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With special thanks to Mary Saba

WORLD BANK TRAINING ON PUBLIC EXPENDITURE ANALYSIS AND MANAGEMENT

Public expenditure is one of the critical ingredients of a country's development. To make public expenditure efficacious, it is essential that resource allocation decisions are underpinned by sound analysis, and that a well designed set of institutions, systems, and a performance focus guide budget formulation and execution.

Public expenditure issues touch on virtually every aspect of the World Bank's work. The country's budget should be a central mechanism in translating Bank lending into results on the ground. Sustainable poverty reduction will always require informed and well functioning resource allocation processes—due to their impact on macroeconomic stability, the allocation of resources to strategic priorities, and the efficiency and effectiveness with which policies are implemented. Within the World Bank, public expenditure issues often define the relationship between macro and sectoral concerns. The major vehicle of the World Bank for analyzing public sector issues in general and public expenditure in particular, is a Public Expenditure Review (PER).

PERs help countries establish effective and transparent mechanisms to allocate and use available public resources in a manner that promotes economic growth and helps in reducing poverty.

Most PERs are essentially comprehensive macro reports with a mandate to focus on the efficiency and efficacy of resource allocation. Topics include—but are not restricted to—analysis and projection of revenue, determination of the level and composition of public spending, inter- and intra-sectoral analysis, financial and non-financial public sector enterprises, structure of governance, and the functioning and efficacy of public institutions.

As the first stage of a participatory Public Expenditure Review, the World Bank provided a core training course in June 2003 on public expenditure analysis and management and the

process of a participatory PER to a team of Jordanian practitioners. The purpose of the workshop was to enable the participants to form part of the core team that will work on a Public Expenditure Review of Jordan together with the Bank.

Public Expenditure Analysis

In promoting development, states function as providers of goods and services in some areas, and play the role of facilitators to the private sector in others. Governments undertake expenditures to pursue a variety of economic, social, and political goals. Two common social and economic goals are: poverty alleviation and creating an enabling environment for the private sector. Besides the targeted programs of food and housing subsidies, access to and provision of basic levels of education (primary and secondary) and preventive health care services have been recognized as central to increasing the welfare of the poor. The enabling environment consists of adequate, properly regulated, well-maintained and efficient infrastructure of airports, roads and ports, electricity, telecommunications, water, waste disposal, and other similar facilities. Therefore, an appropriate mix of public spending is needed on equity and efficiency grounds.

In practice there is no optimal/unique prescription for either the design or the size of the public sector. Some broad principles for public sector involvement, however, can be developed on the basis of general administration, market failures and distributional considerations that apply across countries. Generally, beyond the core public sector activities, the design and implementation of public expenditure priorities and the associated public-private mix require detailed assessment and careful tailoring country by country.

Within a sector, a sensible rule of thumb is to examine the competing needs of different programs. Publicly stated objectives of the

government, potential spending trade-offs, and the existing economic and social output indicators—miles of paved roads, irrigated land areas, access to drinking water and sanitation, school enrollments, infant mortality and life expectancy—could be used as inputs in determining competing needs across sectors.

Public Expenditure Management (PEM)

Institutions come in many different forms: legislation, delegation of authority, regulations, reporting requirements, procedural requirements, generally accepted principles and standards, norms, behavior and values are just a few. All of these dimensions have an impact on the quality of public expenditure management.

Theory and practice show that a country's institutions—both formal and informal—have a decisive influence on budgetary outcomes at three levels:

- **Level 1:** Aggregate fiscal discipline.
- **Level 2:** Allocation of resources in accordance with strategic priorities.
- **Level 3:** Efficient and effective use of resources in the implementation of strategic priorities.

In other words, the total amount of money a government spends should be closely aligned to what is affordable over the medium term and, in turn, with the annual budget; such spending should be appropriately allocated to match policy priorities; and the spending should produce its intended results at least cost.

There is an obvious link between undisciplined fiscal policy and the resulting adverse consequences on the economy and those least able to protect themselves, namely the poor. Less often is the link made between ineffective budgeting systems and inappropriate (i.e., de-linked from strategic priorities) and unsustainable policy choices and sectoral allocations. Even rarer is the link made between poor budgeting systems and weak policy implementation and inadequate service

delivery. Where these links are made this is rarely used as a rationale for budget reform.

The interdependence of the three levels is one of the most powerful findings of both practice and theory. The pursuit of aggregate fiscal discipline is often done in such a way as to undermine both level 2 and 3 performance—arbitrarily reordering priorities and devastating service delivery and operational performance more generally.

Similarly, a lack of discipline and budgetary realism in making strategic policy choices leads to a mismatch between policies and resources, with the result being inadequate funding for operations. More positively, fiscal stability creates an environment which encourages sound level 2 and 3 performance. In turn, sound performance at these levels feeds back into fiscal stability.

Reflecting these perspectives, improvements in PEM require:

- A greater focus on performance—the results achieved with expenditure. Apart from the obvious reasons, this also has the potential to engage all stakeholders in pursuit of budgetary and financial management reform.
- Adequate linkages between policy making, planning, and budgeting. This is essential to sustainable improvements on all dimensions of budgetary outcomes.
- Well-functioning accounting and financial management systems. These are among the basics which underpin governmental capacity to allocate and use resources efficiently and effectively.
- Attention to the links between budgeting and financial management systems and other service-wide systems and processes of government—for decision making, for organizing government, for personnel management. A well performing public sector requires that all its component parts work well and, where appropriate, together.

Training In Amman

The training was provided in Amman using distance learning tools. Face-to-face learning was provided by two instructors in Jordan. The first session was presented by Ferhat Emil, Deputy Undersecretary, Treasury Government of Turkey, chairperson of the Public Expenditure and Institutional Review on Turkey, who shared his experience and the lessons learned from it with the participants. This was followed by several interactive sessions provided via video link using experts on specific topics from both inside and outside the Bank.

Instructors included the co-directors of the World Development Report 2004 “Making Services Work for Poor People”. Materials for the course were provided using web Course Tools (webCT) to which both the instructors and participants will retain their access for two years—the duration of the PER—which will be used for further training. The workshop was attended by 25 participants from central agencies such as the Ministry of Finance and Ministry of Planning, as well as sector ministries, and Ministries of Education, Health, and Infrastructure.

Following the training, the Government has agreed to form joint task forces with the World Bank to do policy and expenditure reviews in selected sectors, beginning in January 2004. The PER training is planned as the first one in a series of training activities in Jordan and will be followed by detailed training in budget review and policy analysis, medium term fiscal planning, developing forward estimates, performance management, cash management, budget classification, and accounting throughout Fiscal Year 2004.

The topics included the following:

1. ***What is a Participatory PER?*** This session looked at processes used in a participatory PER, and discussed case studies on Turkey highlighting the value of this method whereby key stakeholders participate in the process of and conduct the review.
2. ***Managing the Public Budget to Facilitate Economic Growth and Reduce***

Poverty. This session discussed how the public sector can help in: (a) creating the enabling environment to facilitate the private sector led growth process; and (b) helping those who are poor and need help from the government. A framework to assess the public budget was presented showing how economic analysis can be applied to the rationale for public spending, the choice of instruments (public provision versus subsidy versus regulation), and deciding among competing demand for public resources.

3. ***Tools for Evaluating Public Expenditures – Benefit-Incidence Analysis.*** This session focused on analyzing how equitably public resources are used. It provided tools that evaluate the distributional aspects of the financial subsidy provided by using public resources to provide a particular service.
4. ***Linking Policy, Planning and Budgeting.*** This session focused on the development of a medium term expenditure framework, illustrating the contribution of this instrument towards sustaining successful stabilization, managing significant resource shifts in favor of poverty reduction, and developing greater accountability for budget policy and performance. The relevance of such approaches in developing country conditions, lessons learned so far on sequencing of medium term expenditure framework and its place within a broader Public Expenditure Management reform agenda were discussed.
5. ***Measuring, Monitoring and Evaluating Public Expenditures.*** This session looked at the role of measurement and evaluation in improving public sector performance, including what is being measured—inputs versus outputs; actual versus targeted outputs—and the role of benchmarking in improving performance.
6. ***Tools for Evaluating Public Expenditures—Survey Instruments to Assess Service Delivery.*** This session introduced the newer tools that are being

used to assess service delivery, namely public expenditure tracking surveys, and quantitative service delivery surveys which use data on actual spending and services provided by a service delivery facility to identify problems in service delivery. Uganda Public expenditure tracking survey was discussed.

