



HASHEMITE KINGDOM OF JORDAN

# The World Bank Group

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## Jordan Quarterly Update

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With special thanks to Mary Saba

## WORLD BANK PREPARING A COUNTRY ASSISTANCE STRATEGY FOR JORDAN

The World Bank is currently preparing its four-year assistance program to Jordan in close partnership with the Jordanian Authorities and various stakeholders. The strategy takes as its starting point Jordan's National Agenda. In accordance with Jordan's development plan, the main objectives of the strategy will be poverty reduction and job creation. The Country Assistance Strategy (CAS) is expected to be discussed by the Bank's Board of Executive Directors in early 2006. It will lay the basis for the Bank's support to Jordan's development agenda for the next four years. The CAS will include a mix of instruments ranging from lending, grants, analytical and advisory services and learning and capacity building activities.

### What Is A Country Assistance Strategy?

The World Bank prepares a Country Assistance Strategy for active borrowers from the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD). The CAS takes as its starting point the country's own vision for its development, as defined in a country-owned process. Oriented toward results, the CAS is developed in consultation with country authorities, civil society organizations, development partners, and other stakeholders.

**The purpose of the CAS is to set out a selective program of Bank Group support linked to the country's development strategy and based on the Bank Group's comparative advantage in the context of other donor activities.** The CAS is designed to promote collaboration and coordination among development partners in a country.

The CAS includes a comprehensive diagnosis—drawing on analytic work by the Bank, the government, and other partners—of the development challenges facing the country, including the incidence, trends, and causes of poverty. The CAS identifies the key areas where the Bank Group's assistance can have the biggest impact on poverty reduction. In its diagnosis, the CAS takes into account the performance of the Bank's portfolio in the country, the

country's creditworthiness, state of institutional development, implementation capacity, governance, and other sectoral and cross-cutting issues. From this assessment, the level and composition of Bank Group financial, advisory, and technical support to the country is determined. To track implementation of the CAS program, the CAS is increasingly results-focused. It includes a framework of clear targets and indicators to monitor Bank Group and country performance in achieving stated outcomes.

The CAS is prepared with the Government and other stakeholders in a participatory way to benefit the client country's needs. Participation has helped improve the quality, effectiveness, and sustainability of projects, and has strengthened ownership and commitment of the Government and other stakeholders.

Feedback on the needs and priorities for each participating client country is a necessary part of the Country Assistance Strategy. All interested parties can express their comments and participate in a dialogue with Bank experts and other organizations regarding issues of vital importance to achieve economic welfare for all citizens.

Though the Bank is best known for its financial services, the assistance it provides also includes analytical and advisory services, and learning and capacity building, using various instruments. Some of the instruments typically proposed in the CAS document are: thematic and sector-specific strategies, ad hoc reports, institutional capacity building grants, seminars, and technical assistance.

### What Is The World Bank?

The World Bank (the Bank) is a vital source of financial and technical assistance to developing countries around the world. The World Bank is not a bank in the common sense. It is made up of two unique development institutions owned by 184 member countries—the International Bank for Reconstruction and Development and the International Development Association. Each institution plays a different, but supportive role

in global poverty reduction, and in the improvement of living standards. The IBRD focuses on middle income and creditworthy poor countries, while IDA focuses on the poorest countries in the world. Together they provide low-interest loans, interest-free credit, and grants to developing countries for education, health, infrastructure, communications, etc.

### 10 Things You Never Knew About The World Bank

#### The World Bank...

1. is the largest external funder of **education**;
2. and of **HIV/AIDS programs**;
3. is a leader in the **anti-corruption effort**;
4. strongly supports **debt relief**;
5. is one of the largest funders of **biodiversity projects**;
6. works with **partners**;
7. helps bring clean **water, electricity and transport** to the poor;
8. involves **civil society** in every aspect of its work;
- 9.
10. helps countries **emerging from conflict**; is **responding** to the voices of poor people.

### Not A Bank, But Rather A Specialized Agency

The World Bank is not a “bank” in the common sense. Unlike other financial institutions, the Bank does not operate for profit. It is one of the United Nations’ specialized agencies. Its 184 member countries are jointly responsible for how the institution is financed and how its money is spent. Along with the rest of the development community, the World Bank centers its efforts on reaching the Millennium Development Goals, agreed to by UN members in 2000, and which are aimed at sustainable poverty reduction.

