



HASHEMITE KINGDOM OF JORDAN

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JORDAN POVERTY ASSESSMENT

The World Bank and the Government of Jordan recently completed a collaborative poverty assessment in Jordan. This article summarizes the key results of the assessment. The main conclusion of the assessment is that poverty declined in Jordan between 1997 and 2002-03 no matter which method of assessment is chosen. Based on the methodology discussed below, it is estimated that the percentage of poor in Jordan fell by a third from 21.3 percent in 1997 to 14.2 percent in 2002.

Introduction

Jordan's recent economic growth performance has been noteworthy. Since 1999, GDP growth has consistently stayed above population growth, despite repeated negative shocks emanating from the Region. This resilience has been a hard-won achievement through conscious policy choices and an accelerated pace of structural reforms. Jordan's achievement in human development has also been remarkable. In terms of health and education, Jordan is better than comparators worldwide at similar levels of GDP. Yet, despite the gains in economic growth and human development, Jordanians are unsure whether the fruits of development and reform are reaching the poor.

Jordan had little poverty or unemployment prior to the economic collapse in 1989¹. The economic collapse pushed 17 percent of the population into poverty, and rendered 20 percent of the labor force unemployed. Successful macroeconomic stabilization in the early 1990s reversed the decline in GDP growth and helped moderate the twin problems of poverty and unemployment. However, growth proved to be transient and the expectation of peace dividends from the 1994 peace accord did not fully materialize. Though per capita consumption declined by 1.5 percent a year between 1992 and 1997, active redistribution policies reduced consumption inequality, and reduced the proportion of poor by some 2.6 percentage points. However, with weak economic

growth, the unemployment rate persisted at around 15 percent through much of the 1990s.

In response to the continuing concerns about the slow pace of poverty reduction, Jordanian authorities announced a new strategy for poverty alleviation in 2002. Key policy initiatives are to: increase and extend the National Aid Fund (NAF); support sustainable microfinancing; and increase employment opportunities in rural areas and small towns through Cluster Village Development. In addition, social safety net policy changes under the new strategy have been rapidly implemented. Jordan's National Social and Economic Plan (2004-06)² reflects the continued concern of national planners, and puts "relatively high levels of poverty and unemployment" at the top of the list of current challenges facing Jordan. The assessment fills the knowledge gaps identified in the new strategy for poverty alleviation by utilizing the newly available results of the Household Expenditure and Income Survey.

The assessment considers poverty in Jordan in 2002-03, and examines the changes that have occurred since 1997 as a result of economic growth and the income distribution policies of the Government of Jordan. By assessing the social protection policy implemented under the National Strategy for Poverty Alleviation (2002), and drawing implications for poverty alleviation outcomes in the areas of social protection, health, and education, the assessment aims to aid in the efforts of government, civil society, and development partners to address the needs of the poor in a more effective manner, and accelerate the pace of poverty reduction.

¹ The root causes of the collapse were the unsustainable expansion of the public sector and the collapse of oil prices in the mid-1980s. Jordan is vulnerable to the price of oil indirectly through worker remittance inflows from Jordanian workers in oil-rich countries.

² Draft by Ministry of Planning and International Cooperation, Jordan.

The following six key areas are studied in-depth to facilitate the implementation of the Government’s poverty alleviation program:

- Poverty In Jordan: Incidence And Trends. (Section A);
- Why Has Poverty Declined In Jordan, And Will The Decline Continue? (Section B);
- The Effectiveness Of The Social Protection Program In Alleviating Poverty. (Section C);
- How Well The Poor Are Able To Use The Labor Market To Improve Their Living Conditions. (Section D);
- Gaps In Education Between The Poor And Non-Poor. (Section E); and
- Gaps In Health Outcomes Between The Poor And Non-Poor. (Section F).

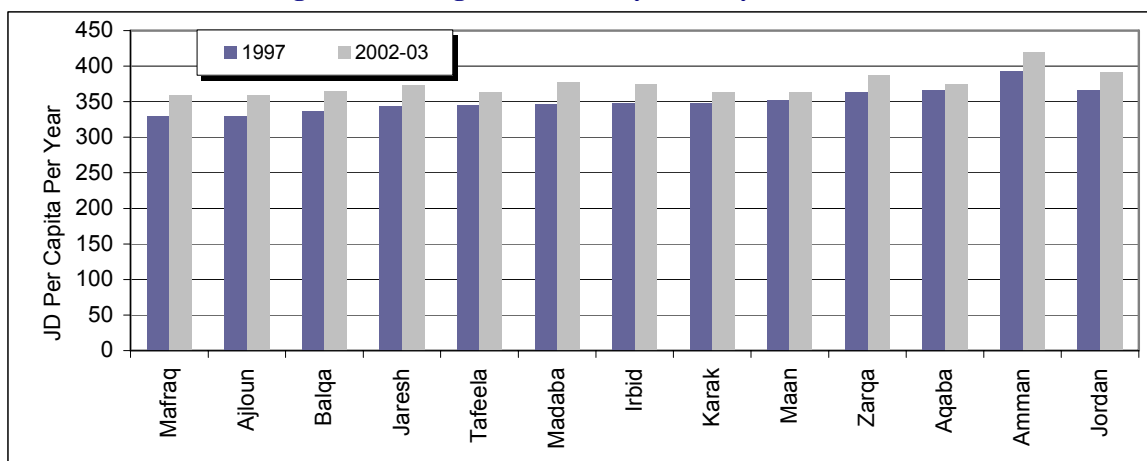
A. Poverty In Jordan: Incidence And Trends.

The main conclusion of the assessment is that poverty declined in Jordan between 1997 and 2002-03 no matter which poverty line is chosen. Using the most appropriate poverty line discussed in the assessment, the assessment estimates that the percentage of poor in Jordan fell by a third from 21.3 percent in 1997 to 14.2 percent in 2002. The depth of poverty³ also declined from 5 to 3 percent.

Building a consensus on a new poverty line is important to measure and monitor poverty in Jordan. Since the last official poverty line was established in 1987, poverty studies have used a diverse set of methodologies to arrive at poverty lines ranging from JD252 to JD478 per capita per year for 1997 (in 1997 prices). As a consequence, there has been little agreement about the magnitude of poverty. The new Household Expenditure and Income Survey provides an excellent opportunity to construct new poverty lines for Jordan that satisfy well-established criteria⁴ set by poverty researchers. Figure 1 presents new poverty lines at the governorate level for 1997 and 2002-03. The new poverty lines are specific to family composition (age and sex of family members) and where the family lives, and reflect the new calorie requirements for Jordanians, and allow for actual expenditure on non-food items, as observed in the household survey.

Progress in poverty reduction in Jordan has been geographically (governorates, sub-governorates and rural-urban) uneven. In three governorates (Balqa, Karak, and Aqaba) there is no strong evidence to suggest that poverty either increased or decreased. In all other governorates, except Zarqa, poverty declined significantly, particularly in Maan and Mafraq, where the 1997 poverty levels exceeded 30 percent. In Zarqa, however,

Figure 1. Average Total Poverty Line, By Governorate



Source: Staff estimates, based on Household Expenditure and Income Surveys, 1997 and 2002-03, Department of Statistics, Jordan.

³ The proportionate deficit of actual consumption of the poor from the poverty line.

⁴ The key criteria are that poverty lines should: (i) be specific to household demographic characteristics such as age and sex; (ii) allow for spatial price differences; (iii) allow for economies of scale; and (iv) be based on observed household expenditure patterns.

poverty significantly increased from 16 percent to 22 percent. The increase in unemployment registered in Zarqa (from 11 to 14 percent), and the steep rise in NAF claimants,⁵ indicate that living conditions must have worsened in Zarqa, possibly due to factors such as the relocation of military establishments. Geographic distribution of poverty in Jordan at sub-governorate level exposes select areas of extreme poverty. Jordan has some pockets (13 out of 73 sub-districts) of severe poverty, where more than 34 percent of the population is poor. Most are located in remote desert areas, where chronic poverty, low literacy rate, and the nomadic nature of the poor pose special challenges for spreading the fruits of development.

Rural Jordan is lagging behind in poverty reduction. Jordanians residing in rural areas and living off agricultural incomes tend to be poorer. Currently, 19 percent of the rural population is poor compared to 13 percent in urban areas. Poverty in rural areas is declining more slowly than in urban areas, resulting in a widening rural-urban gap between 1997 and 2002. However, a positive feature of poverty in Jordan is that the chronically poor—defined as those whose poverty is expected to persist—comprise only 29 percent of all the poor.⁶ The remainder have such shallow income deficits that they move in and out of poverty as their incomes fluctuate⁷. Apart from the chronically poor, the assessment analyzes the vulnerable groups of poor women and children.

Women head about 10 percent of households in Jordan. The results of the new Household Survey indicate that there is little difference in poverty measures between female-headed households (FHH) and male-headed households (MHH). However, some select sub-groups of FHH, such as divorced and separated women, have a higher incidence of poverty than corresponding male-headed households. Therefore, social protection programs need to target households headed by

separated or divorced women. Excessive reliance on social protection programs and other types of transfers is a source of vulnerability for FHH. As a consequence of lower labor force participation and greater unemployment, FHH rely less on participation in production activities (wages or own account production) than MHH. Female-headed households are also particularly vulnerable to worker remittance inflows. The percentage of poor FHH would increase by 50 percent in the absence of remittances.

Poverty among children is marginally higher than in the general population. Children (under 18 years of age) constitute half the population in Jordan. Poverty among them is 16 percent, nearly two percentage points higher than the general population, because poorer households have a larger number of children. Poverty pushes children to work while they should be in school, particularly the boys. Based on the new Household Survey, it is estimated that about 3 percent of children between the ages of 10-18 years are employed. However, the prevalence of child labor is probably underestimated, as households are typically reluctant to acknowledge that they have underage children working. The Survey found that male children start working earlier. About 5 percent of male children in the age group 10 to 18 are reported to be working, which suggests that more male than female children drop out of school to work. More than 12 percent of children either do not enroll in or do not complete secondary education. Current policies to protect children from child labor, and to rehabilitate those who fall behind in education, may need to be improved to minimize the suffering of poor children.