7. **Public Expenditures and the Macroeconomic Framework:** The session explored the link between public expenditures and the macroeconomic framework, focusing on how the financial programming exercise defines the limits for private and public sector credit, and, together with other forms of budget financing, establishes the size of the budgetary envelope that is consistent with the overall growth and inflation objectives.
8. **Issues in Budget Execution.** This session focused on issues in public expenditure management such as, balancing the need for aggregate control with holding spending units accountable for performance; the role of management information systems; effective methods of budget monitoring; and the need for fiscal transparency and the role of audit.
9. **Issues in Health Spending.** This session looked at characteristic market failures of the sector in the context of Jordan. It also looked at the relative degree to which the poor benefit from health expenditures and the systemic problems in the public delivery of health services. The use of data and other analytic techniques in the context of public expenditure reviews were discussed.
10. **Issues in Education Expenditures.** This session examined the public rationale for education expenditures, the finance and provision mix, with recent evidence on education outcomes. It looked at mechanisms for analyzing education expenditures and the issue of effective provisioning of current expenditures.
11. **Issues in Infrastructure Spending.** This session examined the key infrastructure activities typically funded by public budgets in Jordan with particular focus on water (efficiency and equity aspects), and practical considerations (cost effectiveness). Linkages with other expenditures that have an important bearing on infrastructure development were highlighted.
12. **Fiscal Sustainability and Debt Dynamics.** This session discussed the use of public debt to finance expenditures. In particular, it looked at the choice between domestic and external debt, and at the options open to Jordan.
13. **Public Pay Policy and the Implications for the Budget.** This session looked at the civil service wage bill in Jordan and discussed international comparators. It also identified benchmarks to assess pay and benefits in the public sector. The session also reviewed some of the approaches used in practice to evaluate the compensation gap between the public and the private sector and outlined practical alternatives based on the use of household survey data.
14. **Special Issues in Jordan's Public Expenditures.** This session looked at the existing studies and analytical work on Jordan. It focused on the current state of knowledge about public finances in Jordan, including a discussion of the analysis presented in the Development Policy Review done by the Bank in 2002.

The material used during the training can be found at:

www1.worldbank.org/publicsector/pe/training.cfm

Additional information on Public Expenditure is available at:

www1.worldbank.org/publicsector/pe/

RECENT ECONOMIC DEVELOPMENTS

Following Jordan's unexpected strong resilience to the Iraqi conflict, the economy showed renewed strength in May-June 2003, with increasing reserves and positive figures for the current account balance of the First Quarter 2003. The growth rate of the First Quarter was only 10 percent lower than the average of the First Quarters of the last five years, but perspectives for the Second Quarter 2003 seem to be less rosy.

Some risks remain both on the fiscal and external accounts. In particular, despite all the presently planned or the emergency fiscal measures, a low intensity threat of widening fiscal imbalances remains. On the external accounts, the support received in 2003 could not eliminate the structural impact of the war in Iraq on Jordan's balance of payments. Thus, the risks of widening external imbalances remain for the coming years and will need to be offset by prudent fiscal management and continued strong export performance.

Output And Prices

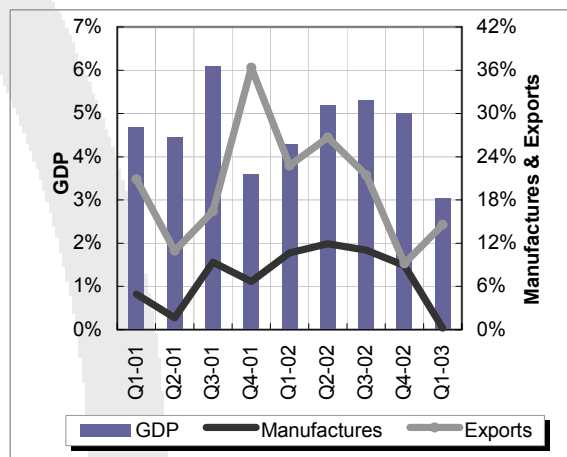
Several indicators converge to confirm that the Jordanian economy has been experiencing a slowdown in both internal and external demands in the first five months of 2003, due to the Iraqi war.

The preliminary National Accounts for the First Quarter of 2003 point out to a decline in the GDP growth rate, and an overall slowdown of economic activity. Thus, the economy grew only at 2.8 percent in the First Quarter of 2003 (year-on-year) compared to 4.3 percent in the same period in 2002. GDP growth has been sustained mainly by the dynamic of exports, which account for 23 percent of Nominal GDP in 2002.

However, the exports trend started to decline during the Second Quarter of 2003, which might negatively impact the GDP growth. The stagnation of the manufacturing sector, with a 0.2 percent growth rate in value-added from the First Quarter 2003 compared to the First Quarter 2002, seems consistent with the decline in exports dynamic. Expressed through the Industrial

Production Index, the evolution of the manufactures and industrial sectors, in general, seems even more concerning

Figure 1. GDP, Manufactures and Exports



Source: Jordanian Authorities and World Bank Staff Estimates.

The Index of Manufacturing Industries, which accounts for more than 75 percent of industrial output, dropped by 17.1 percent between the first four months of 2003 and 2002. Mining and quarrying production was less impacted with only a 2 percent decrease.

Table 1. Key Economic Activity Indicators

Indicator	%Variation April-01/02	%Variation April-02/03
Industrial Production Index	13.6%	-14.40%
Manufacturing	15.5%	-17.1%
o/w Cement Production	20.2%	-9.4%
Electricity Production	3.5%	-11%
Export Growth	19.0%	8.4%
GDP Growth – Q1	4.3%	2.8%

Source: Jordanian Authorities and World Bank Staff Estimates.

With the important drop in the Industrial Index, the increase in exports, however moderate compared to 2002 figures, seems contrasting and

can only be explained by a substitution phenomena resulting from an important decrease in internal demand.

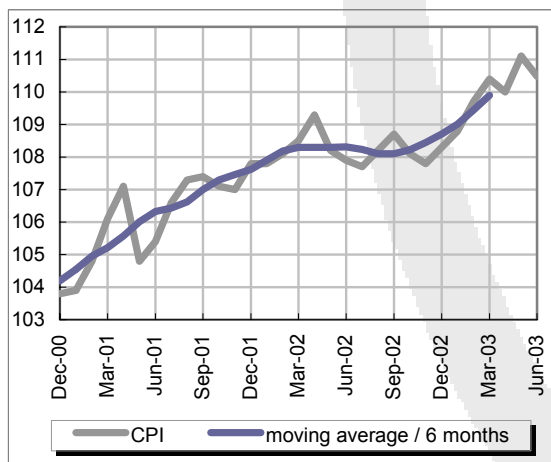
Table 2. Average Change in CPI

	January June 01	January June 02	January June 03
Food	-0.8%	1.6%	0.6%
Clothing	1.8%	-1.1%	-3.1%
Housing	1.1%	2.5%	2.3%
Other Goods and Services	2.1%	6.9%	4.1%
Total	0.5%	2.8%	1.7%

Source: Jordanian Authorities and World Bank Staff Estimates.

An indicator of the drop in internal demand is the average growth of resident deposits in the banking sector observed since the beginning of the year. Thus, while this growth rate stood at 6.8 percent in between the first five months of 2001 and 2002, it rose to 8.8 percent between 2002 and 2003. This increase in deposits indicates that customers are still behaving with a lot of caution and prefer delaying their consumption and increasing their savings during periods of trouble.

**Figure 2. Consumer Price Index
December 2000 to June 2003**



Source: Jordanian Authorities and World Bank Staff Estimates.

On the inflation side, price increases observed during the first six months of 2003 compared favorably to the high inflation in the same period of last the year, as the six-month average inflation rate dropped from 2.8 percent in 2002 to 1.7 percent in 2003. Inflation in clothing items

became negative, while prices in food items increased slowly.

This comparison with a period of high inflation in 2002, however, masks a rekindling of inflation in the first six months of 2003. The 12-month inflation rate in June 2003 reached 2.5 percent, which was the highest since the last peak of inflation in May 2002. This is likely to be the result of the appreciation of the Euro, a money in which more than 25 percent of Jordanian imports is billed, and the result of the increase of several taxes on goods and services.

Merchandise Exports

Jordan exports were severely affected by the war in Iraq. Thus, without the 26 percent rise in clothing exports, cumulated total exports would have decreased by 5 percent instead of the 5 percent increase registered by the end of May 2003 compared to the same period of 2002. Among the sectors which suffered from the closing of the Iraqi market are the Machinery and Electrical Instruments Industries, the Paper and Cardboard Industries, and the Iron Industries. Several sectors had indeed gauged their capacities to the demand of the Iraqi market and are, therefore, facing a serious problem. Nevertheless, with Iraq recovering slowly, Jordan industries might benefit from substantial market opportunities.

The geographical distribution of exports evolution matches the sectoral evolution as exports to the United States, mostly clothes produced in the Qualified Industrial Zones (QIZs), rose by 93 percent, and pushed the part of exports to the United States from 13.2 percent in May 2002 to 24.3 percent in May 2003. Exports to Arab countries decreased by 9 percent, with exports to Iraq dropping by 42.4 percent. Cumulated figures for April show a decline of the part of exports to Arab countries in total exports from 51.7 percent in April 2002 to 44.5 percent in April 2003.

The depreciation of the Jordanian Dinar against the Euro stimulated a 30 percent rise in the value of exports to the European Union. Considering the increase of the value of the Euro, the volume increase is 5.8 percent only. Exports to other countries (23 percent of total exports) declined by 5.8 percent.

