialize. Macroeconomic stability needs to be underpinned by a credible shift to a path towards a sizable primary surplus which is unlikely to be accomplished in an orderly fashion without an IMF arrangement. Beyond the horizon for implementation of this operation, there will have to be a move away from excessive reliance on external funds, supported by an increase in domestic savings. The reforms supported by this DPF, especially, those aiming at improved fiscal management and business competitiveness lay the foundations for addressing this medium-term reorientation.
 - Technical design risks. The reforms supported by this operation are complex and require close
 monitoring to ensure that the actions lead to desired results. This applies to the business
 environment reforms, the labor market reforms, and also the fiscal reforms including the
 implementation of the strengthened governance framework for public investment management.
 Two approaches to mitigating these risks are proposed: first, close monitoring and supervision by

Jordanian authorities and implementation support by the World Bank and other development partners; and second, additional analytical work in areas such as export development and competition dynamics to better understand reform outcomes in terms of revenue generation, equity impacts, and overall sustainability.

- Institutional capacity risk for implementation and sustainability. The reforms supported by the operation require an effective coordination and supervision mechanism for cross-cutting reform areas. In the past, in the cases where the highest-level commitment to certain reforms was strong, full implementation was not achieved mostly due to capacity constraints and necessary coordination across the relevant agencies involved in these reforms. The five-year priority reform matrix has a subpillar that specifically aims at mitigating this risk through the establishment of an inter-ministerial mechanism and a supporting secretariat in the Prime Minister's office. Anchoring the implementation of the operation on strengthened inter-ministerial coordination and supervision mechanism, and enhancing capacity building for critical reform areas, will help mitigate the institutional capacity risks and strengthen the likelihood of sustainability of the reforms.
- Geopolitical risks. External risks stemming from persistence and/or escalation of the conflicts in Syria and Iraq and from the impact on Jordan of the adjustment efforts in GCC countries are significant. Additional refugee inflows could increase pressure on Jordan's fiscal accounts, infrastructure, and the quality of government services. It is anticipated that donor support will continue and will be strengthened contingent the humanitarian challenges, on the one hand, and on progress in implementing reforms, on the other. The four-country summit held in Mecca on June 10 was a significant signal of support from the largest GCC economies, Saudi Arabia, Kuwait, and UAE. The summit agreed on a US\$2.5 billion package of support consisting of a deposit at CBJ, five years of budget support, World Bank guarantees, and financing of development projects. No details on each component are yet available.
- Political and governance risk. Recent developments in Jordan point to the need to ensure that all elements of Jordanian society have a common understanding of the challenges that the country faces, all elements of society to agree on the way forward, and there is a perception of equitable burden-sharing towards the resolution of the challenges. One particularly challenging area for development results in the past has been a persistent implementation gap, which manifests as delays in parliamentary approval of key legislation that has been adopted by the Government. Frequent changes in line ministries also represent a substantial risk to the implementation of reforms. A deeper and more thorough consultative process on the five-year priority reform matrix that anchors and support by the international community this DPF would help mitigate these risks. It is noteworthy that despite the scale of ministerial changes in the formation of the new government, the government was quick to confirm its support for the commitments and LDP of this operation.



Risk Categories	Rating
Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	• High
Overall	• High



ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions FY18	Indicative triggers FY19	Results (12 months after 2 nd DPF)
Pillar 1: Reducing business costs and improving market	accessibility	
Prior Action 1: The Borrower has enacted the Monitoring and Inspection Law, to reduce the burden on businesses by improving the inspections and monitoring framework.	Trigger 1a: The Ministry of Industry, Trade, and Supply implemented reforms to the business inspection and monitoring framework by Council of Ministers' approval of the Bylaws of the Monitoring and Inspection Law	Business inspections and licensing: Aggregate business compliance costs (based on IFC's Compliance Cost Saving Model which measures time and cost savings from both sector specific licensing and inspections reforms): Baseline: TBD by December 2018 (for 2017)
	Trigger 1b: The Borrower reduced the burden on businesses by implementing business regulatory reform measures such as streamlining key sectoral license(s).	Target 2021: 30 percent reduction ⁴⁵
Prior Action 2: The Borrower's ability to serve Jordanian exporters has been improved by: (a) the Central Bank's and the JLGC's agreement expanding the resources available for reinsurance and strengthening JLGC's financial capacity to deliver trade insurance products; and (b) restructuring JLGC's Board to include independent directors.	Trigger 2: The Borrower's Council of Ministers approved a Plan and implemented actions to reform and improve Jordan's National Quality Infrastructure institutions to eliminate internal conflicts of interest, increase transparency and predictability of the process for adopting mandatory requirements, and provide a full range of NQI services to Jordanian customers -	Exports ⁴⁶ Guaranteed exports as a percentage of total exports Baseline 2017: 1.09 percent Target 2021: 2.40 percent Cost of proving compliance (testing; conformity assessment) with the requirements of foreign markets.
	conformity assessment, metrology, surveillance.	Baseline: TBD by June 2019 (for 2017) Target 2021: 10 percent reduction
	Trigger 3: The Borrower implemented actions that reduce market distortion and defines an	Sector-level competition:

While both baseline and target for inspections reform can be defined using a Compliance Cost Savings model, defining a baseline for sector licenses will not be possible until data collection is completed in early FY19.

Results to be further supported through an econometric analysis of Customs transaction data.

Prior actions FY18	Indicative triggers FY19	Results (<i>12 months</i> after 2 nd DPF)
	incentive mechanism to reduce, renew or consolidate the truck fleet to enhance the efficiency of cargo transport for containers on	Cost of cargo transport for containers on the Amman-Aqaba corridor ⁴⁷ Baseline 2017: US\$408
	the Aqaba-Amman corridor.	Target (2021): Approximately US\$368 ⁴⁸
Prior Action 3: The Borrower has enacted the Insolvency Law introducing business insolvency procedures.	Trigger 4a: The Borrower adopted the Bylaws for Insolvency, approved by the Council of Ministers. Trigger 4b: The Borrower adopted the Bylaws, approved by the Council of Ministers, for the Secured Transaction Law.	Insolvency: Strength of Insolvency Framework Index of the Doing Business indicator (range 0-16) Baseline 2017: 5 Target 2021: 10 Secured Transactions: Strength of Legal Rights Index of the Doing Business indicator (range 0-12) Baseline 2017: 0 Target 2021: 6
Prior Action 4: (a) The Borrower, through the MEMR, has adopted indicators, targets and a timeline to address grid-subsidy for self-generation and reduce cross-subsidies, and (b) EMRC has taken initial actions consistent with them.	Trigger 5: The Borrower rebalanced electricity tariffs to address grid-subsidy for self-generation and to reduce the cross-subsidy burden, consistent with the targeted values of the indices for Grid-Subsidy for Self-Generation and the Tariff Cross-Subsidy Index in the roadmap.	Electricity tariffs: Reduction in key tariff cross- subsidy indices Tariff Cross Subsidy Index Baseline 2016: 25.5 percent Target 2021: less than 21 percent Index of Grid-Subsidy for Self-Generation Baseline 2016: greater than 90 percent Target 2021: Zero

⁴⁷ For focus products for imports and exports as recorded by the Doing Business Survey. An econometric impact analysis will be required to control for changes in fuel prices, demand fluctuations, etc.