B. Why Has Poverty Declined In Jordan, And Will The Decline Continue?

The decline in poverty in Jordan is largely due to the growth in aggregate real private per capita consumption that registered a fast 3.5 percent annual growth over 1997-2002 compared to 0.8 percent annual rise in per capita GDP (Figure 2). The aggregate inequality measure (Gini) did not change significantly during this period, showing that the growth in consumption is broad-based and not confined only to the richer classes (Figure 3). This fast rise in private consumption is corroborated by evidence from Jordan's National

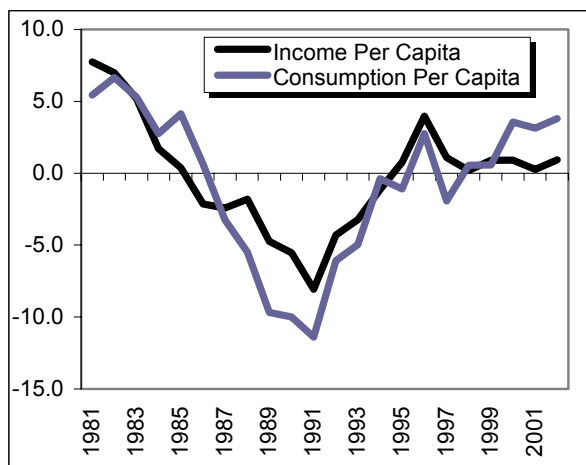
⁵ The National Aid Fund was established in 1986 with the main objective of enhancing and institutionalizing the social safety net. The NAF originally provided untargeted, generalized subsidies on foodstuffs.

⁶ In Indonesia for example, nearly 80 percent of the poor are deemed to be chronically poor.

⁷ If the non-poor who could become poor because of income fluctuations were counted, the population vulnerable to poverty is slightly higher at 16 percent in 2002-03.

Accounts and international experience of middle-income countries.

Figure 2. Annual Growth In Per Capita Private Consumption And Income

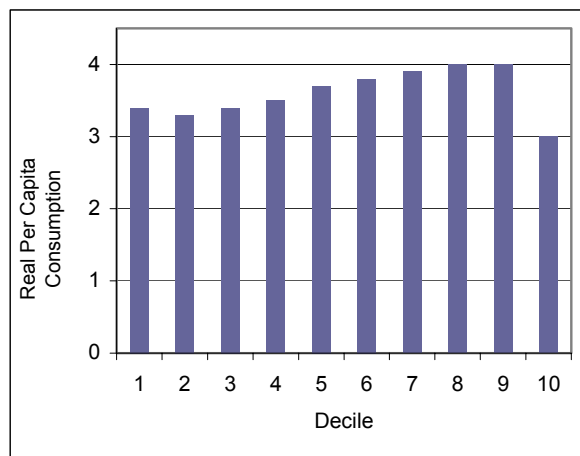


Source: Household Expenditure and Income Survey 2002-03 and National Accounts.

Sustaining private consumption growth at the current rate to reduce poverty will be hard and contingent on Jordan accelerating its GDP growth rate to 6 percent or more. It is also consistent with the finding that employment gains for the poor have not been robust and must improve so that the gains in consumption for the poor have a sound and sustainable basis. So far, the gains in consumption of the poor have been driven mainly by a greater share of spending and transfers, and not from rising incomes or employment.

The fast rise in private consumption appears to be due to a recovery in consumption trends that is mainly policy driven. Private consumption is rising in response to a supportive macroeconomic environment (low real interest rates, appreciating real exchange rates, for example) and confidence in economic prospects from structural reforms.

Figure 3. Welfare (Consumption) Gain Accruing To All Income Groups In Jordan



Source: Household Expenditure and Income Survey 2002-03 and National Accounts.

Meeting the poverty reduction goals of Jordan's new national plan will require resolute efforts. Jordan's National Social and Economic Plan (2004-06) aims to reduce poverty by one-third. Given the new poverty line and assuming unchanged income distribution, Table 1 projects standard poverty measures for 2006 under alternative assumptions of growth in per capita real consumption. A growth rate of about 1.1 percent in real per capita consumption is required to cap the number of poor at the 2002 level, while achieving a one-third reduction would require about 4 percent real per capita consumption growth. Reaching the absolute target would require an even larger growth of 5.5 percent, showing the challenging task ahead.

Table 1. Poverty Projections For 2006

	Projections of poverty in 2006									
	Baseline		Assumptions about annual growth of per capita real consumption							
	2002	Elasticities	0.5	1	1.5	2	2.5	3	3.5	4
Headcount Ratio	14.2	-1.9	13.7	13.1	12.6	12.1	11.5	11.0	10.4	9.9
Poverty Gap	3.3	-2.3	3.1	3.0	2.8	2.7	2.5	2.4	2.2	2.1
Severity	1.1	-2.5	1.1	1.0	1.0	0.9	0.9	0.8	0.7	0.7
Number of Poor ('000)	733.2		778.1	748.5	718.5	688.1	657.2	625.9	594.2	562.0

Source: Staff estimates.

C. The New Social Protection System Is Leaky And Needs Improvement.

Driven by concern for the poor, the Government of Jordan has directly intervened to improve the income of poor families through social protection mechanisms. The general conclusion from the analysis is that, though NAF transfers helped the poorest of the poor, roughly two-thirds of all transfers leaked to the non-poor, implying a significant room for improvement.

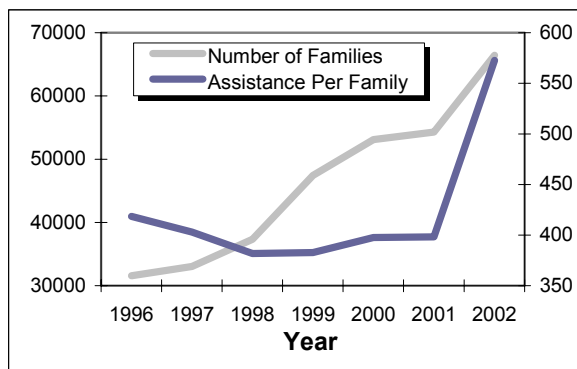
Reacting to criticism that the Recurrent Cash Assistance Program was helping only about 30 percent of the poor, the Government's new Poverty Alleviation Strategy⁸ recommended expanding coverage to all eligible individuals and families, and increasing assistance to all families falling beneath the World Bank poverty line. Renamed the Family Income Supplement Program, this cash assistance program was expanded to reach not only the poor who cannot work (the disabled, widowed women, etc), but also the working poor. As a result, the number of beneficiaries and the assistance per beneficiary rose sharply in 2002. In addition, the overall NAF budget was expanded nearly three-fold from 1996 to 2002 (Figure 4). However, relative to Government spending on public pensions for civil servants, total NAF expenditures on vulnerable groups is modest.

The impact of NAF transfers on poverty is modest because a large proportion of the benefits accrue to the non-poor. Except in a few governorates, such as Ajloun and Karak, NAF's poverty-alleviating role appears to be marginal in comparison with the level of spending. Without NAF transfers, the percentage of poor would be higher by 0.8 percent and the poverty gap by 0.7 percent, but with improved targeting, the benefits could be much higher.

As it stands, two-thirds of NAF benefits leak to the non-poor; and the absolute amount of transfer remains about the same for decile groups, four to ten in urban areas, and four to nine in rural areas (Figure 5). There appears to be scope for NAF

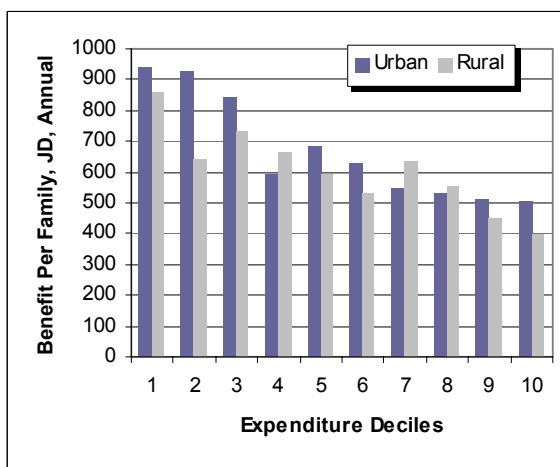
transfers to contribute to a much larger reduction in the poverty gap, not only between rich and poor, but also across regions. Given all of these findings, it seems clear that adopting poverty as the overarching criterion for receiving NAF benefits, rather than using the myriad of categories as at present, could improve targeting.

Figure 4. Income Supplement Program (Recurring Cash Assistance): Families Assisted And Assistance Per Family, 1996-02



Source: National Aid Fund, Jordan, 2003.

Figure 5. The Leaky Social Safety Net



Source: National Aid Fund, Jordan, 2003.

D. How Well Are The Poor Able To Use The Labor Market?

The poor seek to improve their living conditions by using the one asset they have in abundance—labor. Whether they are able to use this asset to escape poverty ultimately depends on how successful they are in finding work and how much they are able to earn.

⁸ Poverty Alleviation for a Stronger Jordan, A Comprehensive National Strategy, Jordan Poverty Alleviation Program, Ministry of Social Development, Jordan, May, 2002.

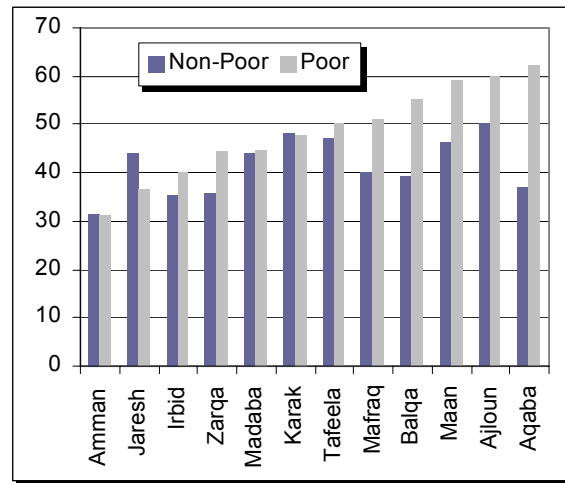
Finding work in Jordan remains a major challenge for the poor, as unemployment has persisted in the 14 to 15 percent range since the mid-1990s, and is showing a slightly worsening trend. Based on projections of labor force growth, significant reductions in unemployment over the next decade will require economic growth averaging 6 to 7 percent a year, which is substantially higher than the 3.8 growth that occurred over the 1997-2002 period. The recent slowdown in labor force growth could be a forewarning of worker discouragement.