Table 3. January-May Exports

	2002		2003		Yoy
	JD Million	% of Total	JD Million	% of Total	
Shrinking Sectors					
Medical and Pharmacy Products	63.4	11.2%	60.3	10.2%	-4.9%
Potash	57.6	10.2%	55.0	9.3%	-4.5%
Vegetables and Fruits	49.1	8.7%	47.2	8%	-3.9%
Phosphates	41.4	7.3%	35.6	6%	-14.0%
Machinery, Cars, and Electrical Instruments	35.4	6.3%	23.9	4.0%	-32.5%
Vegetable Fats or Oils	17.4	3.1%	12.9	2.2%	-25.9%
Iron and Iron Products	15.6	2.8%	3.2	0.5%	-79.5%
Paper and Cardboard	14.9	2.6%	12.9	2.2%	-13.4%
Plastic and Articles Thereof	12.2	2.2%	8.2	1.4%	-32.8%
Subtotal	307.0	54.5%	259.2	43.7%	-15.6%
Expanding Sectors					
Clothes	94.9	16.8%	153.1	25.8%	61.3%
Fertilizers	45.7	8.1%	52.3	8.8%	14.4%
Polishing and Cleaning Preparations	15.9	2.8%	17.0	2.9%	6.9%
Subtotal	156.5	27.7%	222.4	37.5%	42.1%
Total	563.7	100.0%	593.7	100.0%	5.3%

Source: Jordanian Authorities and World Bank Staff Estimates.

External Accounts

Net Foreign Assets of the Central Bank rose to US\$5.3 billion in May 2003 from US\$4.71 billion in April 2003 and US\$4.62 billion in December 2002. The increase since April is mainly linked to the US\$500 million grants received in May. Current Account figures for the First Quarter 2003 show a surplus of US\$123 million compared to a deficit of US\$15 million in 2002 and a surplus of US\$64 million in 2001. The Trade Deficit deepened by US\$72 million between the First Quarter of 2002 and the First Quarter of 2003, as a result of a higher imports bill, mainly due to the rise of the oil bill. Nevertheless, with Jordanian expatriate workers mainly based in Gulf countries, higher oil prices might have induced the improvement in Net Workers Remittances and Net Travel Balance (by US\$39 million each compared to the First Quarter of 2002) which offset the increase in the Trade Deficit.

The external financial support produced its full effect on the Balance of Payment and the Current Account result during the Second Quarter of the year. US\$576 million in grants were received between April and June, and Japan donated 100,000 tons of wheat in June. Moreover, Jordan

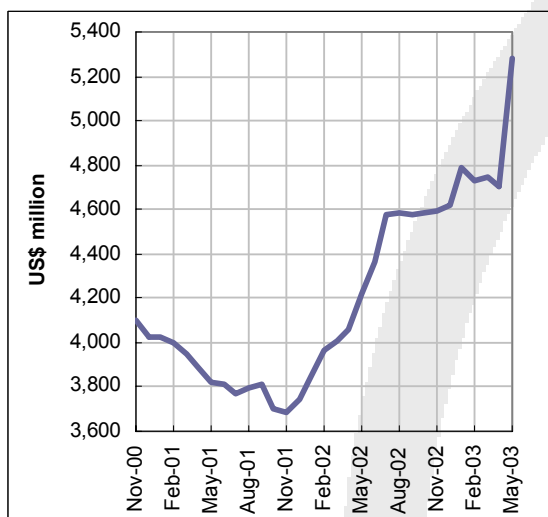
resumed its commercial relations with Iraq, and is now able to buy Iraqi oil again. Jordanian companies are also in a good position for contracting in Iraq or exporting to that country. Nevertheless, in the coming years, the Balance of Payment will be affected by the loss of the Iraqi oil grants/subsidy, estimated at around US\$400 million.

The cumulated Trade Deficit jumped from US\$1.09 billion in May 2002 to US\$1.33 billion in May 2003. This increase by 22 percent in the Trade Deficit is the result of a 15.3 percent rise in imports which largely exceeds the 5.3 percent increase in exports. The rise in imports stems from a 30 percent increase in oil imports and a 10 percent increase in yarns and textile imports. These increases mainly reflect the rise in the oil bill, consequent to the war in Iraq. Thus, while imports from Iraq decreased by US\$78 million between the first five months of 2002 and 2003, imports from Saudi Arabia soared by US\$127 million over the same period.

The Euro increase translated into a drop in Jordan's imports from the European Union, which amounted to 28 percent of total imports in May 2002, but seems to have decreased to less than 25

percent in May 2003. The value of imports from the European Union remained stagnant, but their volume seems to have largely decreased as the rate of the Euro to the Jordanian Dinar rose by 21 percent between May 2002 and May 2003.

Figure 3. Central Bank Net Foreign Assets



Source: Jordanian Authorities and World Bank Staff Estimates.

Monetary Policy And The Financial Sector

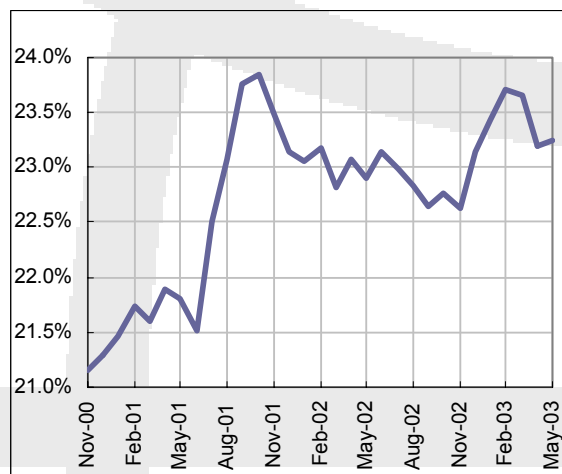
The money supply increased by 5.1 percent between end 2002 and May 2003, against a 3.4 percent increase during the same period a year ago. Currency with the public increased by 9.9 percent while other components of the money supply rose by 4.3 percent. The dollarisation rate remained stable at around 23 percent. Almost 100 percent of the expansion in money supply was caused by a 9.8 percent rise in Net Foreign Assets.

The Central Bank's interest rates remained stable between April and May 2003, after their decline during the first four months of the year. Nevertheless, the banks seem to have continued in May to integrate this decline into their deposit and lending interest rates. Thus, interest rates on deposits experienced further decreases in May—10, 19, and 14 basis points respectively on Demand, Saving, and Term Deposits.

Lending rates showed a more controversial evolution between April and May 2003, with rates

on Overdrafts increasing by 15 basis points and rates on Loans and Advances remaining stable, while rates on Discounted Bills slightly decreased by 6 basis points. The banks' reluctance to further decrease their lending rates to the private sector might be linked to the decrease in the interest rates they receive on their funds deposited, including Certificates of Deposit with the Central Bank.

Figure 4. Dollarisation of M2
in percent



Source: Jordanian Authorities and World Bank Staff estimates.

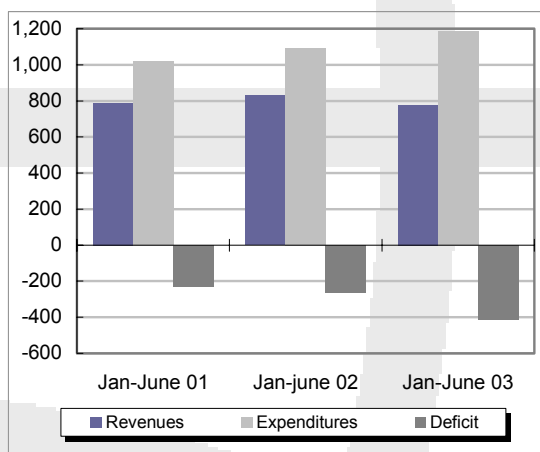
The increase in money supply has indeed resulted in a 11.1 percent growth of the private banks deposits with the Central Bank in JD. Remunerated deposits were almost multiplied by three since end 2002, and reached JD521 million in May, while CDs portfolio decreased by 3.8 percent and foreign currencies deposits by 5.2 percent. Credits to the resident and non resident private sector (35.6 percent of the consolidated balance sheet) increased by 4 percent, while claims on the public sector (8.2 percent of the balance sheet) decreased by 6.5 percent.

After declining by USD200 million between December 2002 and March 2003, Foreign Liabilities increased by USD246 million since March. Total increase since the beginning of the year is almost 1 percent. This evolution proves that the authorities measures to avoid any important withdrawals of Iraqi funds had secured the Jordanian banking sector and restored the confidence of the depositors.

Fiscal Situation

Expenditures hikes induced by the war in Iraq and economic stagnation continued to increase public deficits. Cumulative deficit at end June, reached JD411 million against JD263 million for the first six months of 2002. Expenditures rose by 8.6 percent with 46 percent of the increase occurring in the Defense and Security expenditures triggered by the war in Iraq. The increase in Relief Operations and Emergency expenditures amounts for 9.7 percent of the total increase and is also linked to the war in Iraq. The increase in Capital Expenditures amounts for 8.7 percent of the total increase. Many items of Current Expenditures continued to increase all over the first half of the year, both to compensate social effects of the slowdown and as a consequence to the oil price increase during the war.

Figure 5. Fiscal Balance
JD million



Source: Jordanian Authorities and World Bank Staff estimates.

The Government took measures against the increase in the budget deficit by trying to stop revenue decline. Cumulated revenue decrease had indeed reached 11.3 percent between April 2002 and April 2003, and then dropped to 6.4 percent or JD53 million in June 2003 compared to the same period last year. Thus, while non tax revenues (mainly Telecommunication Company and Investment Corporation revenues) dropped by 34 percent over the first four months, they increased by 8.3 percent in May and June 2003 compared to the same period in 2002. On the

other hand, Tax Revenues slightly decreased by 0.9 percent in May-June, against a 5 percent increase in April. Within this category, Sales Tax revenues continued to rise in May-June, but at the rate of 5 percent against the 19.4 percent registered until April. Taxes on Income and Profits decrease accelerated to 10.4 percent in May-June from 8.6 percent in April.