⁴⁸ The result goal is for a 10 percent reduction in the cost of cargo transportation for containers on the Amman-Agaba corridor. Average of domestic transport import and export costs from Doing Business 'Trading Across Borders' indicator (Doing Business 2018). Target will be adjusted for exogenous supply and demand factors, as fuel prices and/or inflation. The baseline of US\$408 is the average of the import (US\$395) and export (US\$421) domestic transport cost for Jordan in the Doing Business Indicators published in 2018.

Prior actions FY18	Indicative triggers FY19	Results (12 months after 2 nd DPF)
Pillar 2: Creating more flexible and integrated labor ma	rkets and providing better and more efficient soc	ial assistance
Prior Action 5: The Borrower's Council of Ministers has instructed the Ministry of Labor to carry out a review of the legal framework to identify causes of segmentation in the labor market.	Trigger 6a: The Borrower's Ministry of Labor reduced the number of sectors with quotas which limit foreign employment. Trigger 6b: Based on the results of the review of the legal framework, amendments to the legal framework adopted to reduce labor segmentation.	Employment: Growth of formal, private, full-time employment Baseline 2014-2016 (annual average): 3.1 percent Target 2021: 3.3 percent
Prior Action 6: The Borrower, through the Ministry of Labor, has issued Instructions on flexible work with minimum wage rates by unit of hours.	Trigger 7: The Borrower amended Social Security Law of 2014 for compulsory employer and part-time employee contributions to Social Security.	Flexible work: Average annual growth of formal, private, part-time workers: Women Baseline 2014-2016: 31.6 percent ⁴⁹ Target 2018-2019: 35.0 percent Youth Baseline 2014-2016: 0.0 percent Target 2017-2019: 10.0 percent
Prior Action 7: The Borrower, through the Ministry of Labor, has: (a) allowed the Jordanian General Federation of Trade Unions to provide work permits for Syrian workers working in the construction sector	Trigger 8a: The Borrower's Ministry of Labor issued a decree introducing flexible work permits for Syrians to work in the manufacturing and the services sectors (in	Increased economic opportunities: Number of manufacturing and services work permits issued to Syrian workers from January 1 to Decembe 31 of each year:

occupations that are already open to Syrians).

and removed the requirement of Syrian workers to

Baseline 2017: 16,516

Based on the 2016 Labor Force Survey, we impute formality status using a model estimated with available 2010 data. We define part-time as those working 30 hours a week or less. Only 3 percent of working-age Jordanians have a part-time job formal in the private sector. There are basically no formal part-time workers in the private sector aged 15-24 years. The definition of the indicators to track are the following:

⁻ Annual rate of growth of formal jobs in the private sector (workers aged 15-64)

⁻ Annual rate of growth of formal part-time jobs in the private sector for women (aged 15-64).

⁻ Annual rate of growth of formal part-time jobs in the private sector for youth (ages 15 to 24)

Prior actions FY18	Indicative triggers FY19	Results (12 months after 2 nd DPF)
show a profession practice certificate as a prerequisite to obtain the work permit; and (b) waived fees for Syrian workers to obtain work permits for 2018. Prior Action 8: The Borrower, through the Council of Ministers, has approved plan to improve and expand the coverage of the National Aid Fund (NAF) cash transfer program to cover at least 85,000 additional households between 2019 and 2021.	Trigger 8b: The Borrower issued a waiver to fees for work permits for Syrian workers for 2019. Trigger 9: The NAF Board approved the graduation strategy for NAF beneficiaries.	Reduction in cost of permits: Cost of work permits for Syrian workers Baseline 2017: JD 300 – JD 370 (without waiver) Target 2018 and 2019: Zero JD (with waiver) Coverage: Number of households NAF covered by NAF Baseline 2017: 93,000 total households Target 2019: 25,000 additional households Target 2020: 30,000 additional households Target 2021: 30,000 additional households Target 2021: 178,000 total households
Pillar 3: Improving fiscal sustainability and taking more Prior Action 9: The Borrower's Council of Ministers has reduced exemptions and increased preferential rates in the general sales tax and the special sales tax consistent with the 2018 Budget Law.	Trigger 10: The Borrower raised domestic tax revenues in the 2019 Budget Law through implementation of income tax reform following national consultation and further reduction of tax exemptions and preferential rates in the General Sales Tax and Special Sales taxes	Revenue mobilization: Impact of 2018-2020 revenue measures in JD: Baseline 2017: Zero Target 2020: About JD 1,280 million
Prior Action 10: The Borrower's Council of Ministers has endorsed MoPIC's proposal for the Jordan 2018 Public Investment Management – Public-Private Partnership Governance Framework.	Trigger 11: The Borrower issued a debt management strategy that includes policies related to the monitoring and management of contingent liabilities, including those related to the electricity and water sectors, and PPPs.	PIM-PPP: Use of National Registry of Development Projects (NRDP) Baseline 2017: None (NRDP does not exist) Target 2019: All new PIP and PPP projects registered in the National Registry of Development Projects (NRDP) Debt management:

Prior actions FY18	Indicative triggers FY19	Results (<i>12 months</i> after 2 nd DPF)
		Inclusion of contingent liabilities and risk assessment in Debt Management Strategy Baseline 2017: No Target 2020: Yes

ANNEX 2: LETTER OF DEVELOPMENT POLICY



MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

Ref.No 5/9/1/58 54 Date 30/5/2018

> Dr. Jim Yong Kim President of the World Bank Group The World Bank Washington D.C., USA

Subject: Letter of Development Policy for the First Equitable Growth and Job Creation Programmatic Development Policy Financing

Dear Dr. Kim,

Jordan, despite an extremely challenging external environment in the recent years, has shown tremendous resilience. Not only is Jordan hosting about 1.3 million Syrians (about half of which are registered refugees) within its borders, it is also pioneering a progressive and resilience-based refugee response model for the rest of the world. In the past few years, Jordan has undertaken several bold policy reforms to make its private sector more competitive, attract additional investment, address labour market rigidities, increase exports, and create more and better jobs for both its citizens and the Syrian refugees. These reform initiatives have been highly appreciated by our development partners and put Jordan on the right development track, in spite of the multiple external challenges it continues to face. Building on the achievements to date and the strong partnership between the Government of Jordan (GoJ) and the World Bank Group (WBG), GoJ would like to engage in a more ambitious and comprehensive reform agenda that can assist Jordan in fulfilling its vision of higher economic growth and enhanced economic opportunities for its citizens while continuing with fiscal consolidation as part of Jordan's program with the IMF 'Extended Fund Facility'.