The poor are not looking for jobs as much as the non-poor. Labor force participation rates for the poor, at 37 percent, are lower than for the non-poor, at 40 percent. At the same time, poverty rates for the population where the household head is unemployed have realized the greatest relative declines since 1997. All groups experienced significant declines in poverty between 1997-2002, but while the poverty rate for those where the household head was employed or not economically active declined over the period by 34 percent and 30 percent, respectively, the poverty rate for those where the household head was unemployed declined by almost 39 percent. However, transfers, which have played a major role in this decline, cannot be a sustainable basis for continued poverty reduction.

Unemployment increases the risk of poverty in Jordan. Families of the unemployed are significantly more likely to be poor—21.5 percent of the population with an unemployed household head lives below the poverty line, compared with only 12.8 percent of the population where the household head is employed, and 15.9 percent of the population where the household head is not economically active. Though poverty has declined for the unemployed as a group, the least educated unemployed have increased their absolute and relative risk for poverty over the 1997-2002 period. Seen in the context of declining returns to education for those with low education, this group may become increasingly vulnerable in the future. The unemployment rate is high among youth, women, and particularly educated women. Youth from poor families have a higher unemployment rate than the non-poor (42 as opposed to 36 percent). In 6 of the 12 governorates, the youth unemployment rate exceeds 50 percent (Figure 6).

Poverty has also declined for employed workers since 1997, and the proportion of households in Jordan headed by the “working poor” has declined from almost 10 percent in 1997 to only 6 percent in 2002. Yet, there were about 100,000 working adults living in poor families in 2002-03.

Figure 6. Youth Unemployment Among The Poor And Non-Poor By Governorate, 2002



Source: Staff Estimates, Based on Household Expenditure and Income Survey, 2002-03.

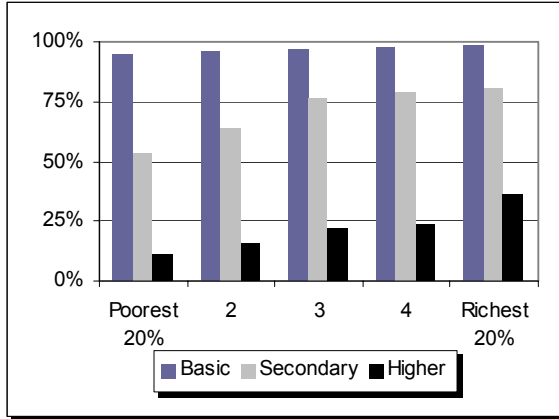
E. The Poor Are Lagging Behind In Education.

Despite significant gains in education, the poor, especially in rural areas, lag behind the rest of the population in terms of educational attainment. In 2002, while the proportion of illiterates was between 8 percent and 9 percent in the upper four wealth quintiles, 12 percent of the poorest quintile are reported to be illiterate—a statistically significant difference. Overall, illiteracy was more than twice as high for the rural poor as for the urban poor (20.4 versus 9.6 percent). While all children have equal physical access to education facilities, poor children are less likely than the rich to enroll in education levels beyond the primary level. The difference in enrollments is most pronounced for higher education, with the poorest quintile representing less than one-third the proportion of the richest 20 percent in public and private higher education institutes (Figure 7).

Illiteracy goes hand in hand with poverty. In addition, the payoffs of having higher education in reducing the likelihood of being poor have dramatically improved between 1997 and 2002.

For example, a head of household who is illiterate is 19 times more likely to be poor as one who has attained more than two years of college education.

Figure 7. The Poor Lag Behind In Every Stage Of Education



Source: Household Expenditure and Income Survey, 2002-03.

This is indicative of the demand for skill-intensive labor during the era of structural reforms. However, even with similar endowment of higher education, the returns to higher education are 60 percent higher for the non-poor compared to the poor possibly because the poor have fewer opportunities to take advantage of their higher education than the non-poor. Nevertheless, the value of higher education remains high for both the poor and the non-poor.

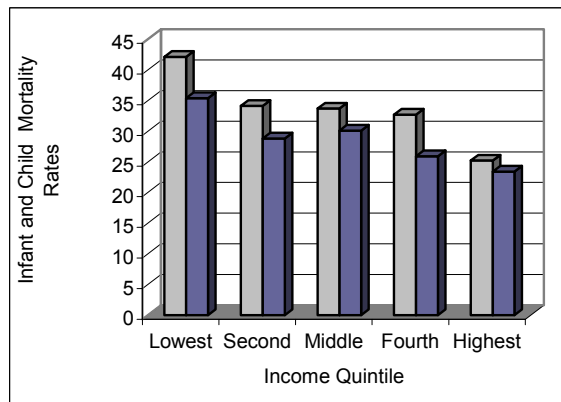
Why do inequalities remain in the education system? Evidence from other studies and analysis of the 1997 and 2002 Household Expenditure and Income Surveys sheds light on possible factors. Limited opportunities to generate income for people in rural areas, lower levels of mobility and a lack of information on educational opportunities, as well as the lack of access to credit markets and other means of student financial aid may be the constraining factors sustaining inequalities in the education system. Public spending is more equitably distributed at the lower levels of education, and there is scope for greater equity in higher education. Analysis of the per-student subsidy at the different levels of education reveals that basic education subsidies are pro-poor, while higher education subsidies are pro-rich. Thus, there is a strong case for enhancing the targeting of higher education financing toward lower-income groups, through,

for example, targeted scholarships and subsidized loans.

F. The Poor Have Weaker Health Outcomes, But Bear A Higher Burden Of Expenditure.

Recent household surveys⁹ reveal important inequalities in the health indicators of the poorest 20 percent of Jordanian society. The poor are exposed to greater health risks and have significantly lower access to health services than the rich. Infant and child mortality rates for the poor are 1.5 to 1.7 times higher than for the richest quintile (Figure 8). For poor children who do survive, the effects of malnutrition are severe. Stunting (height for age) and wasting (weight for age) are nearly 7 times greater than for children of the richest quintile. Prevalence of disability is nearly twice as high for the poor than in the richest quintile. Moreover, the process indicators show lower numbers of physician-assisted deliveries, fewer deliveries at home, and a lower rate of contraceptive use. Some underlying risk factors for these lower health outcomes include lower school completion rates (particularly for women), higher rates of smoking, and poorer methods of waste disposal. Other factors, such as health financing methods, suggest a substantial degree of regressivity, with the poor paying proportionately more out-of-pocket for outpatient care (9 percent of household income), as opposed to the richest (7 percent).

Figure 8. Infant And Child Mortality Rates By Income Quintile



Source: Demographic and Health Survey, 1997, Department of Statistics, Jordan

⁹ Demographic and Health Survey, 1997, Department of Statistics, Jordan.

Preliminary analysis of public sector spending on health suggests that it is pro-poor, as the poor tend to make more use of both the outpatient and inpatient services offered by hospitals under the Ministry of Health. The services provided by the Royal Medical Services (a publicly funded organization), on the other hand, are utilized more by higher income groups for both types of care. Recommendations to improve health outcomes of the poor include: childhood nutrition, reproductive health care, and health finance reforms favoring the poorer sections of the society.

Conclusion

Despite the significant reduction in levels of poverty, there are some important concerns about the sustainability of the current pace of poverty reduction efforts in Jordan that have some important policy implications.

First, the current pace of poverty reduction will require that economic growth (and ensuing income gains) improve significantly in order to provide a more sustained pace of future consumption growth and poverty reduction. Sustainability of the current pace of reduction in poverty would require acceleration in GDP growth to at least 6 percent (and per capita growth to levels of about 3.5 percent per annum) or higher that benefits the poor, substantially larger than the 3.8 percent growth average during 1997-2002. Recent economic growth has picked up despite large economic shocks, and needs to be sustained and/or accelerated.

Second, the uneven geographic spread of poverty reduction has left three governorates (Balqa, Karak and Aqaba) with no change in poverty and the Zarqa governorate with an actual increase, besides leaving one-sixth of the sub-districts desperately poor where more than 34 percent of the population is presently poor. Yet, public interventions will continue to be relevant for poverty alleviation. Where the private sector is unlikely to reach, such as in the remote areas of Jordan, the Jordanian authorities have options to use social assistance for the poor unable to work and community-based development programs for all others. Also, the uneven pace of poverty

alleviation across governorates may call for appropriate correction mechanisms in the incentive framework if benefits clearly outweigh costs.

Third, the leakages in the Government's recently implemented social assistance program (Family Income Supplement Program) for combating poverty are high with the non-poor collecting two-thirds of the assistance.

Fourth, the persistence in the unemployment rate for the poor is troublesome, because a lasting impact on poverty reduction will require jobs for the poor and improvement of their incomes. Families headed by unemployed persons have reduced poverty even though their employment and income have not increased, primarily due to greater share of transfers and more spending.

Fifth, the persistent disparity of the poor and non-poor in non-income dimensions of poverty, such as education and health, will hamper efforts by the poor to improve their earning potential, especially for the next generation.

Overall, therefore, the long-term policy needs to focus more on regional imbalances in development, improvement of access to the poor in education, health, and jobs for sustained reduction in poverty. In the transition, there is an urgent need to plug the leakage in the Government's cash transfer program, two-thirds of which is collected by the non-poor, and institute poverty monitoring systems for timely remedial action instead of waiting for results from surveys at five-year intervals as at present.

For more information on the details of the Jordan Poverty Assessment, please contact Mohammad Khasawneh (Mohammad.K@mop.gov.jo) or Srinivasan Thirumalai (tsrinivasan@worldbank.org).