Jordan financed its increasing deficit by foreign grants. Foreign grants and rescheduling allowed to compensate the budget deficit and to register a budget surplus (including grants) of 7.9 percent of total expenditures and a primary surplus of JD173 million. With such a substantial foreign support, Jordan managed to avoid an important increase in its debt. Thus, the outstanding total gross debt rose only by 1.6 percent or JD112 million of which 50 percent were subscribed internally.

Table 4. Fiscal Balance for the First Six Months

JD million	2001	2002	2003
Domestic Revenues	788	830	777
Tax Revenues	510	482	496
Income and Profits	125	117	106
Sales Tax	239	228	260
Customs	112	102	95
Other	34	35	35
Non-Tax Revenues	257	332	264
Repayment	21	17	17
Total Expenditures	1,021	1,093	1,188
Current Expenditures	877	917	1,003
Excluding Debt Service	735	789	877
o/w Defense and Security	255	270	314
Debt Service	143	121	127
External	113	92	99
Internal	30	29	27
Capital Expenditures	144	176	185
Surplus / Deficit	-233	-263	-411
Balance to Expenditures	-22.8%	-24.1%	-34.6%
Primary Balance	-90	-142	-284
Including Grants and Rescheduled Interests			
Surplus / Deficit	-74	-134	91
Balance to Expenditures	-7.5%	-12.6%	7.9%
Primary Balance	33	-42	173
Grants	123.4	100	457.3
Rescheduling	36	29	43.9

Source: Jordanian Authorities and World Bank Staff estimates.

BETTER GOVERNANCE FOR DEVELOPMENT IN THE MIDDLE EAST AND NORTH AFRICA – ENHANCING INCLUSIVENESS AND ACCOUNTABILITY

The World Bank’s Economic and Social Development Group for the Middle East and North Africa (MENA) region relates in a newly released report that the failure of governments in the Middle East and North Africa to promote inclusiveness and accountability has weakened their economic growth and human development.

According to the report, governance is based on two universal values of inclusiveness and accountability. Inclusiveness, or equality, is enshrined in virtually every constitution in MENA and protects people’s basic rights, treating everyone equally before the law and assuring equal opportunities to access public services. Accountability draws on the notion of holding public figures answerable to their constituents. It depends on transparency, which requires knowledge and readily available information. Accountability also rests on incentives such as contestability through stronger citizen voice, which help encourage government officials to act in the public’s interest—or be removed from office for poor performance.

By international standards overall, the countries of the region fare poorly: the MENA region ranks at the bottom in terms of overall governance quality when compared with countries with similar characteristics in East Asia, Eastern Europe or Latin America. They especially fall short on the index of public accountability which measures openness of political institutions and participation, respect of civil liberties, transparency of government and freedom of press. Individually and collectively, the region lags in measures of public accountability, and the richer the country, the worse the gap.

The report notes that some countries in the region have made strides towards greater transparency. Iran publishes its full national budget and televises its parliamentary



debates, for instance, like some other countries in the region. The media is also contributing to the public debate on government accountability in countries like Iran and Algeria, and is particularly vocal in Lebanon. Satellite televisions are playing an increasingly important role in transmitting information across previously impenetrable borders.

But in general, MENA countries exhibit a pattern of limited and reluctant transparency. Of all the regions, it has the least amount of data on issues relating to governance to show for. None of the region's countries assures citizens the right to government information. Local media are carefully monitored and controlled in most countries, stifling public debate. And although countries like Bahrain and Morocco have recently

strengthened parliaments, accountability mechanisms in the region consistently continue to be weak because of excessive concentration of power in the executive authority and limited channels for citizen participation.

Weak governance threatens both social and economic development.

Governments in MENA have sought to provide a broad range of public goods, achieving significant results in recent years. Examples include the Government of Lebanon, which raised the rate of childhood immunization from virtually none to more than 90 percent in one decade.

But gains of the last decades in basic services are being threatened by weaknesses in inclusiveness. Pressures from rising populations, increasing urbanization and growing complexity of modern public services have strained the coverage of many public services, creating gender inequities and urban-rural gaps in literacy and other social indicators.

Weak governance is also taking a toll on the region's economic performance. Productivity has been on the decline in MENA for three decades. The average annual per capita growth for the region stands at 0.9 percent since 1980, less than that of sub-Saharan Africa.

Studies have shown that if MENA had matched the average quality of public administration of strong performers in Southeast Asia, such as Malaysia, Indonesia, the Philippines, Singapore and Thailand, the region's growth rates would have been higher by about one percentage point a year. If it had matched these countries in terms of public accountability, the gains in growth would have been greater still.

There is clearly a strong economic rationale for MENA countries to embrace good governance. The quality of governance helps shape the quality of policy formulation and implementation, which in turn determines whether there is effective delivery of public services and an attractive business environment for investors.

Good governance is central to the solution of generating economic growth in the region, the Bank says, calling for both governments and the citizens of the region to commit to a program to enhance governance. Yet, the authors warn that the process will not be an easy one.

Meeting the governance challenge is no simple matter, either technically or institutionally. Moving towards greater inclusiveness and accountability requires time, because it involves changing traditions and confronting the privileged class.

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PRESERVING THE FLORA IN JORDAN CONSERVATION OF MEDICINAL AND HERBAL PLANTS

In May 2003, the World Bank's Board of Directors approved a US\$5 million grant from the Global Environment Facility (GEF)¹ to help the Hashemite Kingdom of Jordan improve the conservation of medicinal and herbal (M/H) plants and the livelihood of rural communities. The GEF's US\$5 million contribution has leveraged an additional US\$9.2 million in co-financing from the Government of Jordan and other international organizations for the project.

The objective of the project is expected to be achieved through the management and sustainable use of M/H plants for human and livestock needs in the Mujib Nature Reserve and the Central Upper Slopes of the Rift Valley in Jordan, while ensuring effective *in-situ* protection of threatened habitats and ecosystems in these areas.

The flora of Jordan is rich in medicinal and aromatic plants, as well as herbs and spices. Many of these grow in sub-serial or successional communities in various states of ecological development or degradation, and are adapted to arid and/or semi-arid conditions. M/H plants in Jordan are distributed all over the country from the eastern desert to the western highlands, and from the semi-arid north to the extremely arid south.

The importance of these plants in preventive and/or curative health practices (for both people and livestock) has been recognized by local people since time immemorial. According to studies related to the identification of endemic, rare and endangered flora conducted in Jordan, an estimated 100 species of endemic and rare plants, comprising about 2.5 percent of the total flora, have been identified. A total of 485 species of medicinal plants, which belong to 330 genera and 99 families, have been recorded in Jordan.

¹ The GEF is a mechanism for providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the four focal areas: Climate Change; Biological Diversity; International Waters; and Ozone Layer Depletion.

Jordan's flora is considered rich and diverse because of its location, at the junction of three continents: Europe, Asia, and Africa. M/H plants have always played important roles, including providing ecological, genetic, social, cultural, economic, and scientific values. In addition to enhancing health care and the rural well being of local communities, many M/H plants contribute to reducing soil and water loss as they cover about 20 percent of the rangeland and forest areas in Jordan.

There are major difficulties encountered in assessing the importance of M/H plants and developing a strategy for their conservation and sustainable use. These are: insufficient knowledge concerning the species that are used; their detailed distribution; how they are collected or harvested; the species in cultivation (by location); the quantities involved in collection; consumption; and the quality and quantity of species traded. Trade statistics are notoriously unreliable, as is the identity of material traded under such names as oregano; this covers plants belonging to more than one genus and several species.

For most parts of the Mediterranean, detailed information on the potential for sustainable use of wild species in the region is lacking and an overall survey for the region would present a significant contribution towards developing a strategy for this important group of plants. One of the goals of the project is to establish a database for all M/H plants in Jordan and to undertake an oral survey of their past and present uses, including the use for, and by, domesticated animals.

The M/H plant sector is currently undergoing major changes. The domestic demand for M/H plants and their extracts is increasing, and is currently satisfied through the over-harvesting of wild plants, some cultivation, or by substitutable import crops. The project intends to promote the sustainable use of M/H plants through the management of wild plants and by increasing, wherever possible, the *ex-situ* cultivation of the high-demand species.

The over-harvesting and over-grazing of M/H plants in their natural habitats, combined with the increasing demand for such plants, have led to depletion of natural stocks in the wild. The project will address the root causes of biodiversity loss and barriers to sustainable use. The project will provide essential links between the *in-situ* conservation activities and the propagation of M/H plants *ex-situ* to relieve *in-situ* over-harvesting and over-grazing pressures, hence ensuring conservation *in-situ* of global species.

Jordan ratified the Convention on Biological Diversity on November 12, 1993 and the Desertification Convention in 1996. It has been one of the most successful countries at implementing key community-driven development conservation activities. Sustainable use of M/H plants is one of the key priorities identified by a 1998 National Biodiversity Study that recommends more extensive work to protect Jordan's rich diversity of M/H plants, along with enhanced agricultural diversification and the efficient use of land and water.