During the period 2000-2007, Jordan's economy grew at 6.7 percent on average generating a net employment growth of 2.9 percent annually. Unfortunately, since 2009, Jordan's growth performance has been rather subdued. Following the global financial crisis, loss of gas supplies from Egypt and ensuing energy crisis and several violent conflicts that broke out in the region, Jordan lost two of its key export markets in Iraq and Syria. In 2014, the slowdown in the GCC economies following the drop in oil prices also had a direct impact on Jordan's economy, through the subsequent reduction of trade, tourism, remittances and financial inflows, on which Jordan depended heavily in the past. These adverse external shocks, loss of key export markets, and a dissipating fiscal stimulus have combined to hold back economic growth, which averaged just 2.5 percent per annum in 2010-17. Unemployment increased by more than 50 percent, reaching 18.3 percent overall in 2017 while youth unemployment rose to an alarming 35 percent. With regards to poverty, the last estimate in 2010 had shown a decline in both poverty and inequality. However, since real per capita GDP growth has been negative while unemployment has been increasing, these are likely to have impeded further poverty reduction.

The Hashemith Kingdom Of Jordan

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As per the 2015 Population and Household Census conducted end of 2015, Jordan is hosting around 1.3 million Syrians, of which 666,217 are registered refugees with UNHCR (as of 26 May 2018). About 90 percent of the refugees are living in Jordan's cities, towns and villages exhausting existing social and physical infrastructure and impacting delivery of basic services. There has been a noticeable deterioration in the quality of services provided across numerous critical sectors, including health, education, municipal services, and others.

It is estimated by Government that the total direct costs of the Syria crisis on Jordan since 2012 have reached over US\$10 billion, including the costs of education, health, water and sanitation, electricity subsidies, infrastructure depreciation, municipal services, among others, thus an average cost of US\$1.5 billion annually estimated at 4 percent of annual GDP and about 16 percent of government annual revenues. This is of course in addition to the increased security and military pressures. At the same time, we have taken serious fiscal and austerity measures (as part of two successive programs with the IMF including the removal of all subsidies, the last of which was the bread subsidy) cumulatively close to US\$5 billion (fiscal measures are about 10 percent of GDP) at a time the economy has been growing for the past 7 years at one third of the pre-crisis levels.

While on one hand, the large number of refugee population poses numerous economic and social challenges, their presence may have enabled dynamism in some sectors such as construction. In line with its commitment under the Jordan Compact, the Government has issued close to 103,000 work permits free of charge allowing the Syrian refugees to work formally in professions opened for foreign labour, alongside many initiatives supporting the labour market, trade and business environment reforms. However, more investment is needed in growth-enhancing and job-creating activities to realize the prospect of the Jordan Compact and ensure enhanced economic opportunities for both Syrian refugees and Jordanians, especially to unlock the potential from simplification of rules of origin with EU market.

Against this backdrop of large external shocks and the presence of 1.3 million Syrian refugees, Jordan is facing a very challenging fiscal situation. Public debt has risen sharply since 2009, reaching 95 percent of GDP in 2017. Based on IMF projections, Jordan is still faced with a financing gap estimated at US\$2 billion on average annually for the period 2018-2022. Since 2010, the current account deficit has averaged about 10 percent of GDP. Remittances, mainly from the GCC, are down from 20 percent of GDP to 10 percent of GDP, the services balance has varied around 3-4 percent of GDP, and the trade balance has been about -30 percent of GDP but improving due to the contraction in imports.

While the challenges are daunting, GoJ responded with courage and strong determination. Our own assessment is that only through economic growth that creates jobs can the economy deliver on the expectations of Jordanians, mitigate the challenges posed by hosting 1.3 million Syrian refugees and overcome its debt challenge.





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In May 2015, the Government adopted a 10-year economic blueprint, Jordan 2025, based on a comprehensive consultative process with the goal of re-launching growth and investment while deepening reform and inclusion. Jordan 2025 enables the country to move fast to increase self-reliance, diversify resources, develop infrastructure and capitalize on strengths. As an offshoot of the Jordan 2025, the Jordan Economic Growth Plan (JEGP) 2018-2022 was adopted in 2017 with the aim of doubling economic growth over the period 2018-2022, reducing the debt burden, creating jobs and increasing incomes, notwithstanding the challenging regional situation. The JEGP is comprised of economic, fiscal and sectoral strategies that outline the vision and policies pertaining to each sector. It further identifies the required policy interventions, public projects and private investments that must be undertaken to realize these sectoral visions.

Jordan has also embarked on a three-year Extended Fund Facility (EFF) with the IMF in August 2016 (building on the successful completion of a Standby Arrangement over 2012-2015). The EFF focuses on maintaining macroeconomic stability and fiscal consolidation to reduce the debt-to-GDP ratio to a more sustainable level, broadening the tax base, addressing tax incentives, income taxation, improving tax administration and monitoring growth in spending.

In the past few years, Jordan has made a sizable dent in its fiscal imbalances. With the support of the IMF, the World Bank and other development partners, Jordan has been able to make a phased adjustment to cost-reflective electricity tariffs and cut the overall fiscal deficit (excluding grants) from 14.3 percent of GDP in 2014 to 4.8 percent of GDP in 2017 (or 2.6 percent of GDP in 2017 after grants, including transfers to the Water Authority of Jordan). The drivers behind the reduction in the deficit are both increases in domestic revenues and decreases in capital expenditures. On the revenue side, domestic revenue increased by 1.1 percent of GDP in 2017 mainly driven by non-tax revenues. In 2017, tax measures included the imposition of excises on gasoline, increases in special sales taxes (STT) on cigarettes, telecom, alcoholic beverages and soft drinks, the removal of general sales tax (GST) and customs exemptions, and amendments in the law governing work permit fees for non-Jordanians.

Structural reforms are also being implemented in several areas to enhance competitiveness, job prospects, and foster equity, fairness, and good governance. The specific measures aim at increasing labour force participation, particularly for women and youth; reducing informality; enhancing the business environment; preserving social spending, and improving public accountability and good governance. These reforms are expected to lead to increased productivity.