RECENT ECONOMIC DEVELOPMENTS

Overview And Economic Outlook

Economic developments in Jordan in the First Half of 2004 have largely been positive and have demonstrated the ability of the Jordanian economy to rebound after a mild recession in 2003, due to the war in Iraq. The growth witnessed in late 2003 and early 2004 is, in some respects, similar to the surge in economic activity in the early years of the new millennium, and appears to be partly driven by exports, both to Iraq and the United States. The new factor, however, is the positive spillover of high oil prices which have spurred growth in Jordan in the First Half of 2004, through high workers' remittances and buoyant tourism revenues.

The prospects for 2005 are on balance, positive, although vulnerabilities remain with respect to the sustainability of economic growth.

On the one hand, many of the factors behind the recent surge of economic activity are volatile: trade with Iraq is subject to high uncertainty due to unstable security; spillover from the Gulf countries depend on continued high world oil prices; and the dynamic growth of textile exports is likely to be slowed due to the termination in 2005 of restrictive provisions of the Multi-Fiber Agreement, which is likely to be offset only partially by the positive effects of the United States-Jordan Free Trade Agreement.

On the other hand, sources of growth are diversified, and this reduces the risk of negative factors. In particular, stabilization of the security situation in Iraq and oil prices are likely to be inversely correlated, ensuring that at least one of these two positive factors remains active for Jordan.

On the policy front, the Government's reform effort shows no sign of abating, and this continued commitment to structural reforms, together with strong visibility of Jordan on the international economic scene, should continue to spur growth.

Overall, although there is some possibility that Jordan could sustain very high growth rates,

between 6 and 8 percent beyond 2004, a more likely outlook is a growth rate between 5 and 6 percent. Key macroeconomic vulnerabilities can occur with rising inflation—which could impact interest rates and competitiveness—and with a surge in imports which could weaken Jordan's external balance.

Economic Growth And The Real Sector

Real GDP growth reached 7.2 percent in the First Half of 2004 compared to the same period in 2003. The sector breakdown shows that the first contribution to GDP growth came from the Manufacturing Sector, which contributed to 29 percent to total GDP growth. Indeed, the Industrial Production Index (IPI) increased by 13.7 percent compared to the First Half of 2003, and the IPI of the Manufacturing Sector rose by 15.5 percent. The second largest contribution to GDP growth (28 percent) arose from the Transport, Storage and Communication Sector and the third contribution (11 percent) arose from the Construction Sector. The Hotel and Restaurant Sector—a good indicator of tourism activity—increased its added value by almost 19 percent.

The positive growth dynamic of the First Half of 2004 more than catches up to the depressed First Half of 2003. This reflects a strong economic activity with Iraq; a continued strength in exports to the US; and a positive spillover in high oil prices—through remittances and capital inflows—while oil grant support from Arab oil producers has helped reduce the impact of high oil prices.

The Manufacturing Sector has been sustained by a strong recovery in exports to Iraq—which have increased by 165 percent in the First Half of 2004—as well as continued strength in exports to the United States [mainly from Qualified Industrialized Zones (QIZs)], which have increased by 61 percent. Transit trade with Iraq was also behind the strong performance of the Transport Sector. The growth of the Construction Sector can be linked to the rise in oil prices, as the sector traditionally benefits from the associated increase in remittances. Tourism also contributed

Table 1. Real GDP Growth

	2000	2001	2002	2003	First Half of 2004
Share of the Sector Value Added Growth to the GDP Growth					
Agriculture and Mining	0.3%	3.9%	21.7%	2.0%	0.3%
Manufacturing and Construction	22.9%	30.2%	47.8%	28.1%	44.9%
Trade and Tourism	20.8%	5.3%	4.4%	13.5%	8.3%
Transport and Communication	17.4%	30.5%	2.5%	33.3%	27.5%
Business Services - Net	11.0%	11.0%	1.6%	3.5%	1.7%
Public and Private Services	24.1%	13.2%	18.9%	16.5%	5.9%
Total GDP	4.1%	4.9%	4.8%	3.3%	7.2%

Source: Jordanian Authorities and World Bank Staff Estimates.

to the dynamism of the economy. Although tourist arrivals were up only 5.3 percent from a year earlier, spending seems to have increased by around 20 percent, based on the Hotel and Restaurant Sector performance. Overall, although the Iraq factor seems to have been a preponderant in determining the very good growth results at end June 2004, the spillover of the high oil prices—through tourism, remittances, and FDI—also helped considerably, as did the continued good performance of the QIZs.

It is expected that the economy will slow down slightly in the Second Half of 2004, due to seasonal factors in the Tourism and Construction Sectors, and the possibility of worsening security conditions in Iraq. Still, expected growth for 2004 ranges between 5 and 6.5 percent.

The Consumer Price Index (CPI) increased by 3.6 percent in the First Half of 2004 compared to 1.6 percent in First Half of 2003. The largest increases were registered in the Food and Non-Tradable categories, which rose by more than 5 percent at end June 2004 over a 12 month period. The increase in oil prices had a modest impact on rising household fuels and electricity prices by about 3.5 percent, but might be underrepresented in the CPI calculation. This seems to indicate that the strong economy is starting to have inflationary effects, which could bring a reversal of monetary policy in the coming months.

External Sector

The Trade Deficit deteriorated, reaching 41 percent of GDP. Figures show that total exports, including domestic exports and re-

exports, rose in value terms by 33 percent in the First Quarter of 2004 compared to the same period in 2003, while imports increased by 37 percent.

Growth of merchandise exports in real terms, exceeded 34 percent in the First Half of 2004. The largest growth of exports was in manufactured goods, especially in the clothing category. Exports to Iraq resumed and increased in value terms by 165 percent in First Half of 2004 compared to First Half of 2003, reaching US\$267 million. Exports to the United States increased in value by 61 percent, reaching US\$418 million. Exports to Iraq and the United States represented respectively 17.5 percent and 27 percent of domestic exports in the First Half of 2004.

Imports of oil products increased by 43 percent in value terms and 23 percent in volume. The increase in volume reflects higher economic activity, and, possibly, the de-stocking of reserves that occurred in the Second Quarter of 2003, when imports from Iraq were interrupted. Imports from Arab countries increased by 47 percent in the First Half of 2004 compared to the First Half of 2003. This increase is particularly high with regards to Saudi Arabia (411 percent) and reflects the substitution of oil imports from Iraq by oil imports at higher prices from Saudi Arabia.

Data for non-merchandise transaction (First Quarter of 2004 only) show an increase in freight receipts (40 percent), Net Travel Receipts (31 percent), Net Public Transfers (14 percent) and Workers' Remittances (10 percent.) Net Travel Receipts and Workers' Remittances are directly linked to the improvement in the regional economic situation following the increase in oil prices. The increase in freight income is consistent

with the increasing Trade and Transportation activities with Iraq.

The positive results on the Services and Transfers accounts helped offset 77 percent of the increase in the Trade Balance Deficit in the First Quarter of 2004. The Current Account Deficit thus remained moderate at US\$28 million in the First Quarter of 2004, despite the increase in the Trade Balance Deficit by US\$254 million.

**Table 2. Balance of Payments
First Quarter 2004 Results, in US\$ Million**

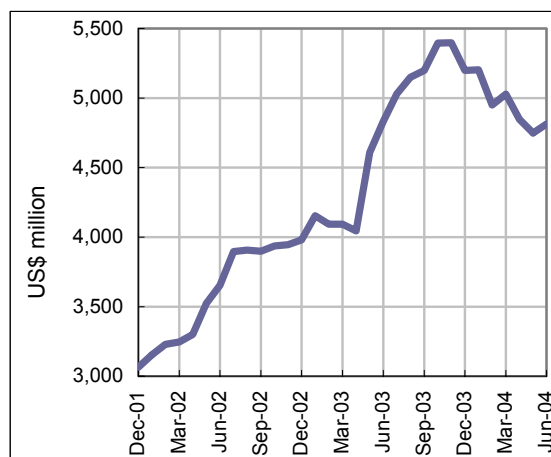
	2001	2002	2003	2004
Trade Balance	-480	-403	-443	-697
Exports and Re-exports	472	580	673	869
Imports	952	982	1116	1565
Current Account Balance	65	-12	142	-28
o/w Workers' Remittances (Net)	363	380	412	452
o/w Net Public Transfers	122	87	206	250
Capital and Financial Account	-19	2	-158	-36
o/w FDI	28	14	43	202

Source: Jordanian Authorities and World Bank Staff Estimates.

During the First Quarter of 2004, the Capital Account registered a US\$36 million deficit against a US\$157 million deficit a year earlier. The improvement in the Capital Account results from a large increase in Direct Investments from US\$43 million to US\$202 million between the First Quarter of 2003 and the First Quarter of 2004.

Disposable foreign reserves reached US\$4.8 billion at end June 2004. Foreign reserves kept their levels of June 2003 but decreased by US\$385 million compared to their level of December 2003, reflecting the worsening trade deficit in the Second Quarter of 2004, and an increase in the dollarization. Reserves by the end of the year 2003 reached 52 percent of GDP. Reserves at end June 2004 represented the equivalent of 8 months of imports against 11 months a year ago.

Figure 1. Central Bank Net Reserves



Source: Jordanian Authorities and World Bank Staff Estimates.

Public Finance

The 2004 budget forecasts a 7.4 percent increase in domestic revenues, and a 3.2 percent rise in expenditures that would reduce the deficit (before grants) from 10.6 percent of GDP at the end of year 2003 to 9.2 percent at year-end 2004.

For the First Half of 2004, domestic revenues increased 32.3 percent compared to 2003, while expenditures remained stable in nominal terms. The increase in taxes on income and profits accounts for 17 percent of the total surge in revenues. The rise of the Sales Tax on imported goods and of Customs Duties (linked to the large increase in imports) accounts for 31 percent, while the increase in Fees Collection accounts for 17 percent of the revenue increase. The rise of Petroleum Taxation and in Sales Tax Rates, together with other tax increases, should continue to further enhance revenue in the coming months.

On the expenditures side, Debt Service, Defense, and Goods and Services expenditures diminished, while annual salary increases led to a 5 percent rise in the Civil Service Wages Bill. Investment Expenditures increased by 4.6 percent, and Pension Expenditures by 8.8 percent.