The project is expected to enhance the Government of Jordan's strategy by: (i) promoting sustainable management systems in *in-situ* pilot sites; and (ii) identifying cultivation practices for high-demand M/H plants used for human and livestock health care and other needs.

The project also responds to the feedback obtained throughout project preparation from all stakeholders (from subsistence farmers to the private sector) i.e., that the National Center for Agricultural Research and Technology Transfer (NCARTT) of the Ministry of Agriculture should move away from supply-driven research towards demand-responsive applied research on the ground. During project preparation, NCARTT initiated this instrumental strategic shift through

listening and responding to the demands of all stakeholders and involving, for the first time, the private sector. This strategic shift should fully materialize through the implementation of the concrete on-the-ground activities with subsistence farmers, NGOs, and the private sector.

A non-GEF component focusing on sound product and market development will contribute to the sustainability of the project by providing market outlets for rural communities involved in M/H plant cultivation. To this end, the project will facilitate a process of close collaboration between relevant institutions and organizations such as the Ministry of Agriculture, the veterinary department, and the Ministry of Health to enhance the conservation, management, and sustainable use of affordable phytomedicines, as well as fostering private sector investment in this area.

In summary, the strategic choices initiated by this project are: strengthening the institutional and technical capacity of key partners, including, for the first time, partnering with the private sector; addressing the root causes of biodiversity loss and barriers to sustainable use; moving away from supply-driven research towards demand responsive applied research on the ground; and fostering product and market developments, through participatory approaches involving all stakeholders. The adoption of these strategic choices should result in best practices to protect and manage M/H plants, which could be replicated to other sites in Jordan.

For more information on the project, please visit:

www4.worldbank.org/sprojects/Project.asp?pid=P069847

BANK GROUP OPERATIONS

IBRD Projects In The Pipeline

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

○ *Third Public Sector Reform Loan (PSRL-III)*. (US\$80 million.) The foundation of Bank support for Jordan's Program of Public Administration Reform is a series of three one-tranche Public Sector Reform Loans. This third prior action loan would support the Government's program to strengthen public sector management generally, on the basis of a program of actions that aim to improve the Government's institutional capacity and incentives to deliver quality public services, and on the basis of continued sound, overall macroeconomic management.

○ *Cultural Heritage, Tourism, and Urban Development Project* (US\$45 million). The Project will build on the ongoing tourism project (TDP-II) and will have two key development objectives: (i) create conditions for sustainable urban revival and increased cultural and tourism offerings in the historic centers of selected secondary cities; and (ii) improve the national tourism and cultural heritage management framework..

IBRD Ongoing Projects

The current portfolio in Jordan consists of seven projects for a total commitment amount of US\$311.7 million, of which US\$122 million has been disbursed to date.

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

(b) realizing tourism-related employment and income-generation potential at Project sites.

○ *Community Infrastructure Development Project (CIDP)*. (US\$30 million.) The Community Infrastructure Development Project represents the first (pilot) phase of a longer-term program of small-scale infrastructure improvements to poor communities in Jordan..

○ *Amman Water and Sanitation Management Project (AWSMP)*. (US\$55 million.) The Project aims at: (a) improving the efficiency, management, operation, and delivery of water and wastewater services for the Amman Service Area; and (b) 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 would initiate the process of establishing Jordan as a reliable supplier of non-traditional, high-value export crops for which it has competitive advantage to niche markets in the European Union and the 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. It will contribute to the development of human capital with the skills and competencies required by the Knowledge Economy.

Active Portfolio	Approval Date	Loan Amount US\$ M	Undisbursed Amount US\$ M	Primary Sector	Closing Date
Second Tourism Development	Jul-97	32.00	12.8	Urban Development	Jun-04
Community Infrastructure Development	Aug-97	30.00	3.7	Urban Development	Jun-04
Amman Water and Sanitation Management	Mar-99	55.00	12.8	Water Supply/Sanitation	Jan-04
Health Sector Reform	Mar-99	35.00	13.5	Health	Dec-04
Higher Education Development	Feb-00	34.70	24.3	Education	Dec-05
Horticultural Exports Promotion Learning and Innovation	Jun-02	5.00	4.7	Agriculture Markets and Trade	Dec-06
Education Reform for Knowledge Economy	May-03	120.0	118.3	Education	Dec-08
Total		311.7	190.1		

Ongoing Grants

○ ***Institutional Development Fund (IDF) Grant for Enhancing Women's Health*** (US\$140,000). Under the Grant, research/studies will be undertaken to: (a) cover the gaps identified; (b) develop a detailed plan for a National Women's Center; (c) carry out a Needs Assessment Survey on females in the southern part of Jordan where access to services are limited; and (d) with the findings, develop a detailed package of curative 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 to play an important role in developing policies and national strategies for (and in monitoring their implementation), and advocating on behalf of, children and families, in close collaboration with relevant public agencies.

○ ***Institutional Development Fund Grant for Support for 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: (a) adequately monitor the inputs requirements of the large scale reform projects, and (b) follow the 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.

○ ***Conservation of Medicinal/Herbal Plants*** (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: (a) institutional strengthening; (b) pilot sites conservation; (c) public awareness and education; and (d) income generation activities.

Further information on the ongoing and pipeline projects can be found at:

<http://www4.worldbank.org/sprojects/>

IFC Ongoing Projects

○ ***Rubicon***. The Project consists in providing a Jordanian animation and e-education company with US\$1 million of equity to finance its animation outsourcing activities after the signing

of a Partnership Agreement with Fat Rock Entertainment, a U.S.-based movie producer. The financing will help the company ramp up its operations and provide its employees with the necessary training to be able to meet Fat Rock Entertainment's outsourcing needs and quality requirements.

○ **Industry and Information Technology Park Development Company (IITPDC).** The Project is to develop an integrated Industry and Information Technology Park. The Industrial Park has been granted the status of a "Qualified Industrial Zone" (QIZ), which provides companies located there with the competitive advantage of quota-free and duty-free access to the U.S. market. In addition to the QIZ, the proposed Park has been given a "Free Zone" status by the Jordanian Government, which provides a 12-year tax holiday, and other incentives for tenant companies.

○ **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 U.S. 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 investment 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, to be 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.

○ **Business Tourism Company.** The Project consists of building and operating a resort of international standards, which will include: (i) a 230-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 proposed complex will be managed by Marriott International and will target both health and leisure tourists.

○ **El-Zay (Textile).** 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 proposed 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 also 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.

○ **Jordan Investment Trust (Jordinvest).** The Project involves the establishment of one of the first investment banks in Jordan. Jordinvest is expected to carry out a broad range of investment banking activities, including: (i) providing long-term private equity; (ii) investing in quoted investments; (iii) underwriting and private placement of debt and equity issues; and (iv) corporate finance activities, especially restructurings, privatization, and mergers and acquisitions.

○ **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-I.** 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.

○ **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.

○ **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, Ltd. (MEC).** MEC, established in 1994 as a public shareholding company, 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 primarily to: (i) relocate MEC's existing production facilities for the purpose of 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 the IFC ongoing and pipeline projects can be found at:
<http://www.ifc.org/projects>

Bank Lending to Jordan – Fact Sheet

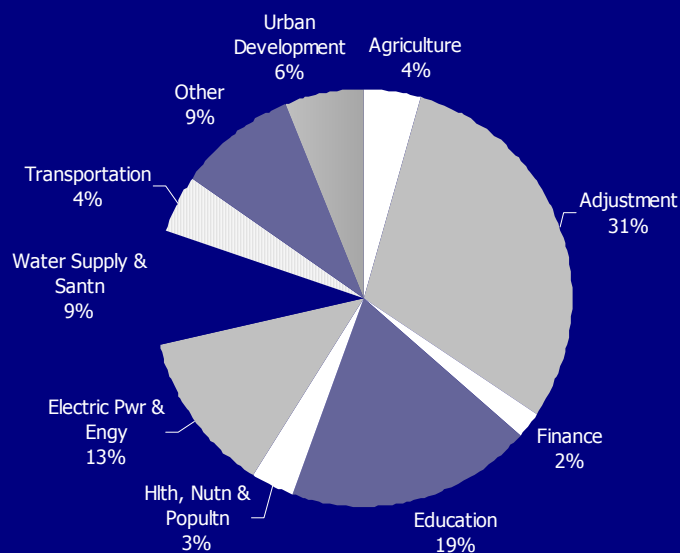
Jordan joined the World Bank in 1952, and received its first IDA credit in 1961. Over the past 42 years, a total of 79 credits and loans have been granted to Jordan for a total amount of US\$2,177 million. Jordan is also a member of IFC, ICSID, and MIGA.