Moreover, a new National Strategy for Human Resource Development 2016-2025 was launched in September 2016 in response to call made by His Majesty King Abdullah II to reform the human resource development sector in line with international best practice as result of the deterioration witnessed over the past few years. This strategy also outlines a 10-year plan to reform the education, higher education, and technical education and vocational training. The Government of Jordan is

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working with the World Bank, under the Education Reform Support Program-For-Results project which was approved in 2017, and other development partners to implement the strategy.

Jordan is now prioritizing its economic reforms around a 5-year Policy Reform Matrix. We requested the World Bank work in consultation with our key development partners to develop a 5-year reform matrix that prioritizes and strengthens reforms that are critical to the course of the economy. The new 5-year reform matrix: (i) focused on achievement of priority reform goals in the Jordan 2025 and the JEGP 2018-2022, (ii) identifies the most pressing reform elements and capacity needs for implementation, (iii) mitigates implementation challenges, and (iv) ensures alignment of donor support and financing, conditional on implementation progress. Completion of the 5-year reform matrix is expected in September 2018.

Moving forward, the Government's main policy objectives include: achieving fiscal consolidation; reforming the labour market- which continues to face significant stress and suffer from severe low gender-based and youth economic participation; building the capacity of its industrial sector by continuing to improve infrastructure; and continue improving its business climate and the functioning of the financial sector to set in place a virtuous cycle of stronger investments and output growth. However, the political will for reform needs to be met with the appropriate economic tools and financing vehicles to deliver on the key goals, and to sustain the reform momentum in such testing times. An Inter-Ministerial Steering Committee consisting of Ministers from key economic and sectorial ministries, supported by a high-level Unit as a Secretariat will monitor and coordinate the reform effort.

With the support of the Equitable Growth and Job Creation Programmatic DPL series, GoJ is seeking to set the stage for a gradual, but across-the-board, cost reduction that would be brought about through (a) productivity gains realized by higher investment, reducing business costs, increasing access to finance, and supporting access to new markets especially for small and medium enterprises (Pillar I); (b) lower labour costs in the private sector owing to (i) expansion of labour supply through reducing costs to labour participation (Pillar II), and (ii) increasing flexibility and reducing segmentation in the labour market (Pillar II); and (c) fiscal consolidation (Pillar III).

Reducing Business Costs and Improving Market Accessibility

Delivery of Jordan 2025, JEGP 2018-2022 and the Jordan Compact relies heavily on private sector led growth and job creation. GoJ recognizes the central importance of business environment reform to enable this, and several initiatives have already been undertaken in areas such as investment policy and promotion. In particular, the Business Monitoring and Inspection Law was enacted to reduce the burden on businesses by improving the inspections and monitoring framework. Further efforts are needed, however, to reduce the cost-base and ease access to finance for Jordanian businesses, and to improve the ability of those businesses to access markets. An important by-product of the reforms will

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also be a positive signalling effect to both domestic and foreign investors on Government's commitment to strengthening the investment climate. Going forward, the Government is committed to:

- a) Boost healthy competition for all major economic sectors through pro-competition rules and a more balanced market. A new Competition Policy will be introduced that will strengthen the legal and institutional framework for competition law enforcement, clarify the use of price regulation in exceptional circumstances, and introduce a mechanism to integrate competition principles into the design and amendment of market regulations.
- b) Establish and implement a system of good regulatory practices, including the establishment of a robust system of private-public consultation and regulatory impact assessment to increase the efficiency, predictability, and simplification of the business environment; institute annual identification of reform targets and responsible government entities with direct progress reporting to a cross-Ministerial committee on identified high priority reforms.
- c) Building on the recent enactment of the Inspections Law, successfully implement ongoing inspections reform, including through the phasing in of a risk-based approach, and enhancing coordination and information sharing between inspectorates.
- d) Accelerate and expand implementation of the ongoing licensing and permit reform to reduce compliance costs.

These efforts will continue to build on previous ones that helped Jordan move up 15 places in World Bank's 2018 *Doing Business* rankings.

Boosting exports of goods and services and penetration of new markets are key Government objectives. Jordan enjoys wide regional and international ties and has reached free trade agreements with most Arab countries, the United States, Canada, Singapore and the European Union. A more diversified export base, if well-anchored institutionally and supported by policies favouring sector competitiveness, can generate much needed high-skilled jobs for Jordan's relatively young and educated population. To support the growth of new exporters and the penetration of new markets, GoJ has boosted access to trade credit insurance through strengthening the Jordan Loan Guarantee Corporation (JLGC) and increasing the resources available to it. In particular, the Central Bank and JLGC signed an agreement expanding the resources available for reinsurance and strengthening JLGC's financial capacity to deliver trade insurance products.

The Government will focus on the key clusters identified in the Jordan 2025: engineering & construction, tourism & events, information & communications technology, health/medical tourism/life sciences, education, transport & logistics, energy & renewable energy, professional & financial services and agribusinesses. A key objective will be to improve competitiveness and integration into global value chains by encouraging Jordanian firms to produce higher quality goods and services able to meet international standards. To this end, Jordan's National Quality Infrastructure, including the

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Jordan Standards and Metrology Organization, will be reformed and strengthened to resolve functional conflicts of interest, improve transparency, predictability and harmonization of standards setting processes in line with international partners, introduce a risk-based market surveillance mechanism, and attain global recognition for Jordan's national accreditation agency and conformity assessment body.

Focused efforts will also be needed to help Jordan's manufacturers' take advantage of improved access to European markets obtained under the Simplified Rules of Origin Joint Decision. Upgrading agriculture can also provide a big opportunity to boost exports and create jobs, not just at the farm level but in sectors that get the products to the market. Reducing export costs by modernizing customs infrastructure and streamlining import procedures will also help. GoJ will update the country's export strategy and strengthen our export promotion capacity, with a focus on promising markets and key sectors/industries (clusters) and products that Jordan is competitive in. We will also promote foreign direct investment that increases global value chain integration and complements exports, including better provisioning of modern services, such as information technology, governance and logistics.

Related to reducing business cost and accessing newer markets is also the issue of transportation. The transport and logistics sectors contribute 9 percent to GDP in Jordan, and are recognized as an important driver of competitiveness, growth, job creation and social development. To reform the sector, GoJ is planning to develop and agree with relevant stakeholders on an action plan and program to increase overall trucking and logistics sector efficiency and reduce market distortions resulting from government interventions and firm behaviour. Reforms will also aim to deliver a more balanced market structure, lower prices and higher quality of service.