The Budget Deficit, before grants and rescheduled interests, reached JD116 million in the First Half of 2004, equivalent roughly to 1.5 percent of GDP, against a deficit of JD367 million in the the First Half of 2003, equivalent to around 5 percent of GDP. This significant reduction in the Budget

Deficit was offset by the reduction in external grants, which amounted to only JD73 million in the First Half of 2004, against JD457 million in the First Half of 2003. The Budget Deficit after grants, therefore, worsened, moving from a surplus of JD90 million in the First Half of 2003 to a deficit of JD43 million in the First Half of 2004.

Financial Sector

Demand and Time Deposits in the Commercial Banks increased by 10.5 percent between the First Half of 2003 and the First Half of 2004, and by 6.1 percent since end 2003. In comparison, the growth of deposits between the First Half of 2002 and the First Half of 2003 was 6.1 percent and 4.9 percent between end 2002 and the First Half of 2003. Foreign liabilities decreased by 5.6 percent, or US\$254 million, between end 2003 and the First Half of 2004. The year-to-year increase in deposits by JD782 million exerted considerable pressure on banks' margins as lending did not follow. Consequently, interest rates on clients deposits with the banking sector dropped.

Table 3. Selected Monetary Indicators
Half Year Results

	2001	2002	2003	2004
M2 Year-to-Year Increase	6.7%	7.7%	7.4%	9.2%
Change in Lending to the Private Sector	11.4%	5.2%	3.0%	9.8%
Interest Rates on CDs - 3 Months	4.6%	3.9%	2.3%	2.5%
Interest Rates on Overdrafts	10.8%	9.7%	10.1%	8.7%
CPI Average Increase	0.5%	2.8%	1.6%	3.6%

Source: Jordanian Authorities and World Bank Staff Estimates.

The share of the deposits with the Central Bank in Jordanian Dinars in the total assets of the commercial banks slightly increased from 18 percent in the First Half of 2003 to 19 percent in the First Half of 2004. This figure remains below the 20 percent reached at end 2003. Loans to the private sector increased by JD483 million (US\$682 million) or 9.8 percent on a yearly basis. More than half of that increase occurred during the Second Quarter of 2004, underlining both the acceleration of the activity in

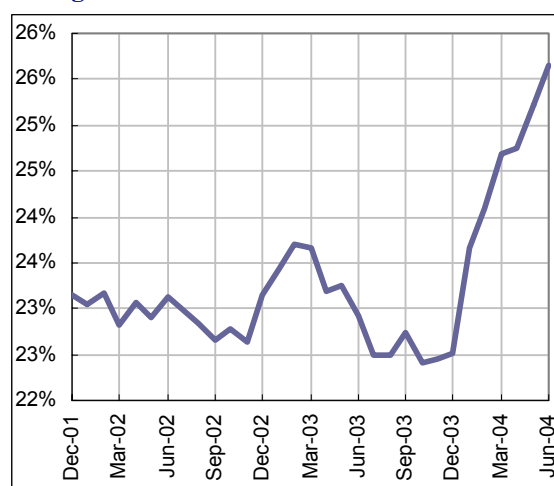
2004, and the positive response of the market to the decrease in lending rates.

Dollarization

The Dollarization Rate reached 25.6 percent of deposits in June 2004 against 22.5 percent and 23 percent respectively in December 2003 and June 2003. Compared to December 2003, deposits in foreign currencies increased by 18.6 percent, while M2 (money and quasi money) progressed by 4.1 percent and deposits in Jordanian Dinars decreased by 0.1 percent. The foreign currency deposits increase reached US\$552 million compared to December 2003 and US\$638 million compared to June 2003. These developments suggest that Jordanian depositors tend to conserve their assets in foreign currency (worker's remittances), thus, explaining the discrepancy between the decrease in foreign currency reserves of the Central Bank and the Balance of Payments Deficit.

Interest rates in the Banking Sector continued to decrease in the First Half of 2004. The Central Bank re-discount rate remained stable compared to year-end 2003. Interest rates on CDs slightly increased over the same period. This development allowed the banks to mitigate the decrease of creditor rates on deposits and to maintain a more substantial decrease of debtor rates on loans to the private sector.

Figure 2. Dollarization of M2 in Percent



Source: Jordanian Authorities and World Bank Staff Estimates.

BANK GROUP OPERATIONS

IBRD Projects In The Pipeline

○ *Regional and Municipal Development Project* (US\$35 million). The objective of the Project is to: (i) strengthen the intergovernmental finance system; (ii) upgrade financial management, technical and administrative capacities at the local level; and (iii) increase the coverage and quality of municipal service provision, with particular emphasis on under-served areas.

IBRD Ongoing Projects

The current portfolio in Jordan consists of seven projects for a total commitment amount of US\$319.7 million, of which US\$126 million has been disbursed to-date.

○ *Second Tourism Development Project (TDP-II)*. (US\$32 million.) The Project aims at: (i) creating the conditions for an increase in sustainable and environmentally sound tourism in Petra, Wadi Rum, Jerash, and Karak; and (ii) realizing tourism-related employment and income-generation potential at Project sites.

○ *Amman Water and Sanitation Management Project (AWSMP)*. (US\$55 million.) The Project aims at: (i) improving the efficiency,

wastewater services for the Amman Service Area; and (ii) laying the groundwork for the sustainable involvement of the private sector in the overall management of these services.

○ *Health Sector Reform Project (HSRP)*. (US\$35 million.) The Project is based on the findings of the Health Sector Study, prepared jointly by the World Bank and the Government of Jordan (April 1997).

○ *Higher Education Development Project (HEDP)*. (US\$34.7 million.) The objective of the Project is to initiate improvements in the quality, relevance and efficiency of Jordan's higher education, and to support Jordan's program to reform sector governance.

○ *Horticultural Exports Promotion Learning and Innovation Loan* (US\$5 million). The Loan will initiate the process of establishing Jordan as a reliable supplier of non-traditional, high-value export crops to niche markets in the European Union and Gulf countries.

○ *Education Reform for the Knowledge Economy* (US\$120 million). The Project supports systemic educational reform in Jordan that extends from Early Childhood Education through Secondary Education. The Project will contribute to the development of human capital with the

Active Portfolio	Approval Date	Loan Amount US\$ M	Undisbursed Amount US\$ M	Primary Sector	Closing Date
Second Tourism Development	Jul-97	32.0	8.2	Urban Development	Jun-05
Amman Water and Sanitation Management	Mar-99	55.0	6.1	Water Supply/Sanitation	Jan-06
Health Sector Reform	Mar-99	35.0	7.0	Health	Dec-04
Higher Education Development	Feb-00	34.7	17.6	Education	Dec-05
Horticultural Exports Promotion Learning and Innovation	Jun-02	5.0	4.3	Agriculture Markets and Trade	Dec-06
Education Reform for Knowledge Economy	May-03	120.0	113.0	Education	Dec-08
Amman Development Corridor	Jun-04	38.0	38.0	Transport	Jun-09
Total		319.7	194.2		

management, operation, and delivery of water and

skills and competencies required by the Knowledge Economy.

- **Amman Development Corridor** (US\$30 million). The Project aims at: (i) assisting Jordan's growth strategy by providing needed infrastructure to support Amman's role as a regional center for trade and services; and (ii) helping ensure that Jordan's road assets are managed in a cost-effective and sustainable manner.

Ongoing Grants

- **Institutional Development Fund (IDF) Grant for Enhancing Women's Health** (US\$140,000). Under the Grant, research/studies will be undertaken to: (i) cover the gaps identified; (ii) develop a detailed plan for a National Women's Center; (iii) carry out a Needs Assessment Survey on females in the southern part of Jordan where access to services are limited; and (iv) with the findings, develop a detailed package of preventive and curative services.

- **Institutional Development Fund Grant for Strengthening the Capacity of the National Council for Family Affairs** (US\$114,000). The Grant will assist the National Council for Family Affairs in playing an important role in developing policies and national strategies (and monitoring their implementation), and advocating on behalf of, children and families, in close collaboration with relevant public agencies.

- **Institutional Development Fund Grant to Support the Development of a Monitoring and Evaluation System** (US\$395,000). The Grant will contribute to the design and implementation of a sound monitoring and evaluation framework for the Government to: (i) adequately monitor input requirements of large scale reform projects, and (ii) follow implementation of large scale, multi-sectoral reform projects through various activities.

- **Japanese Social Development Fund Grant – Integrating “At Risk” Children/Youth in Mainstream Society** (US\$994,860). The objective of the Grant is to build capacity of community-based referral and partner organizations, including NGOs, to help reintegrate “at risk” children/youth into mainstream society.

- **Japanese Social Development Fund Grant – Legal Aid for Poor Women** (US\$191,000). The objective of this Grant is to provide legal services to poor women in Jordan as a means to improve their daily lives.

- **Integrated Ecosystems/Rift Valley Grant** (US\$350,000). The objective of the Grant is to assist in the preparation of the Integrated Ecosystem Management in the Jordan Rift Valley Project, whose main objective is to secure the ecological integrity of the Jordan Rift Valley as a globally important ecological corridor and migrator flyway, through a combination of site protection and management, nature-based socio-economic development and land use planning.

- **Sustainable Development of Renewable Energy Resources and Promotion of Energy Efficiency Grant** (US\$1 million). The objectives of the Grant are to contribute to the Government's efforts to integrate climate change concerns in its economic development strategy by removing the barriers to promoting the development of the country's renewable energy resources (wind, solar and geothermal), and in enhancing the efficiency of energy use in line with the policy to meet the energy needs of Jordan in an economic and environmentally sustainable manner; and by supporting a feasibility study for the future development of a commercial size wind energy project with private sector involvement.

- **Conservation of Medicinal/Herbal Plants Project** (US\$5 million Global Environment Facility). The Project supports the conservation, management, and sustainable utilization of medicinal and herbal plants in Jordan through ensuring effective *in-situ* protection of threatened habitats and ecosystems and *ex-situ* sustainable use. The main components are: (i) institutional strengthening; (ii) pilot sites conservation; (iii) public awareness and education; and (iv) income generation activities.