IDA: US\$86 million (15 Credits)
 IBRD: US\$2,091 million (64 Loans)
 Of which:
 Investments: US\$1,221 million
 Adjustments: US\$870 million (8 Projects)

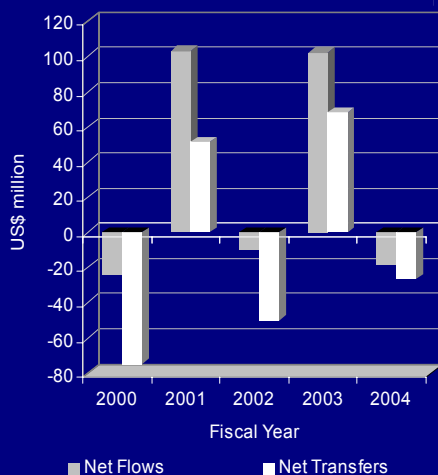
Disbursements: US\$1,987 million

Repaid: US\$902 million
 Obligation: US\$1,058 million

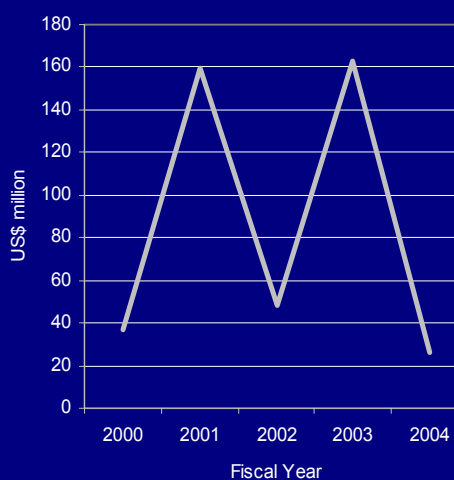
Sectoral Distribution by Value



Net Flows and Net Transfers



Disbursements

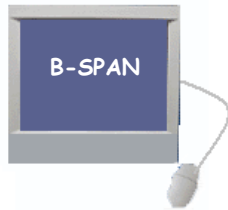


Projects Approved by Fiscal Year

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	0	0.0
Total	20	1183.3

News, Recent And Upcoming Activities

B-SPAN Webcasting For Development



B-SPAN is an internet-based broadcasting station that presents World Bank seminars, workshops, and conferences on a variety of sustainable development and poverty reduction issues. B-SPAN provides regular broadcasts of World Bank events through "webcasts" over the Internet.

The Bank hosts numerous seminars, workshops and conferences at its Washington, D.C. headquarters where some of the world's leading experts and practitioners in the financial, poverty, health, education, legal, environmental, and energy fields discuss the latest developments in their sectors. Unfortunately, these live events are only attended by a small fraction of the potential audience that would be interested in participating. Therefore, B-SPAN seeks to fill this gap by allowing those with Internet access. These webcasts allow anyone to participate and have access to information and expertise that had once been reserved for a select few. For recipients of B-SPAN in the developing world, this is an especially exciting opportunity to have a constructive source of information on issues affecting them directly.

B-SPAN provides transparency and accountability by showing unedited footage of the latest thinking and practices by policymakers on issues affecting developing world stakeholders. Unlike conventional broadcasting outlets, B-SPAN streams events on the Internet, archives them on the B-SPAN website, and has them in their original unedited format, and in indexed files to provide quick access to specific speakers. B-SPAN lends authenticity to these broadcasts, free from the traditional extensive editing and post-production efforts that "polish" the final product by erasing glitches, misspeaks and inaccuracies.

On its website, B-SPAN permanently archives its video files, and has evolved into a virtual library of information on a variety of development and poverty issues. B-SPAN's webcasts are free and available to anyone with access to the Internet. Users only need to download a free version of RealPlayer, a software that allows the playing of archived videos on a personal computer.

For more information, please visit:

www.worldbank.org/wbi/B-SPAN/index.htm

World Bank Launches Arabic Website (www.albankaldawli.org)

The World Bank has launched an Arabic website that includes dozens of detailed web pages about the institution's work and new translations of Bank publications and issues briefs. The site is currently a mirror of the Bank's main homepage translated into Arabic. It also includes a regional site focusing on the Bank's work in the Middle East and North Africa (MENA). Over 100 web pages will be available in Arabic for the new site. These will highlight the World Bank's partnerships in the region, learning initiatives, publications and research reports in Arabic, as well as project stories.

The site also features press releases and country, sector, and issue briefs on various topics. Summaries for key reports will be available in Arabic soon. This new Arabic site will be invaluable in promoting the World Bank's dialogue with the Middle East and North Africa at this critical period for the region. The World Bank's overarching objectives in the MENA region are to strengthen the momentum for building a climate for investment, job creation, and sustainable growth, and to empower poor people in the development process.

Parliamentary Network On The World Bank



In 2000, with a view to engaging Parliamentarians more deeply in development, and to inform them about the World Bank's role in poverty reduction and its knowledge resources, the World Bank encouraged the creation of the *Parliamentary Network on the World Bank* (PNoWB). This independent international network aims to encourage policy dialogue and the exchange of views between legislators and the World Bank. It is also a platform for parliamentary coordination and advocacy on international development and poverty eradication.

The PNoWB currently has over 200 members from over 60 countries, and a Steering Committee with the mandate to initiate, guide and oversee the activities of the network and organize meetings and consultations on a regular basis. The PNoWB's main activities, initiatives and projects include:

Annual Conference: The Network organizes an annual conference in partnership with a national parliament and the World Bank.

Steering Committee Meeting with World Bank Management: The Committee meets once a year with the President of the World Bank and senior management to relay the concerns and opinions of the Network on development policy issues.

Website: The Network has created a website to facilitate the exchange of information on international development issues among members and to serve as a clearinghouse for the latest parliamentary and World Bank news.

Field Visits: With support from the Government of Finland, the Network has initiated a program to organize field trips for parliamentarians from donor countries to visit World Bank projects in developing countries.

Handbook: Plans are underway to create a "Handbook on the World Bank for Parliamentarians" to serve as a comprehensive guide for parliamentarians on the functioning of the World Bank.

For more information and to access the website, please visit:
www.pnowb.org/

The Information For Development Program



The Information for Development Program (*infoDev*) was started in September 1995 to address the obstacles facing developing countries in an information-driven world economy. It is a global grant program funded by 23 donors and managed by the World Bank. Through pilot projects and other activities, *infoDev* promotes innovation in the use of information and communications technologies (ICT) for economic and social development, with a special emphasis on poverty reduction. It operates as a "venture fund" for ideas and its main method of intervention is through grants to field test specific activities.

infoDev provides the mechanism for forming smart partnerships to mobilize intellectual and financial resources for economic and social development in the information age. To date, *infoDev* has created formal partnerships with eighteen governments and international organizations and four private corporations.

infoDev is cooperating with public and private donors, development organizations, international organizations, and developing countries. *infoDev* collaborates with institutions such as the International Telecommunication Union, UNDP, UNESCO, the European Union, OECD and many others in the promotion and development of ICT strategies and infrastructure.

Under the core program, *infoDev* provides grants to support demonstration projects in health, education, e-commerce, e-government, environmental protection, telecommunications sector reform, and Internet access by local communities. The *infoDev* Conference Scholarship Facility (iCSF) provides bloc grants to conference organizers sponsoring the participation of individuals from developing countries in major ICT conferences. With the International Institute for Communication and Development in the Netherlands, *infoDev* has developed a web-based environment for disseminating lessons and case study materials from information and communication technology projects: the ICT Stories Project.

The *infoDev* *Flagship Initiatives* are strategic projects complementing the core program; Country Gateways, e-readiness, e-government and regulatory colloquium are examples of the most current flagships. *InfoDev* is presently launching an Incubator Initiative dedicated, over an initial three-year period, to the establishment of a network of incubators to facilitate the emergence and development of small and medium size Information and Communication Technologies enterprises in developing countries.

For more information and to access the website, please visit:
www.infodev.org

International Comparison Program



Internationally comparable data are crucial to forming sustainable policies and monitoring progress.

Market exchange rates give misleading comparisons because they do not reflect purchasing power differences. Purchasing Power Parities (PPPs) account for price differences between countries and so measure real quantities.

The International Comparison Program (ICP) was first established in 1968 as a joint venture of the UN and the International Comparisons Unit of the University of Pennsylvania, with financial contributions from the Ford Foundation and the World Bank. Starting with a modest project to undertake comparisons in 10 countries in 1970, further ICP rounds have been conducted in 1975, 1980, 1985, 1990 (only partial), and 1993. By the time of the last round, the ICP had expanded to the status of a truly global program. Coverage has

increased from the initial 10 countries in 1970 to 118 in 1993, covering all regions of the world for the first time. OECD, in collaboration with the Statistical Office of the European Union (Eurostat) has continued to collect price data to estimate PPPs in its member states and currently operates on a three-year cycle (1993, 1996 and 1999, with a further round being planned for 2002).

Since 1993, the World Bank has assumed the role of global coordinator for the ICP in non-OECD countries. Through its Development Data Group, the Bank coordinates ICP surveys and publishes global PPP data sets.

For more information and to access the website, please visit:
www.worldbank.org/data/icp/

World Bank's Engagement with Civil Society

The growth of civil society has been one of the most recent significant trends in international development. Partnerships amongst governments, businesses and civil society organizations (CSOs)

are increasingly seen as one of the most effective ways to reduce poverty and achieve sustainable development.

The purpose of the website is to provide CSOs with information and materials on the World Bank's evolving relationship with civil society throughout the world. CSOs will find information on ongoing policy consultations, funding sources, operational partnerships and, publications.