Small and medium-size enterprises (SMEs), which make up about 95 percent of the corporate sector in Jordan, face many challenges, the most pressing being the limited access to credit. Banks need be encouraged to allocate more resources to the SMEs, and non-bank financial institutions should be developed further to address financing needs of micro, small, and medium enterprises. Part of GoJ's strategy aims at facilitating the resolution of insolvencies, deepening the collateral regime, and promoting new forms of financial intermediation. A new Insolvency Law and a new Secured Transactions Law were enacted in May 2018.

Over the medium-term, we plan to further develop non-bank financial institutions (such as leasing, private equity and venture capital firms) and allow micro-finance institutions to thrive in a formal prudential environment and in due course, make the credit more affordable through the ability to take deposits. We will also continue to implement our long-term development plan for capital markets. Many of these reforms will enhance the conditions for innovation. Moreover, improving the credit infrastructure, particularly by making it easier to register movable assets as collateral, will help reduce the gender gap by promoting more female entrepreneurs.

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Steady efforts over the last few years to reduce generation costs, and to align the overall consumer tariffs with the cost of service delivery, have helped achieve cost recovery in the electricity sector. The Energy and Minerals Regulatory Commission (EMRC) implemented an automatic tariff adjustment mechanism last year, which ensures that fluctuations in global fuel prices are reflected in consumer tariffs each month. However, a high level of cross-subsidy built into the overall cost-covering tariff structure is now affecting economic competitiveness of the manufacturing and service sectors. High cross-subsidy may also strain the overall electricity sector viability as an increasing number of cross-subsidizing large consumers are opting for self-generation and avail highly subsidized charges for necessary grid-support.

The Ministry of Energy and Mineral Resources (MEMR) and the EMRC are working towards a reduction in cross-subsidies through better targeting of lifeline tariffs towards the poor and vulnerable consumers, while developing mechanisms for alternate social safety-net support for affected households. The EMRC is also working towards development of a full-economic cost based regime for grid-support charges for self-generating consumers. The EMRC has adopted annual ceiling values for the 2018-21 period for the 'Tariff Subsidy Index' (share of government subsidies or losses in the overall sector revenue requirement), 'Tariff Cross-Subsidy Index' (share of cross-subsidy in overall tariff revenues), 'Highest Tariff Recovery Ratio' (ratio of highest cross-subsidizing tariff rate to the average cost of service), and for 'Index of Subsidy for Self-Generation' (share of grid-support costs not supported by charges levied).

The EMRC is now committed to identify and implement specific tariff-reform measures to achieve these ceiling values during the tariff review process each year – thus reducing tariff cross-subsidy as well as subsidy for self-generation in a time bound manner. Rationalization of electricity tariff structure is a key priority for the Government of Jordan, which would ensure continued sector viability, strengthen economic competitiveness, and also protect poor and vulnerable consumers.

Creating Flexible, and Integrated Labour Markets and Better More Efficient Social Assistance

Creating more and better jobs for Jordanians and Syrian refugees (in professions opened for foreign labour) by addressing the existing labour market rigidities is a key policy priority for GoJ. Several initiatives have already been taken in this regard. This includes, among others, issuing more close to 103,000 work permits for the Syrian refugees. Other planned measures in this area include: (a) reducing hiring costs and red tape, b) equalizing the minimum wage for Jordanians and non-Jordanian workers so as not to create entry barriers for Jordanians into the labour market, c) creating a market for part-time work and other flexible arrangements that will particularly benefit women and youth, d) improving female labour force participation, e) strengthening workplace safety, particularly for women, and f) improving employment support programs to increase the flexibility and responsiveness of

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vocational guidance and employment services to the needs of the private sector. GoJ is also attempting to promote gender equality and reform public sector hiring practices. Regulation providing for more flexible working hours was adopted in 2017. The reforms envisioned to create one, integrated and flexible labour market will require efforts on many fronts and for several years.

At present, the labour market is too segmented between nationalities, occupations, sectors and there is an expanding divide between formal and informal workers. For this purpose, GoJ is taking the first steps to review this legal framework with the aim of identifying legal and regulatory factors that contribute to labour segmentation. GoJ commits itself to carry out this review of the legal framework and include in that review a thorough investigation of how well and uniformly laws are being enforced and implemented. In addition, to the design, implementation and enforcement of the legal framework, the review will include a study of the incentives this framework provides workers to participate in the formal labour force, to pay all costs and obligations of formal work and to comply with the framework's laws and regulations.

As a next step to creating a more flexible and integrated labour market, GoJ realizes that the system of quotas in hiring also contributes to labour segmentation; and depending on detailed study to be conducted to demonstrate ways to increase Jordanian employment, the Government commits itself to reducing the number of sectors for which these quotas apply. Because the Government also has the foremost responsibility to the Jordanian worker, it commits itself to reforming the worker permit regime to better regulate the inflow of foreign workers so that unlimited supplies of labour do not lead to a 'race to the bottom' and a suppression of wage growth. Better enforcement of simpler, more transparent and predictable labour laws and regulations will help with the regulation of foreign labour ensure that all workers, irrespective of their nationality, can be protected under the nation's laws as well as protect priority for job creation to Jordanians.

In line with its commitment under the Jordan Compact, GoJ has also waived the cost of work permits; loosened restrictions on moving from one sector to another (agriculture, support services, bakeries); removed the need for a work permit sponsor in the agriculture and construction sectors; and waived the need for documents detailing technical qualifications required to obtain a work permit in the construction sector. Finally, because of the Government is concerned with the low labour participation rates of the young and our female citizens, we will continue to strive to identify and implement labour market reforms that match the flexibility in labour contracts that these two populations of workers need to be productively included in the Jordanian economy.

The Council of Ministers has also approved a plan to improve and expand the coverage of the conditional cash transfer program. This approval is backed up with the additional financial resources required to expand coverage. To expand coverage as way to cushion the impact of some necessary economic reforms, including increases in the price of electricity and water, GoJ will target and improve social safety nets extended through the National Aid Fund (NAF) to better protect the poor and to

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facilitate their transition out of poverty. The reforms include among others: improving the efficiency and impact of the cash transfer program through reforms to payments system, business processes, and graduation strategy; improving coordination between, and the impact of, social safety net programs through the development of a single gateway, known as the National United Registry, and the Case Management System to provide the poorest households with the support they need; provide employment support to 'employable' poor; and to design and implement a targeted compensation scheme for sectoral tariff increases, as needed.

Moreover, in line with the commitment made under the Jordan Partnership Paper adopted at the recent Brussels II Conference to replicate achievements in the education sector to health and social protection sectors, and in recognition of the need to phase NAF expansion carefully, the GoJ and the donors will work together on building the administrative, technical and technological capacities of NAF with a view to piloting a "Donor-Refugee Window" at the Fund aimed at aligning humanitarian and development systems for social protection.