Further information on ongoing and pipeline projects can be found at:
<http://www4.worldbank.org/sprojects/>

IFC Ongoing Projects

○ ***Al-Hikma Pharmaceuticals Limited.*** The Project is designed to help Al-Hikma Pharmaceuticals upgrade and expand its existing pharmaceutical and chemical plants, and build a new plant. A new project involves the extension of a corporate loan to finance the company's modernization and expansion plans. This program of investments is being planned to help prepare the company for a future United States' initial public offering, and will include an IFC corporate governance component to help the company satisfy the recent corporate governance and securities law reform in the United States (the Sarbanes-Oxley Act of 2002), which institutes new rules regarding the corporate governance of publicly held corporations listed in the United States, including American Depository Receipts. The IFC loan will help the company expand its operations, enhance its research and development facilities, and refinance short-term loans in the MENA region, Europe, and Asia.

○ ***Zara Investment Holding Company.*** The Project consists of the construction and operation of an international standard 312-room hotel and complex comprising 44 apartments, partially serviced by the hotel; well-equipped exhibition/conference facilities; an auditorium; a health club, managed by Hyatt International; and a Wellness Center and 231-room hotel complex on the Dead Sea, combining medical and recreational facilities, managed by Mövenpick. Economic benefits accruing to Jordan include foreign exchange generation and the creation of about 600 direct jobs. IFC's main role in this Project is to provide long-term funding on terms and maturities not available in Jordan, and help the Zara Company mobilize local loans. IFC has approved a rescheduling of its loan to Zara Company and Zara has prepaid IFC.

○ ***Business Tourism Company.*** The Project consists of building and operating the Jordan Valley Marriott and Spa, a resort of international standards which includes: (i) a 216-key hotel; and (ii) a health/medical spa and beauty care facility. The Dead Sea, due to its unique therapeutic characteristics and climate, has established itself as a world-class center for the treatment of various skin and muscular-joint ailments, such as psoriasis and rheumatism. The complex is managed by

Marriott International and targets both health and leisure tourists.

○ ***El-Zay.*** El-Zay specializes in the manufacture of high quality men's suits. The Project consists of: (i) an expansion program to diversify El-Zay's product line by manufacturing men's outerwear; and (ii) a financial restructuring designed to strengthen El-Zay's balance sheet by replacing most of its short- and medium-term debt with long-term debt. IFC's investment is to help the company complete the Project's financial plan and improve its financial structure by providing funding on terms and maturities not otherwise available in Jordan.

○ ***Arab International Hotels Company (AIHC).*** The Project consists of the renovation and expansion of the Amman Marriott, a leading hotel located in the Shmeisani area of Amman. The work comprises: (i) the complete refurbishment of all the hotel's 294 rooms; and (ii) the addition of conference and banqueting facilities, a health club, retail space, movie theaters, and an underground parking facility. The expansion and modernization of the Marriott will boost the hotel to a 5-star international level, allowing it to match the quality level provided by its competitors.

○ ***Jordan Hotels and Tourism Company (JHTC).*** The Project comprises an extensive refurbishment of most of the Intercontinental Hotel's existing 366 rooms and the addition of 125 new rooms and facilities. The hotel will replace 15 of its elevators, its boilers, and the kitchen, safety, and telecom equipment. The Management Agreement between Intercontinental Hotels Corporation and JHTC has recently been extended to 2007. IFC has approved a rescheduling of its loan to JHTC and JHTC has prepaid IFC.

○ ***Modern Agricultural Investment Company (MAICO).*** The overall objective of the company's operations is to act as a market and technology beacon to help diversify and upgrade the range and combination of crops and irrigation methods, which would develop a modern export sector, thereby maximizing the economic return on irrigation water, and ultimately rationalize its overall consumption.

○ ***Middle East Investment Bank (MEIB) Recapitalization.*** The Project involves both

MEIB's (the smallest commercial bank in Jordan) recapitalization to meet the Central Bank of Jordan's minimum capital requirements, and its restructuring, managed by Société Générale Libano-Européenne de Banque. IFC investment is part of this larger recapitalization and restructuring program for MEIB. It complements the Technical Assistance Program in Jordan, provided by both IFC and the World Bank.

○ **Boscan Jordan (International Luggage Manufacturing Company).** The Project is to expand the operations of Boscan Jordan Group, a Jordanian manufacturer of soft-side luggage products selling primarily to the United States market. The company has since switched its operations to textiles.

○ **Jordan Gateway Project.** The Project is to develop, construct, and operate an industrial estate covering about 65 ha (of which about 50 ha would be in Jordan) at the Jordan-Israel border.

○ **Al Tajamouat Industrial City (ATIC).** The Project will expand the existing integrated industrial estate, ATIC. The expansion commenced in late 2000 to keep up with the high demand for QIZ space in Jordan.

○ **Indo Jordan Chemical Company.** The Company owns and operates a 244,000 mt/year (as of 100 percent P205) phosphoric acid plant and ancillary facilities adjacent to a phosphate rock mine in the south of Jordan, as well as storage facilities at the Red Sea Port of Aqaba. P205 is used to produce DAP, a widely used fertilizer. The company has prepaid IFC.

○ **Middle East Regional Development Enterprise (MEREN) Silica Sand.** The US\$15.5 million Greenfield Project is to establish the MEREN Silica Sand Plant, which will manufacture high quality silica sand to be mainly exported to European glass manufacturers.

○ **Middle East Complex for Engineering, Electronics, and Heavy Industries (MEC).** MEC is the leader in Jordan for electronics and household appliances. It is the premier appliance assembler in the country and is the sole distributor of products for the Korean companies LG Electronics, Inc. and Daewoo. The Project is to: (i) relocate MEC's existing production facilities

for modernizing its assembly lines and increasing efficiencies; and (ii) expand by establishing a joint venture with the Haier Group of China. The expansion project will broaden MEC's product line while maintaining the focus on household goods to be sold primarily in regional markets.

Further information on IFC ongoing and pipeline projects can be found at:
<http://www.ifc.org/projects>

MIGA Ongoing Projects

Jordan has been a member of MIGA since MIGA's inception in 1988. MIGA's outstanding portfolio in Jordan consists of two Contracts of Guarantee for a project in the manufacturing sector with gross exposure of US\$45.4 million and net exposure of US\$31.8 million. The coverage is for two shareholder counter-guarantees provided to the Danish investor's affiliate company, Kemira Agro Oy of Finland, for guarantees to the Project financiers.

This Project is significant in many ways: it involves international collaboration between the European Investment Bank and the Islamic Development Bank, the Project's financiers; as MIGA's first project in Jordan, it underscores the agency's intent to play a larger role in the region; and the Project is the first reinsurance of a MIGA contract by Finnvera, Finland's investment insurance agency, resulting from an October 2000 agreement between the two agencies to work together to coinsure and reinsure projects, with the goal of increasing Finnish investment into emerging economies.

MIGA received a request for its technical assistance services in the Fourth Quarter of FY04 in the areas of training and institutional capacity building. An assessment mission is programmed for early in FY05 to initiate this assistance. The estimated amount of foreign direct investment facilitated by MIGA into Jordan to date is US\$86.5 million. MIGA's online investment promotion services (www.fdixchange.com and www.ipanet.net) feature 138 documents on investment opportunities and the related legal and regulatory environment in Jordan.

Further information on MIGA can be found at:
<http://www.miga.org/>

Bank Lending to Jordan – Fact Sheet

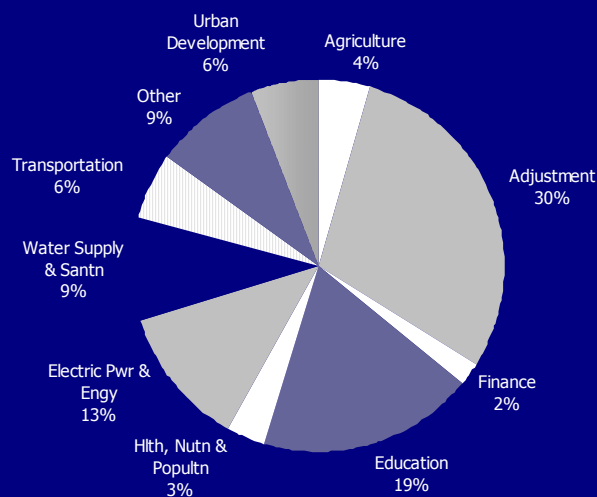
Jordan joined the World Bank in 1952, and received its first IDA credit in 1961. Over the past 42 years, a total of 80 credits and loans have been granted to Jordan for a total amount of US\$2,215 million. Jordan is also a member of IFC, ICSID, and MIGA.

IDA: US\$86 million (15 Credits)
 IBRD: US\$2,129 million (65 Loans)
 Of Which:
 Investments: US\$1,345 million
 Adjustments: US\$870 million (8 Projects)

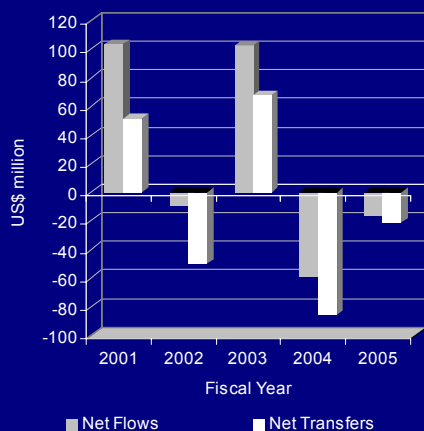
Disbursements: US\$2,016 million

Repaid: US\$990 million
 Obligation: US\$1,008 million

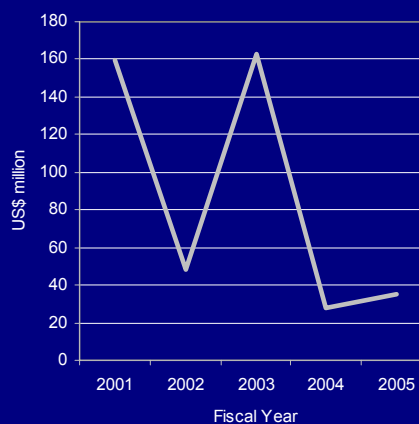
Sectoral Distribution by Value



Net Flows and Net Transfers



Disbursements



Projects Approved by Fiscal Year

Fiscal Year	# of Projects	US\$ M.
1994	2	100.0
1995	3	146.6
1996	2	120.0
1997	2	140.0
1998	3	67.0
1999	3	210.0
2000	1	34.7
2001	1	120.0
2002	1	5.0
2003	2	240.0
2004	1	38.0
2005	0	0
Total	21	1221.3

News, Recent And Upcoming Activities

World Bank International Disability Conference - Disability And Inclusive Development: Sharing, Learning, And Building Alliances



On November 30 and December 1, 2004, the World Bank will organize its Second International Disabilities Conference, entitled "Disability and Inclusive Development: Sharing, Learning, and Building Alliances." This two-day event in Washington, D.C. will bring together hundreds of disability and development experts from around the world, who will participate in panel discussions, hear keynote addresses from distinguished speakers within the disability and economic development communities, browse the many disability-related display booths, and share knowledge on state-of-the-art technology and best practice in disability work.