For more information and to access the website, please visit:

www.worldbank.org/civilsociety

Youth, Development And Peace



More than 100 representatives of youth organizations from 70 countries (including four representatives

from Jordan) joined World Bank President James D. Wolfensohn, Managing Director Mamphele Ramphela and other World Bank staff for a two-day working conference on youth, development and peace in Paris on September 15-16, 2003. The theme of the meeting was "**Youth, Development and Peace.**"

The meeting was designed to ensure youth ownership, with youth organizations involved in: designing the program, selecting participants, and facilitating the sessions. Minorities and disabled youth were represented. The meeting focused on the role of young people in peace, and development and opportunities for cooperation between youth organizations and the World Bank, especially in four priority areas: (a) HIV/AIDS and risky behaviors, (b) education for peace, (c) conflict prevention and resolution, and (d) youth employment. This conference also examined regional perspectives

The event was held at a propitious moment for World Bank engagement with youth consultations on the Bank's draft Children and Youth Strategy underway.

The objectives of the meeting were:

- To provide young people with a forum to express their concerns, priorities and recommendations on international development issues and on the policies and actions of the World Bank.
- To involve the participants in creating a shared vision of how youth and the World Bank can work together.

- To highlight innovative initiatives by youth organizations in the field that contribute to fighting poverty and identify ways to replicate these initiatives around the world.
- For the Bank to identify how to mainstream youth participation into existing Bank projects and instruments.

"We believe in the need for a change of the international institutions in order to make them more democratic, transparent, and participatory", said Giacomo Filibeck, President of the European Youth Forum. "We therefore share the vision of President Wolfensohn calling for a more balanced world. We are ready, as youth organizations, to contribute to this process of reform."

Mr. Wolfensohn emphasized the importance of young people as active participants in the development process. He added that "the Bank is keen to deepen its engagement with youth organizations and this conference is an important step along the way".

During the meeting, it was agreed:

- that the World Bank and youth would work together further in coming months in key areas of development including education, HIV/AIDS and employment;
- that the World Bank would work with its partners to broaden the participation of young people in poverty reduction strategies; and
- to meet again in 12 months to take stock of progress and implement next steps.

For more information and to access the website, please visit:

www.worldbank.org/ydp2003/

The Middle East's Window Of Opportunity Against HIV/AIDS

Low Prevalence Of HIV/AIDS In The Region Provides Chance To Stem Epidemic



More than 20 years after its first discovery, HIV/AIDS continues to batter Africa, leaving orphans, wrecked communities and disrupted societies in its wake. Faced with the unchecked epidemic that persists, UNAIDS and the World Health Organisation (WHO) declared an international state of emergency, comparable to that of war. Yet in the midst of the seemingly inexorable flow of bad news, a voice of hope is making itself heard.

In the Middle East and North Africa (MENA) region, 99.7 percent of the population is *not* infected with HIV/AIDS. Its 0.3 percent is one of the lowest prevalence rates in the world. However, the vulnerability risk is very present. There are risks stemming from several sources: the high level of migration—internal, regional, as well as international—which increases vulnerability; the economic issues, such as poverty; and conflict. Conflict situations create the perfect environment for the development of the epidemic.

It is, therefore, important to underline that low prevalence does not mean low risk. Over the course of 2001 to 2002, the new cases of HIV rose to 83,000 from 80,000 in the MENA region. Examples from countries with high prevalence rates, like in Southern Africa, show that in the beginning, the prevalence growth is very slow, until it reaches the rate of 2 to 5 percent. After that, it increases exponentially.

The main challenges facing MENA to successfully prevent the escalation of the disease are:

- Talking about death and sexuality is never easy—for any culture—and that is at the core of the issue. Recognizing that there is a problem, even if it is at the early stages, is a challenge, due to the stigma and the fear.
- There are also social values that make it difficult to talk about HIV/AIDS in MENA, and challenge the leadership in being more open about this. This includes the leadership at all levels, also religious and traditional. The voices of some of the people in the

region who are very aware of the threats of HIV/AIDS, especially those of women, are not always heard.

- Finally, a notable characteristic of the region, is that the majority of the population is under 24 years old.

To tackle the challenges ahead, a multi-sectoral and multi-stakeholder approach is essential. Given the current low prevalence in MENA, focusing on the medical response makes sense. However, it is just as important to empower the communities, to talk about it, and focus on prevention. It's not easy, but it can be done all the while respecting the traditional values.

There is already a lot of effort currently underway in the Middle East. For instance, there is a very interesting needle distribution to vulnerable groups program in Iran, because unlike Africa, HIV transmission is also significantly drug related in this region. In Morocco and Lebanon, there are interesting programs focusing on groups at risk.

In Africa, the HIV/AIDS epidemic creates great despair on the individual, on the family, on the community, on the country. But good targeted programs, with the involvement of the community, the government and of the private sector, can be extremely innovative and effective. In MENA, these elements are there, and for once, time is still on the region's side, so it has everything it needs to succeed in keeping this disease at bay.

The World Bank just published a report—*HIV/AIDS in the Middle East and North Africa: The Costs of Inaction*—which shows that there is a lot of potential risk for this epidemic to increase, but also that there is a strong will to tackle the epidemic.

For more information and to access the website, please visit:

www1.worldbank.org/hiv_aids/

Middle East And North Africa Face Unprecedented Employment Challenges

The Middle East and North Africa region must double today's employment levels by 2020, creating 100 million additional jobs, says a new World Bank report.

As the region's increasingly educated and young populations complete their schooling, its already strained labor markets are facing a daunting test. The report, *Unlocking the Employment Potential in the Middle East and North Africa: Toward A New Social Contract*, says that to meet this employment challenge, the region's countries must reinvigorate the private sector, integrate into the global economy, and better manage oil resources. To fuel these economic reforms, a new "social contract" between the governments and their citizens is needed, says the report.

In 2000, the labor force in the Middle East and North Africa totaled some 104 million workers, a figure expected to reach 146 million in 2010 and 185 million by 2020. Creating work for today's unemployed workers and future, first-time job-seekers will require nearly 100 million new jobs over the next two decades. This is much more than the number of jobs created in the region during the past 50 years.

Already half the region's young people find themselves without work, with youth making up a big chunk of the total unemployed. Most of the young unemployed have intermediate or advanced education and are looking for steady government jobs with benefits. Unemployment rates are low for those with no formal education who are not eligible for jobs in the public sector.

While more and more women are getting employed, they remain vulnerable, reflecting limited opportunities and restrictions on their role in the public sphere. Unemployment rates for the region as a whole are nearly 50 percent higher for women than for men.

Real wage levels may seem somewhat flexible, shrinking in times of slow growth. But the dominant role of government as employer leads to a rigid wage structure that distorts labor market incentives. The public sector rewards formal education, which encourages government workers

to collect academic degrees even if they do not necessarily help boost productivity and remain undervalued by the private sector.

Labor market reforms are clearly needed. Private-sector jobs are few and far between, and the government continues to dominate labor markets. Although fairly effective in reducing poverty, government employment is an inefficient safety net.

But labor markets reforms are not sufficient. The report argues that to boost job creation and growth, the region's countries must tackle long-standing policy and institutional challenges aimed at spurring three fundamental and interrelated changes in their economies: (a) from public-sector-dominated to private-sector-dominated; (b) from closed to more open, and (c) from oil-dominated and volatile to more stable and diversified.

Additionally, a new social contract is needed. This new social contract must couple political and economic reforms, taking into account the social needs of workers and ensuring that economic outcomes are socially acceptable among the region's citizens. This requires a renewed political commitment to widely valued social policies—a new social contract that links reform to the principles of poverty reduction, income equality, and security that have guided MENA's political economies for almost 50 years.

Though the main responsibility for reforms lay with MENA, external partners can help by opening their markets to products from the region, encouraging more intra-regional trade, boosting aid, and helping resolve the conflicts that continue to blight the region.

The report can be ordered on-line at:

<http://publications.worldbank.org/ecommerce/>

An overview of the report is available in English and in Arabic at:

www.worldbank.org/mna/

Development Marketplace - Global Competition 2003



The Development Marketplace (DM) is a revolutionary way to identify and fund the best ideas in development from around the world. It is a search for cutting

edge solutions to some of the most pressing social and economic concerns of our time. The DM seeks to find solutions beyond established channels through an open, transparent, and competitive process with minimum cost and bureaucracy.

Practically speaking, DM brings visionaries and entrepreneurs together in an Innovation Competition where they “sell” their ideas to groups that can provide financial and or technical assistance support. DM applies venture capital approaches to meet the challenges of development. Making small investments in multiple projects diversifies risks, and seeds numerous new approaches to resolving problems. It is a low-cost, low-risk way of identifying ideas that work on the ground and have the potential to be scaled up and meet urgent needs.

DM encourages the development community to work in new ways. It draws people and institutions with varied affiliations and objectives (NGOs, government agencies, donor agencies, academic institutions, and private sector companies) to work in partnerships to find solutions.

The DM program operates on two levels:

Global - the Global Development Marketplace is generally held every 18-24 months in Washington, DC and includes a global competition as well as a knowledge forum.

National/Regional - Country Innovation Days are replicas of the global program but on a smaller scale. They are designed to include a competition and a knowledge forum that address national/regional development issues.