Improving Fiscal Sustainability through Revenue Mobilization, More Efficient Investment Spending, and Tracking of Fiscal Risks

GoJ has embarked on a series of tax policy initiatives with a view to increase the domestic revenue mobilization, including improving fiscal management and oversight of tax expenditures. The 2017 Budget Law increased the preferential rates on large number of items, as well as exemptions on specific goods and services were discontinued. Additional tax policy improvements, on excise taxation and 'other taxes', were implemented on the 2017 Budget Law, bringing the total revenue impact at JDs 631 million. Tax policy reforms will be further deepened over 2018-2020, with intentions to implement further reductions in the consumption tax areas, as well as revenue improvement on income taxation, in particularly stemming from the adoption of a new Income Tax law.

The GoJ has recently submitted to Parliament a new draft Income Tax Law, including broadening the tax base on income taxation, by further inclusion of taxpayer segments currently not paying income taxes, as well as eventual adjustment of the threshold for paying income taxes. While government's fiscal adjustment effort has been anchored on revenue increases this far, we expect to also rely on expenditure decreases in the medium term.

As is currently indicted in Jordan's EFF program with the IMF, GoJ is committed to the reduction of the fiscal deficit in a way that will bring reduce debt to GDP to manageable levels as per targets in EFF. The Government will also continue with fiscal consolidation (revenue gains and / or expenditure reduction) in line with its ongoing discussions with IMF as per the EFF program. Our conservative growth assumptions foresee GDP growth reaching 3 percent of GDP in 2022.

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Continuing this robust fiscal consolidation program is crucial for ensuring macroeconomic stability in the medium term. Realizing the importance of continuing Public Financial Management (PFM) reforms and building on the our successful achievements of the past few years, the GoJ is in the process of finalizing and endorsing its new PFM Reform Strategy for the period 2018-2021.

Additional measures include beefing up the country's statistical capacity, strengthening the efficiency of public expenditure, and upgrading debt management practices, including at the municipal level. One approach to fiscal consolidation is to strengthen private sector participation in the economy, especially on the investment, through a cascade approach and an update to the approach of managing debt and contingent liabilities.

Over the past decade, Jordan was able to position itself as successful model for implementing public-private partnerships (PPPs) projects in the region including but not limited to electricity generation, water and wastewater, renewable energy and transport. In the next five years, a further US\$15 billion worth of infrastructure projects in areas of water, solid waste, energy, transport, ICT, urban development is set to be delivered through PPPs as per the JEGP 2018-2022.

Building on the successful work with PPPs, GoJ is committed to facilitate more private sector participation in the economy through a cascade approach and an update to the approach of managing debt and contingent liabilities. To this end, GoJ is implementing a Public Investment Management -Public Private Partnerships (PIM-PPP) Governance Framework to enhance the efficiency of capital spending, prioritize investments and maximize using PPPs to implement government capital expenditure. The purpose of the governance framework is to identify the processes, decision points, and outputs for identifying, approving and implementing investment projects and PPPs. To facilitate this, a Central PIM-PPP Unit has been set up the Ministry of Planning and International Cooperation. its mandate has been adjusted to be made consistent with the mandate of the PPP unit at MOF, and it will be staffed in in 2018 with three civil servants and needed consultants with international experience. The PIM-PPP process will be managed by a new Inter-Agency PIM-PPP Committee. As one of the measures to better manage public investments and PPPs, by the establishment of a National Registry of Development Projects (NRDP). The registry aims to identify and track EDP projects through identification, preparation and final evaluation. Over the next year, we plan to have the PIM-PPP framework fully operational with all new EDP projects registered in the NRDP and technically selected by the Inter-Agency PIM-PPP Committee for final approval by the Council of Ministers.

At the same time, we recognize that PPPs will bring contingent liabilities, and that it is important to track them and to ensure that they do not compound the debt challenges that the country is facing. To this end, we plan to: (a) raise our capacity to track risks associated with; and (b) to develop





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debt management strategies includes policies for issuing government guarantees would support stronger governance and provide a firmer basis for borrowing decisions.

Finally, it is expected that the measures in this DPL are likely to have a significant impact both on Jordanians and on refugee communities. To ensure the equitable nature of the benefits, subject to technical support being made available from the World Bank, GoJ will look for ways to disaggregate and monitor the impact of reforms on marginalised groups such as Syrian refugees and women.

In conclusion, Jordan's commitment to the DPF and the five-year Policy Reform Matrix need to be backed by credible financing package and robust technical assistance. The financial support from donors under the Global Concessional Financing Facility (GCFF) increased concessionality. Yet, more is needed to provide financing assurances and generate renewed confidence in the growth potential of the country, particularly considering the continued negative impact of regional instabilities on the domestic economy, and to mitigate the potential social implications of the reforms. Moreover, Jordan is required to undergo fiscal consolidation at a time when social spending and capital investments will be critical and when interest costs are on the rise. As a result, Jordan would benefit from additional support in terms of concessional financing, grants and guarantees (for Eurobonds or increased IFI support) that would help Jordan set the cost of market-based financing.

In this context, GoJ requests the approval of the World Bank Group support to our program. Additionally, we hope that DPF will be provided on maximum concessionality given the burdens Jordan continues to carry due to regional crises while taking into consideration the country continued commitment to comprehensive reforms and noting that the Global Concessional Financing Facility has been a great success for fair burden sharing and came to support vulnerable middle-income countries dealing with refugee crisis and neighbouring crises.

Allow me to reiterate our sincere appreciation to the WBG continued support to Jordan and we look forward to a stronger partnership in the future.

Please accept my highest esteem and consideration.

Sincerely,

Imad Najib Fakhoury Minister of Planning and

International Cooperation





Ref.No 5/9/1/6420 Date 15/6/2018

> Mr. Saroj Khumar Jha Regional Director, Middle East Middle East and North Africa Region The World Bank Beirut, Lebanon

> > Subject: Hashemite Kingdom of Jordan First Equitable Growth and Job Creation Development Policy Loan Confirmation of Negotiated Documents and Letter of Development Policy

Dear Mr. Jha,

In reference to the finalized negotiations for the First Equitable Growth and Job Creation Development Policy Loan, we are pleased to confirm and submit the following:

- We confirm our agreement with the Minutes of Negotiation signed on May 30, 2018.
- We confirm our agreement with the content of the Letter of Development Policy signed on May 30, 2018.

Please accept my high esteem and consideration.