This event constitutes the follow-up to the December 2002 international disability conference. Over the past two years, there has been some exciting work done within the disability and development community, which the Bank hopes to build upon in order to reduce global poverty for disabled people. The activities

of the 2004 Conference will involve many partners. The conference will enable participants to discuss progress made, confront challenges and opportunities, and move this important work forward. The progress made to-date is due to increased interest in disability and development across a whole host of development agencies, civil society, the UN family and donors.

In line with the Bank's mission of poverty reduction, this conference is a reflection of the Bank's commitment to incorporate the concerns of disabled people into its ongoing operations and research. The Bank believes that in order to achieve its goal of eliminating poverty, it is essential to bring people with disabilities into the mainstream of economic development.

For more information and to access online registration for the conference, please visit:
www.worldbank.org/disability

The World Bank's New Debt Website



Much of the debt burden in low-income countries dates back to the 1970s and 1980s. Many poor countries had borrowed to fund domestic projects on the back of the commodity price boom, believing that high prices and export earning would be sustained. Oil price shocks during that time, which caused recessions throughout the world, combined with high interest rates and low commodity prices hit borrowing countries especially hard.

Though many countries recovered, many did not. Although several rounds of debt restructuring took place to alleviate the debt burdens these countries faced, it soon became evident that a multilateral debt reduction effort, such as the Heavily Indebted Poor Countries (HIPC) Initiative, would be

needed to properly address the severe debt burdens of these countries.

The Bank's new Debt Department builds on the HIPC Initiative's work. It serves several purposes, including the implementation of the proposed new debt sustainability framework for low-income countries and the continued implementation of the HIPC Initiative. The department is also responsible for shaping the World Bank's position—when possible, in coordination with the debt policy community in general—on global debt issues facing developing countries.

For more information, please visit:
www.worldbank.org/debt

Evaluation ... A Necessary Science

The World Bank is boosting its capacity to evaluate the impact of its projects and programs aimed at reducing poverty. The endeavor is part of a plan to help developing countries achieve the Millennium Development Goals—international development targets to be reached by 2015.

One initiative is to undertake impact evaluations on strategically selected projects and programs to measure their lasting impact on the lives of the poor.

A Task Force on Development Impact Evaluation was put together to focus on projects and programs, such as slum upgrading, education, health and utility reforms, as well as conditional cash transfers—programs in which poor families receive monthly grants in return for keeping their children in school and taking them to health centers for regular check-ups.

The First Of Its Kind

While the Bank undertakes standard project evaluations as a matter of course, the deeper focus on the long term impacts is a first for the Bank.

With over 100 researchers in its Development Economics Department (DEC), and access to operational experience, few other organizations can match the Bank's capacity to undertake such evaluations. An impact evaluation differs from a traditional evaluation as it seeks to assess, in a comprehensive way, how a project affects the lives of people in a targeted group. A standard evaluation assesses whether or not, or to what extent, a program has reached its intended objective, while an impact evaluation is aimed at evaluating the broader development impact of the project on the population.

It compares observed outcomes to what the situation would have been if the program had not been undertaken. It is really the development dimension—that is what we are trying to evaluate. In the past, such evaluations were constrained by the lack of data and the technical challenges of developing a counterfactual, that is, what would have happened without the program. Over the past few years though, significant improvements in

both areas have made impact evaluations easier to implement.

Learning From Experience

One series of programs to be put under the spotlight are the conditional cash transfer programs supported by the Bank around the world. These programs, to which countries such as Mexico and Brazil have devoted significant budgets, seek to break a vicious cycle of poverty being transferred across generations.

The programs deliver cash transfers to poor families who keep their children in school and send them to health clinics for regular checkups.

Sound evaluations of several such programs in Latin America have shown their impact in improving human development outcomes. But further evaluations can help answer remaining questions on how to design such programs and the extent to which they can be replicated elsewhere.

In a departure from existing practices, the evaluations will be stored in a live online database accessible to policymakers. It is ultimately all part of the Bank's push to measure the effectiveness of aid delivery. All projects funded by the World Bank are evaluated. Evaluation at the Bank has two major dimensions:

- self evaluation by the units responsible for particular programs and activities; and
- independent evaluation by the Operations Evaluation Department (OED).

Public Engagement On Project Impact

In the past decade, people who may have been adversely affected by World Bank-financed projects have had the right to air their concerns through the Inspection Panel.

The Inspection Panel, a three-member body which began operations in September 1994, is the first body of its kind to give voice to private citizens in an international context. In the 10 years since the Panel was established, 33 requests have been filed

for investigation. Six complaints were filed in the 2004 fiscal year.

The Inspection Panel has a mandate to investigate complaints from two or more people who believe they have been or will be harmed by a project in which the Bank has allegedly failed to abide by its policies and procedures.

The Panel provides a way for private citizens—especially poor people—to gain direct access to the World Bank’s Board of Executive Directors. Ultimately, the Board reviews the panel’s recommendations and decides whether an investigation should take place. Of the 33 requests for inspection filed in the past 10 years, the Panel recommended investigation in 14 cases.

The public also has the ability to call for investigations into allegations of corruption

through the Bank’s Department of Institutional Integrity (INT). An internal unit, INT, investigates not only allegations of fraud and corruption in Bank Group operations, but also allegations of staff misconduct.

In just eight months, to March 2004, the Bank referred 18 cases of fraud or corruption to national justice authorities. So far, more than 180 companies and individuals have been disbarred from doing business with the Bank—with their names and sanctions posted on the Bank’s [website](#).

For more information, please visit:
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ICSID



On a number of occasions in the past, the World Bank, as an institution, and the President of the Bank, in his personal capacity, have assisted in mediation or conciliation of investment disputes between governments and private foreign investors. The creation of the International Center for Settlement of Investment Disputes (ICSID) in 1966 was, in part, intended to relieve the President and the staff of the burden of becoming involved in such disputes. But the Bank's overriding consideration in creating ICSID was the belief that an institution specifically designed to facilitate the settlement of investment disputes between governments and foreign investors could help to promote increased flows of international investment.

ICSID was established under the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (the Convention) which came into force on October 14, 1966. ICSID has an Administrative Council and a Secretariat. The Administrative Council is chaired by the World Bank's President and consists of one representative of each State which has ratified the Convention. Annual meetings of the Council are held in conjunction with the joint Bank/Fund Annual Meetings.

ICSID is an autonomous international organization, however, it has close links with the World Bank. All of ICSID's members are also members of the Bank. Unless a government makes a contrary designation, its Governor for the Bank sits *ex officio* on ICSID's Administrative Council. The expenses of the ICSID Secretariat are financed out of the Bank's budget, although the costs of individual proceedings are borne by the parties involved.

Pursuant to the Convention, ICSID provides facilities for the conciliation and arbitration of disputes between member countries and investors who qualify as nationals of other member countries. Recourse to ICSID conciliation and arbitration is entirely voluntary. However, once the parties have consented to arbitration under the ICSID Convention, neither can unilaterally withdraw its consent. Moreover, all ICSID Contracting States, whether or not parties to the dispute, are required by the Convention to recognize and enforce ICSID arbitral awards.

Besides providing facilities for conciliation and arbitration under the ICSID Convention, the Center has, since 1978, had a set of Additional Facility Rules authorizing the ICSID Secretariat to administer certain types of proceedings between States and foreign nationals which fall outside the

scope of the Convention. These include conciliation and arbitration proceedings where either the State party or the home State of the foreign national is not a member of ICSID. Additional Facility conciliation and arbitration are also available for cases where the dispute is not an investment dispute, provided it relates to a transaction which has "features that distinguishes it from an ordinary commercial transaction." The Additional Facility Rules further allow ICSID to administer a type of proceedings not provided for in the Convention, namely fact-finding proceedings, to which any State and foreign national may have recourse if they wish to institute an inquiry "to examine and report on facts."

A third activity of ICSID in the field of the settlement of disputes has consisted in the Secretary-General of ICSID accepting to act as the appointing authority of arbitrators for *ad hoc* (i.e., non-institutional) arbitration proceedings. This is most commonly done in the context of arrangements for arbitration under the Arbitration Rules of the United Nations Commission on International Trade Law (UNCITRAL), which are specially designed for *ad hoc* proceedings.

Provisions on ICSID arbitration are commonly found in investment contracts between governments of member countries and investors from other member countries. Advance consents by governments to submit investment disputes to ICSID arbitration can also be found in about 20 investment laws and in over 900 bilateral investment treaties. Arbitration under the auspices of ICSID is similarly one of the main mechanisms for the settlement of investment disputes under four recent multilateral trade and investment treaties (the North American Free Trade Agreement, the Energy Charter Treaty, the Cartagena Free Trade Agreement and the Colonia Investment Protocol of Mercosur).