The theme for DM2003 is *Making Services Work for Poor People*. This theme underpins a key World Bank Group priority in the fight against poverty. Basic services in health, education, water and sanitation, roads and other infrastructure, transportation, conservation and ecosystems, social protection, and other services have often failed to reach the world’s poor. Limited access to financial services, information and communication technology, and knowledge further marginalize poor people and keep them from participating in and benefiting from mainstream economic life. Improving both the quality and reach of services to the poor is essential to any effort to alleviate poverty and encourage growth in the developing world. This topic reflects the World Bank’s upcoming *World Development Report 2004* theme of the same name, and is an effort to expand on the analysis by funding innovative ideas that test and advance the practice of providing effective services in developing countries.

The Development Marketplace team has selected 186 finalists for the 2003 Global Competition scheduled for December 2003. Among the finalist was a Jordanian proposal “Launching Women Enterprises into the e-Enabled Marketplace” submitted by the Noor Al Hussein Foundation.

For more information on the Development Marketplace, please visit:

<http://www.worldbank.org/>

Recent World Bank Publications

MNA Publications

Gender and Development in the Middle East and North Africa. Gender inequality—the differential access to opportunity and security for women and girls—has become an important and visible issue for the economies of the Middle East and North Africa.

Gender equality issues in MENA are usually approached from a social, anthropological, or political angle. But the costs of inequality are often borne at the economic level. This report seeks to advance the gender equality discussion in the region by framing the issues in terms of economic necessity. It analyzes the potential of women's greater economic contribution to the region's new development model, further discussed in three parallel reports on trade, employment and governance. It identifies key economic and sociopolitical impediments to women's increased labor force participation and empowerment, and suggests a way forward in developing an agenda for change.

Trade, Investment, and Development in the Middle East and North Africa: Engaging with the World (ISBN: 0-8213-5574-0 SKU: 15574).

Engaging with the World describes why expanding trade and investment is vital for this region. The greatest economic challenge is to create enough jobs for its rapidly growing labor force, which is increasingly young and educated, to ward off threats to social and political stability inherent in high unemployment rates. This effort requires higher, and more sustainable, economic growth than has been achieved in the past two decades. Expanding trade and private investment offers the best hope. The potential is enormous given the region's human resources, skills, location, history, and opportunities.

The book analyzes why the region has yet to tap fully into the rich stream of global commerce and investment—and the measures needed to do so, including improvements in the domestic investment climate and reforms in the policies of the region's trading partners. Its findings will appeal to policymakers in the region, the private sector and civil society, trade specialists, donors

and partners, and anyone with an interest in the history and prospects of the Middle East and North Africa.

Opening up Telecommunications to Competition and MENA Integration in the World Economy (Working Paper Series No. 33).

The paper investigates the potential impact of opening up telecommunications to competition in MENA on the sector's performance and on the participation of the region in the World economy.

Making Trade Work for Jobs – International Evidence and Lessons for MENA (Working Paper Series No. 32).

Can trade expansion help MENA countries step up the pace of job creation? Despite the short-run costs of adjustment to trade liberalization, in a number of countries that successfully integrated into global markets, export-led growth has eventually brought large employment dividends. The paper examines the medium-term relationship between international trade and employment in manufacturing in developing countries.

Bank Publications

Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda. *The Doha Development Agenda of the Fourth Ministerial Conference of the WTO* opened many contentious and important questions. The report analyzes the most critical multilateral trade issues and suggests policy options that would raise living standards in developing countries and reduce global poverty.

The fourteenth annual edition of *Global Economic Prospects*, among others:

- explores the short-, medium-, and long-term outlook for the global economy.
- reviews recent trends in exports from developing countries, trade barriers, and policies to reduce protection and other inequities in the world trading system.
- discusses trade facilitation in light of post-9/11 concerns for security to suggest new

policies to promote greater and more-secure trade.

- reviews the special treatment of developing countries in the world trading system and the role of trade preferences, exemptions from WTO rules, and technical assistance to implement WTO trade regulations.

World Development Report 2004: Making Services Work for Poor People (ISBN: 0-8213-5468-X SKU: 15468). Too often, services fail poor people—in access, in quality, and in affordability. But the fact that there are striking examples where basic services such as water, sanitation, health, education, and electricity do work for poor people means that governments and citizens can do a better job of providing them. Learning from success and understanding the sources of failure, *World Development Report* argues that services can be improved by putting poor people at the center of service provision. How? By enabling the poor to monitor and discipline service providers, by amplifying their voice in policymaking, and by strengthening the incentives for providers to serve the poor. Freedom from illness and freedom from illiteracy are two of the most important ways poor people can escape from poverty. To achieve these goals, economic growth and financial resources are of course necessary, but they are not enough. The *World Development Report* provides a practical framework for making the services that contribute to human development work for poor people.

Further Evidence on the Link Between Finance and Growth: an International Analysis of Community Banking and Economic Performance (Working Paper 3105). The paper contributes to both the finance-growth literature and the community banking literature by testing the effects of the relative health of community banks on economic growth, and investigating potential transmission mechanisms for these effects using data from 1993-2000 on 49 nations. Data from both industrial and developing nations suggest that greater market shares and efficiency ranks of small, private, domestically-owned banks are associated with better economic performance, and that the marginal benefits of higher shares are greater when the banks are more efficient. Only mixed support is found for hypothesized transmission mechanisms through improved financing for small and medium enterprises or

greater overall bank credit flows. Data from developing nations are also consistent with favorable economic effects of foreign-owned banks, but unfavorable effects from state-owned banks.

Doing Business in 2004: Understanding Regulation (World Bank ISBN: 0-8213-5341-1 SKU: 15341). An important new annual publication from the World Bank, *Doing Business in 2004* provides both qualitative and quantitative information on the business climate in over 130 countries. *Doing Business* constructs a new set of indicators on the regulatory environment for private sector development and provides a collection of informative case studies of real-life experiences.

Doing Business in 2004 covers the fundamental aspects of a business life cycle, from starting a business to bankruptcy. Topics include access to credit, bankruptcy, entry regulations, contract enforcement, and labor regulations. Unique in its approach, *Doing Business* provides both the accurate data and in-depth analysis necessary to assess the environment for doing business, and offers answers to these critical questions:

- Which is the most expensive country for starting a new business?
- Which countries have the most rigid regulations on hiring and firing?
- Which countries have the most extensive business entry procedures?
- Why does heavy regulation lead to inefficiency and corruption?
- What countries are most efficient in the area of contract enforcement?
- How do clearly-defined property rights enhance prosperity?
- What are the most successful regulatory models? Why?

A Guide to the World Bank (ISBN: 0-8213-5344-6 SKU: 15344). The World Bank Group is one of the world's largest sources of development assistance. In 2002, the institution provided US\$19.5 billion in loans to its client countries. It works in more than 100 developing economies with the primary focus of helping the poorest people and the poorest countries.

A Guide to the World Bank is a reference guide to the five institutions that make up the World Bank Group: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). This book serves as a general overview of the World Bank's history, organization, mission, and purpose.

The book begins with the basic facts about the World Bank Group. It then describes the World Bank's operations, giving a brief overview of policies, projects, and procedures. An introduction to the wealth of information resources produced by the World Bank will help readers understand and navigate the types of documents, statistics, and reports that are available from the World Bank, on its Web site, and in print publications.

The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment (ISBN: 0-8213-5606-2 SKU: 15606). Investment Promotion Agencies (IPAs) exist in almost all countries around the world, but there has been no global attempt to determine whether they have been able to significantly influence the investor's decision to locate in one country rather than another. *The Effectiveness of Promotion Agencies at Attracting Foreign Direct Investment* is the first empirical study of the effectiveness of these agencies in attracting Foreign Direct Investment (FDI).

This study finds that promotion is unambiguously associated with greater FDI flows. The effectiveness of promotion, however, depends on:

- the quality of the investment climate, market size;
- the level of development of the country;
- the IPA's budget and type of activities it carries out;
- communication with the highest level of policymakers and support from the private sector.

Institutional Reform and the Judiciary - Which Way Forward? (Working Paper 3134). This paper presents some general lessons in institution

building that has relevance for reform of the judiciary. The paper emphasizes the value of simplicity in design commensurate with country capacity, the importance of innovation/experimentation, and of economic openness in effective institution building. It underscores how the incentives of individuals depend on both the details of institutional design within the judiciary itself, but also some critical institutions external to the judiciary. Finally, the paper argues for the need to ground reform initiatives on a solid empirical and comparative approach. It illustrates some of these issues by drawing on a recent project conducted by the World Bank and others.

The Impact of Structural Reforms on Poverty: A Simple Methodology with Extensions (Working Paper 3124). Structural reforms are often designed to change the prices of key goods and services. Since the overall intention of such reforms is the reduction of poverty, it is important to understand how the resulting price changes affect the poor. However, organizations seeking to provide timely advice to policymakers in developing countries often do not have the data and resources needed to undertake the most sophisticated approaches to such analysis. This paper outlines a simple methodology, based upon the analysis of household survey data, to estimate the first-order impact of a variety of structural reforms. It also elaborates on the ways in which this methodology may be extended in a flexible way in order to account for particular features of the country in question. Finally, it outlines the direction of some extensions of the approach to tackle dynamics, risk and qualitative poverty analysis.

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