Sincerely,

Mary Kawar

Minister of Planning and International Cooperation



ANNEX 3: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

DPF1 Prior Actions	Significant Poverty, Social or Distributional Effects	Significant Environment Effects
Pillar 1: Reducing business costs and improving market accessibility		
Prior Action 1: The Borrower has enacted the Monitoring and Inspection Law, to reduce the burden on businesses by improving the inspections and monitoring framework.	Adverse poverty and social impacts are not expected.	No adverse environmental impacts are expected
Prior Action 2: The Borrower's ability to serve Jordanian exporters has been improved by: (a) the Central Bank's and the JLGC's agreement expanding the resources available for reinsurance and strengthening JLGC's financial capacity to deliver trade insurance products; and (b) restructuring JLGC's Board to include independent directors.	Adverse poverty and social impacts are not expected.	No adverse environmental impacts are expected
Prior Action 3: The Borrower has enacted the Insolvency Law introducing business insolvency procedures.	Adverse poverty and social impacts are not expected.	No adverse environmental impacts are expected
Prior Action 4: (a) The Borrower, through the MEMR, has adopted indicators, targets and a timeline to address grid-subsidy for self-generation and reduce cross-subsidies, and (b) EMRC has taken initial actions consistent with them.	Increases in electricity prices will increase costs for the poor in the short term. The impact on poverty will depend upon the degree of cross-subsidization between large and small consumers in the roadmap, but will be offset by the planned increased coverage and targeting of NAF transfers.	No adverse environmental impacts are expected. Climate benefits are expected from reduced use of fossil fuels (including less liquid fuel based generation) for peaking power, resulting from cost-reflective tariffs that would reduce evening peak demand and shift demand towards dayhours when more renewable energy is available.

DPF1 Prior Actions	Significant Poverty, Social or Distributional Effects	Significant Environment Effects		
Pillar 2: Creating more flexible and integrated labor markets and provide	ding better and more efficient social as	sistance		
Prior Action 5: The Borrower's Council of Ministers has instructed the Ministry of Labor to carry out a review of the legal framework to identify causes of segmentation in the labor market.	The reduction of nationality quotas will increase employment options of non-Jordanians, particularly benefitting those who are low-wage and unskilled (poorer) unskilled (poorer). Reducing labor market segmentation will likely have beneficial effects on those that are now excluded from productive employment.	No adverse environmental impacts are expected		
Prior Action 6: The Borrower, through the Ministry of Labor, has issued Instructions on flexible work with minimum wage rates by unit of hours.	The impact of this action is likely to be low as there are few formal private sector part-time workers, while it is unlikely to be enforced in the informal sector.	No adverse environmental impacts are expected		
Prior Action 7: The Borrower, through the Ministry of Labor, has: (a) allowed the Jordanian General Federation of Trade Unions to provide work permits for Syrian workers working in the construction sector and removed the requirement of Syrian workers to show a profession practice certificate as a prerequisite to obtain the work permit; and (b) waived fees for Syrian workers to obtain work permits for 2018.	Allowing work permits for Syrian workers in the construction sector is likely to provide more employment opportunities for lower-skilled and poorer Syrians in Jordan.	No adverse environmental impacts are expected		
Prior Action 8: The Borrower, through the Council of Ministers, has approved plan to improve and expand the coverage of the National Aid Fund (NAF) cash transfer program to cover at least 85,000 additional households between 2019 and 2021.	The improved targeting and current planned expanded program coverage will have positive impacts on poverty reduction and would likely offset most, if not all, of the negative impacts from electricity and tax reforms, once finalized.	No adverse environmental impacts are expected		

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DPF1 Prior Actions	Significant Poverty, Social or Distributional Effects	Significant Environment Effects		
Pillar 3: Improving fiscal sustainability and taking more informed decision				
Prior Action 9: The Borrower's Council of Ministers has reduced exemptions and increased preferential rates in the general sales tax and the special sales tax consistent with the 2018 Budget Law.	Increases in income taxes can be equity enhancing, if they are disproportionately paid by richer households. Increased GST taxes may contribute to increasing poverty, depending on whether taxed items are consumed by the poor and on whether they are offset by the planned increased coverage and targeting of NAF transfers.	No adverse environmental impacts are expected		
Prior Action 10: The Borrower's Council of Ministers has endorsed MoPIC's proposal for the Jordan 2018 Public Investment Management – Public-Private Partnership Governance Framework.	Adverse poverty and social impacts are not expected.	No adverse environmental impacts are expected		

ANNEX 4: DEBT SUSTAINABILITY ANALYSIS⁵⁰

1. **The World Bank conducted a DSA to assess the trajectory of the debt-to-GDP ratio.** The baseline scenario assumes: (i) economic growth to increase gradually from 2 percent in 2017 to 3 percent over the medium term, (ii) the fiscal consolidation plan to remain on track, with the primary balance remaining in surplus and increasing to reach 5 percent of GDP in 2022. Under these assumptions, the debt-to-GDP ratio is projected to reach 89.9 percent by end-2022, down from 95.9 percent in end-2017 (Table A4.1).

Table A4.1. Jordan Public DSA – Baseline Scenario

(in percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators 1/

	Actual			Projections					As of February 23, 2017				
	2007-2015 2/	2016	2017		2018	2019	2020	2021	2022				
Nominal gross public debt	76.2	95.1	95.9	_	96.2	95.9	93.1	91.5	89.9	Sovereign	Spreads		
Real GDP growth (in percent)	4.1	2.0	2.0		2.1	2.3	2.4	2.7	3.0	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	6.5	1.0	1.7		2.0	2.5	2.5	2.5	2.5	Moody's	B1	B1	
Nominal GDP growth (in percent)	10.9	3.0	3.7		4.1	4.9	5.0	5.3	5.6	S&Ps	BB-	BB-	
Effective interest rate (in percent) 4/	4.3	3.9	3.8		6.7	4.8	2.4	4.0	4.4	Fitch	n.a.	n.a.	

2. The analysis of public debt dynamics in Jordan shows that growth and the positive primary balance are weighing the debt-to-GDP ratio over the medium term, whereas the elevated interest rate partially dilute this effect. In the baseline scenario, Jordan's public debt is expected to decline by 6 percentage points, cumulatively between 2017 and 2022. The improving primary balance as well as the real growth rate are the only factors responsible for bringing down the debt-to-GDP ratio, and are able to over-compensate for the other factors that are negatively impacting the debt trajectory, including the positive real interest rates (Figure A4.1).

15 **Debt-Creating Flows** projection -> 10 (in percent of GDP) 20 5 10 0 0 -5 -10 -10 -20 -15 -30 -20 -40 cumulative 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 Primary deficit Real GDP growth Real interest rate Residual -Change in gross public sector debt

Figure A4.1. Jordan's Debt Dynamics: Contributions to Debt-to-GDP Ratio

3. To check the sensitivity of the baseline scenario of the DSA projections, the basic stress tests were undertaken. Those are presented below.