Under the ICSID Convention, ICSID proceedings need not be held at the Center's headquarters in Washington, D.C. The parties to an ICSID proceeding are free to agree to conduct their

proceeding at any other place. The ICSID Convention contains provisions that facilitate advance stipulations for such other venues when the place chosen is the seat of an institution with which the Center has an arrangement for this purpose. ICSID has to date entered in such arrangements with the Permanent Court of Arbitration in The Hague, the Regional Arbitration Centers of the Asian-African Legal Consultative Committee in Cairo and Kuala Lumpur, the Australian Center for International Commercial Arbitration in Melbourne, the Australian Commercial Disputes Center in Sydney, the Singapore International Arbitration Center and the GCC Commercial Arbitration Center in Bahrain. These arrangements have proved their usefulness in many ICSID cases and have helped to promote cooperation between ICSID and these institutions in several other respects.

The number of cases submitted to the Center has increased significantly in recent years. These include cases brought under the ICSID Convention and cases brought under the ICSID Additional Facility Rules. In addition to its dispute settlement activities, ICSID carries out advisory and research activities relevant to its objectives and has a number of publications. The Center collaborates with other World Bank Group units in meeting requests by governments for advice on investment and arbitration law. The publications of the Center include multi-volume collections of Investment Laws of the World and of Investment Treaties, which are periodically updated by ICSID staff. Since April 1986, the Center has published a semi-annual law journal entitled ICSID Review-Foreign Investment Law Journal. The journal was recently rated as one of the top 20 international and comparative law journals in the United States.

To learn more about ICSID, please visit:

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Recent World Bank Publications

MNA Publications

Gainers and Losers from Trade Reform in Morocco (Working Paper 3368). The Paper uses Morocco's national survey of living standards to measure the short-term welfare impacts of prior estimates of the price changes attributed to various trade policy reforms for cereals—the country's main food staple. The Paper finds small impacts on mean consumption and inequality in the aggregate. There are both gainers and losers and (contrary to past claims) the rural poor are worse off on average after trade policy reforms. The Paper decomposes the aggregate impact on inequality into a "vertical" component (between people at different pre-reform welfare levels) and a "horizontal" component (between people at the same pre-reform welfare level). There is a large horizontal component which dominates the vertical impact of full de-protection. The diverse impacts reflect a degree of observable heterogeneity in consumption behavior and income sources, with implications for social protection policies.

Cost of Environmental Degradation - The Case of Lebanon and Tunisia (Working Paper 29902). This Paper is the first step in a process supported by the Mediterranean Environmental Technical Assistance Program (METAP), towards using environmental damage, and cost assessments as instruments for integrating environmental issues into economic and social development. The specific objectives of this Paper are threefold: (1) provide an estimate of the cost of environmental degradation; (2) provide an analytical framework that can be applied periodically by professionals to assess the cost of environmental degradation over time; and, (3) provide a basis for a training program for ministries, agencies, institutes and other interested parties to incorporate assessments of environmental degradation costs into policymaking and environmental management. The Paper also provides cost estimates of select remedial actions that may be necessary to protect and restore the environment, and, presents a discussion comparing damage and remediation costs and the potential benefits of remedial action for some environmental issues. The cost of

remediation has been estimated for a limited number of actions for each environmental category, and, although the cost of remediation is the focus here, and mainly of investments and programs, a discussion of the policy context is warranted. Reducing degradation, and protecting the environment should be viewed in the context of economic and sector policies and development, and in the broader framework of environmental management. A comparison of benefits (reductions in damage) and costs (remedial actions), can be useful to point to environmental issues, for which benefits of remediation are likely to exceed the cost of remedial actions.

Current World Trade Agenda: Issues and Implications for the Middle East and North Africa Region (Working Paper 27396). The Paper discusses the imperatives for trade reform in the MENA region and presents an overview of the process and rules of multilateral negotiations and MENA countries' involvement. It also examines the three sector areas of agriculture, services, and textiles and clothing. This Paper focuses on three key questions for the MENA region: (1) How will trade liberalization in agriculture, services and implementation-completion of the textiles and clothing agreements affect MENA prospects?; (2) How should the MENA countries position themselves going forward in these negotiations?; and (3) How can the MENA countries shape their domestic policies and unilateral/multilateral trade policies to maximize the gains and minimize potential downsides, from such prospective and far-reaching negotiations?

Reforms and Growth in Middle East and North Africa Countries: New Empirical Evidence (Working Paper 29886). This Paper analyzes the linkages among economic reforms, human capital, physical infrastructure, and growth for a panel of 44 developing countries over the period of 1970-80 to 1999. The authors generate aggregated reform indicators using principal component analysis and show that the growth performance of the MENA region has been disappointing, because these economies have lagged behind in terms of economic reforms. However, the analysis also reveals that the growth

dividend of some reforms has been small. This is the case when structural reforms are implemented in an unstable macroeconomic environment (which corresponds to the situation of the MENA countries in the 1980s), and when macroeconomic reforms are accompanied by a low level of structural reforms (as observed during the 1990s).

Deeper Integration and Trade in Services in the Euro-Mediterranean Region: Southern Dimensions of the European Neighborhood Policy (ISBN: 0-8213-5955-X SKU: 15955). The Arab countries of the southern Mediterranean rim have long suffered from economic stagnation and an increasing marginalization in the global economy. Deeper economic integration with the enlarged European Union—accounting for a quarter of global GDP and foreign direct investment—could become a main driver for economic development in the southern Mediterranean countries. The planned Euro-Mediterranean free trade area for goods is a first step in that direction, but additional measures are needed to translate geographic proximity into economic growth; especially, the removal of non-tariff barriers, the liberalization of services trade, and comprehensive behind-the-border policy reforms. The European Neighborhood Policy, launched in 2003, could provide an appropriate policy framework for an integration strategy between the EU and its southern periphery.

This Report analyzes the adjustment needs and policy options associated with deeper integration between the two sides of the Mediterranean Sea. It puts specific emphasis on the dynamics of deeper integration at the company level, including issues such as outward processing trade, supply-chain integration, and the outsourcing of back-office functions. In addition to a general discussion of deeper integration and trade in services liberalization, the title also contains a detailed assessment of individual sectors—especially the backbone services and other markets of particular relevance for deeper integration. Even though the main focus is on regional integration, the title also factors multilateral liberalization issues into its analysis, as well as options, for the pursuit of an open regionalism.

Also available:

- *Gender and Development in the Middle East and North Africa: Women in the Public Sphere* (ISBN: 0-8213-5676-3 SKU: 15676).
- *Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract* (ISBN: 0-8213-5678-X SKU: 15678).
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- *Trade, Investment, and Development in the Middle East and North Africa: Engaging with the World* (ISBN: 0-8213-5574-0 SKU: 15574).

Bank Publications

World Development Report 2005: A Better Investment Climate for Everyone (ISBN: 0-8213-5682-8 SKU: 15682). Firms and entrepreneurs of all types—from microenterprises to multinationals—play a central role in growth and poverty reduction. Their investment decisions drive job creation, the availability and affordability of goods and services for consumers, and the tax revenues governments can draw on to fund health, education, and other services. Their contribution depends largely on the way governments shape the investment climate in each location—through the protection of property rights, regulation and taxation, strategies for providing infrastructure, interventions in finance and labor markets, and broader governance features such as corruption.

The *World Development Report 2005* argues that improving the investment climates of their societies should be a top priority for governments. Drawing on surveys of nearly 30,000 firms in 53 developing countries, country case studies, and other new research, the Report explores questions such as:

- What are the key features of a good investment climate, and how do they influence growth and poverty?
- What can governments do to improve their investment climates, and how can they go about tackling such a broad agenda?

- What has been learned about good practice in each of the main areas of the investment climate?
- What role might selective interventions and international arrangements play in improving the investment climate?
- What can the international community do to help developing countries improve the investment climates of their societies?

Remittances: Development Impact and Future Prospects (ISBN: 0-8213-5794-8 SKU: 15794).

New research shows the astonishing scope of remittances, with formally documented flows now estimated at US\$90 billion for 2003. Globally, remittances now constitute the largest source of financial flows to developing countries after Foreign Direct Investment (FDI), and indeed in many countries they now exceed FDI flows.

The Report explores policy options for enhancing the poverty alleviation impact of remittance money in recipient countries, and addresses concerns about increasing migration and inequality. It looks at new technologies that allow remittance service providers to reduce direct transaction costs and open new channels, enhancing convenience for remitters and improving levels of transparency and accountability for regulators and policy makers. It also establishes a baseline for further research and collaborative effort, showing the areas where the international financial institutions can add value to enhance the positive impact of remittance flows and minimize less welcome effects.

The Human Right to Water: Legal and Policy Dimensions (ISBN: 0-8213-5922-3 SKU: 15922).

The Report traces the issue of the right to water through a number of international legal instruments, particularly General Comment No. 15 which recognizes such a right. It analyzes the international legal regime for human rights, and argues that the nexus between development, water and human rights is well established therein. Although the central theme of the Report is General Comment No. 15 issued by the Committee on Economic, Social and Cultural Rights in 2002 which explicitly recognizes a human's right to water, the Report argues that the Comment supports the idea that there is an incipient right to water emerging in international

law today. This right is buttressed by a large number of soft law instruments, emerging customary international law, as well as an increasing number of domestic law instruments.

World Bank Atlas (36th Edition) (ISBN: 0-8213-5732-8 SKU: 15732). The Atlas (36th Edition) vividly illustrates the key development challenges in the world today. It provides easy-to-read, colorful world maps, tables and graphs highlighting key social, economic and environmental data for 208 countries.

Reshaping the Future: Education and Post-Conflict Reconstruction (ISBN: 0-8213-5959-2 SKU: 15959).

The aim of this Report is to draw international attention to the key role that education can play in both preventing conflict and in reconstructing post-conflict societies. The Report also alerts developing countries and donors alike to the devastating consequences of conflict on a country's education systems and outcomes, and emphasizes the importance of maximizing the opportunities to reform education systems presented by a reconstruction setting, adopting a long-term development perspective, and emphasizing equity and quality in the delivery of education services. Every education system has the potential to exacerbate the conditions that contribute to violent conflict. Based on this notion, the Report argues that education warrants high priority in both humanitarian response and post-conflict reconstruction. The central message of this Report is that education plays a key role in both conflict prevention and in the reconstruction of post-conflict societies. It highlights significant findings on education and post-conflict reconstruction drawn from thorough research and literature review, a survey and database of key indicators for 52 conflict-affected countries, and a review of 12 country studies.

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