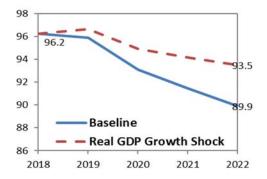
Stress Tests

- 4. The following stress tests show that an individual transient shock can lead to a setback in the debt-to-GDP trajectory, but may not completely jeopardize the sustainability of Jordan's public debt. However, the compounded effect of multiple simultaneous shocks (such as lower growth and a slowdown in fiscal consolidation efforts, in tandem) can lead to an unsustainable debt situation.
- 5. A real GDP growth shock scenario assumes a 1 percentage point drop in the real growth rate throughout the forecast horizon, compared to the baseline scenario. Under this scenario, the debt-to-GDP ratio would decline eventually over the medium term, albeit at a considerably slower pace and remaining elevated at 93.5 percent by 2022, almost 4 percentage points higher than under the baseline scenario.

Table A4.2. Real GDP Growth Shock

eal GDP Growth Shock Real GDP growth 2.1% 1.8% 1.9% 2.2% 2.5% Inflation (GDP Deflator change) 2.0% 2.4% 2.4% 2.4% 2.4% 28.1% 27.3% 26.0% 25.8% 25.7% Non-interest revenue-to-GDP ratio Non-interest expenditure-to-GDP ratio 26.9% 27.7% 26.1% 25.7% 25.6% Primary Balance 1.5% -0.4% -0.2% 4.0% 5.0% Nominal Exchange Rate -- average (LCU/USD) 0.71 0.71 0.71 0.71 0.71 Nominal Exchange Rate -- end of period (LCU/USD) 0.71 0.71 0.71 0.71 0.71 Interest rate shock (bpts) compared to baseline 0 0 52 80

Figure A4.2. Real GDP Growth Shock



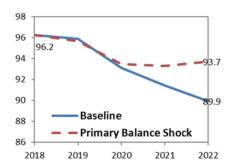
6. A primary balance shock assumes slowdown in fiscal consolidation efforts, such that the primary balance remains zero throughout the forecast horizon. Under this shock, the debt-to-GDP ratio deteriorates in the outer years (as this shock departs from the baseline scenario that had assumed a large improvement in the primary

surplus in the medium term). However, the debt-to-GDP ratio continues to be downward sloping, and leveling at above 93.7 percent in 2022, compared to around 89.9 percent in the baseline scenario.

Table A4.3. Primary Balance Shock

Primary Balance Shock 2018 2019 2020 2021 2.4% Real GDP growth 2.3% 2.7% 2.1% Inflation (GDP Deflator change) 2.0% 2.5% 2.5% 2.5% Non-interest revenue-to-GDP ratio 28.1% 26.4% 24.4% 23.8% 2 Non-interest expenditure-to-GDP ratio 26.9% 26.4% 24.4% 23.8% 2 Primary Balance 0.0% 0.0% 0.0% 1.5% Nominal Exchange Rate -- average (LCU/USD) 0.71 0.71 0.71 0.71 Nominal Exchange Rate -- end of period (LCU/USD) 0.71 0.71 0.71 0.71 Interest rate shock (bpts) compared to baseline 0 165 304 401

Figure A4.3. Primary Balance Shock

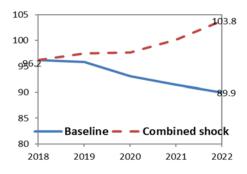


7. A combined macro-fiscal shock can lead to the disruption of the downward trajectory of the debt-to-GDP ratio. Under this scenario fiscal consolidation occurs at a slower pace, such that the primary balance returns to the negative territory once again in 2019 and remains in deficit throughout the forecast horizon (similar to its levels prior to 2017). At the same time, economic growth is 0.5 percentage points lower than the baseline scenario throughout the forecast horizon. The relatively loose fiscal policy will also lead to higher interest payments, and thus a higher real positive interest rate on outstanding debt. Under this combined macro-fiscal shock, the debt-to-GDP ratio is projected to continue increasing throughout the medium term reaching 103.8 percent (almost 14 percentage points higher than the baseline scenario), and debt becomes unsustainable.

Table A4.4. Macro-Fiscal Shock

Combined Macro-Fiscal Shock 2018 2019 2020 2021 2022 Real GDP growth 2.2% 2.5% 2.1% 1.8% 1.9% Inflation (GDP Deflator change) 2.0% 2.4% 2.4% 2.4% Non-interest revenue-to-GDP ratio 28.1% 26.4% 24.4% 23.8% 23.2% Non-interest expenditure-to-GDP ratio 26.9% 27.7% 26.1% 25.7% 25.6% -1.2% -1.7% -1.9% Primary Balance -2.4% 1.5% Nominal Exchange Rate -- average (LCU/USD) 0.71 0.71 0.71 0.71 0.71 Nominal Exchange Rate -- end of period (LCU/USD) 0.71 0.71 0.71 0.71 0.71 Interest rate shock (bpts) compared to baseline 200 401 501 0 304

Figure A4.4. Macro-Fiscal Shock

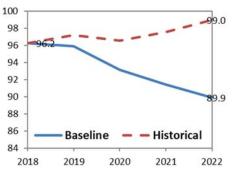


8. **Similarly, a** *policy slippage scenario* **is expected to lead to an unsustainable debt-to-GDP trajectory.** Under the policy slippage scenario, growth stagnates at 2 percent (its 2017 level), and the fiscal consolidation efforts stop, such that the primary balance plateaus at -1.3 percent of GDP throughout the forecast horizon (that is, stagnating at its historical average during 2014-2017). In that case, the debt trajectory continues to increase, until it reaches 99 percent of GDP by 2022; that is 9.1 percentage points higher than its ratio under the baseline scenario.



Figure A4.5 Slippage Scenario

Historical Scenario		2019	2020	2021	
Real GDP growth		2.0%	2.0%	2.0%	
Inflation (GDP Deflator change)	2.0%	2.5%	2.5%	2.5%	
Non-interest revenue-to-GDP ratio	28.1%	27.3%	26.0%	25.8%	:
Non-interest expenditure-to-GDP ratio	26.9%	28.6%	27.3%	27.1%	:
Primary Balance	1.1%	-1.3%	-1.3%	-1.3%	
Nominal Exchange Rate average (LCU/USD)	0.71	0.71	0.71	0.71	
Nominal Exchange Rate end of period (LCU/USD)	0.71	0.71	0.71	0.71	
Interest rate shock (bpts) compared to baseline	0	100	100	100	



9. The above stress tests indicate that the full implementation of the fiscal consolidation program, together with stimulating economic activity are imperative to ensure a sustainable debt trajectory.