Some 10,000 development professionals from nearly every country in the world work in the World Bank’s Washington, DC headquarters or in its 109 country offices. The Bank pays for its own operating costs, since it doesn’t look to outside sources to furnish funds for overhead.

*In 2004 the World Bank provided US\$20.1 billion for 245 projects in developing countries worldwide, with its finance and/or technical expertise aimed at helping those countries reduce poverty.* The world’s low-income countries generally cannot borrow money in international markets or can only do so at high interest rates. In addition to direct contributions and loans, these countries receive grants, interest-free loans, and technical assistance from the World Bank to enable them to provide basic services. In the case of the loans, countries have 35-40 years to repay, with a 10-year grace period.

*In Fiscal Year 2004, IDA provided US\$9 billion in financing for 158 projects in 62 low-income countries.* Interest-free credit and grant financing comes from IDA, the world’s largest source of concessional assistance. Some 40 of the world’s rich countries provide the money for this funding by making contributions to IDA every four years. The IDA fund was replenished in 2002, with nearly US\$9 billion from donors and another US\$6.6 billion from the Bank’s resources. At that time, donors agreed on increased use of IDA grants—up to 21 percent of resources—to help address special difficulties, such as the HIV/AIDS epidemic, faced by the poorest and most vulnerable countries.

IDA credits make up about one-quarter of the Bank’s financial assistance. Aside from IDA funds, very little of the Bank’s income is provided by its member countries.

*In Fiscal Year 2004, IBRD provided loans totaling US\$11 billion in support of 87 projects in 33 countries.* Higher-income developing countries—some of which can borrow from commercial sources, but generally only at very high interest rates—receive loans from IBRD. Countries that borrow from IBRD have more time to repay the loans than if they borrowed from a commercial bank—15 to 20 years with a three-to-five-year grace period before the repayment of principal begins. Developing country governments borrow money for specific programs, including poverty reduction efforts, delivery of social services, protection of the environment, and promotion of economic growth that will improve living standards.

**Corruption and fraud.** The World Bank works with countries in their anti-corruption efforts and

has a number of mechanisms in place to prevent corruption and fraud in bank-financed projects. The [Department of Institutional Integrity](#) has a 24-hour Fraud and Corruption Hotline: 1-800-831-0463.

### The World Bank Group

In addition to IBRD and IDA, three other organizations make up the World Bank Group. The *International Finance Corporation (IFC)* promotes private sector investment by supporting high-risk sectors and countries. The *Multi-lateral Investment Guarantee Agency (MIGA)* provides political risk insurance (guarantees) to investors in and lenders to developing countries. And the *International Center for Settlement of Investment Disputes (ICSID)* settles investment disputes between foreign investors and their host countries.

**Global Goods.** Over the past few years, the World Bank has put significant resources into activities meant to have global impact. One is debt relief, and under the enhanced *Heavily Indebted Poor Countries (HIPC) Initiative*, 26 poor countries have received debt relief which will save them US\$41 billion over time. The money these countries save in debt repayments will instead be put into housing, education, health, and welfare programs for the poor.

**The variety of work on the ground.** The Bank is currently involved in more than 1,800 projects in virtually every sector and developing country. These are as diverse as providing micro credit in Bosnia Herzegovina and raising AIDS awareness in communities in Guinea, supporting education reform for the knowledge economy in Jordan and improving health care delivery in Mexico, helping East Timor rebuild upon independence or India to rebuild Gujarat after a devastating earthquake.

The Bank's mission is to help developing countries and their people reach the goals by working with partners to alleviate poverty. To do that it concentrates on building the climate for investment, jobs and sustainable growth, so that economies will grow, and by investing in and empowering poor people to participate in development.

## Fund Generation

IBRD lending to developing countries is primarily financed by selling AAA-rated bonds in the world's financial markets. While IBRD earns a small margin on this lending, the greater proportion of its income comes from lending out its own capital. This capital consists of reserves built up over the years and money paid in from the Bank's 184 member country shareholders. IBRD's income also pays for World Bank operating expenses and has contributed to IDA and debt relief.

IDA, the world's largest source of interest-free loans and grant assistance to the poorest countries, is replenished every three years by 40 donor countries. Additional funds are regenerated through repayments of loan principal on 35-to-40-year, no-interest loans, which are then available for re-lending. IDA accounts for nearly 40% of the Bank's lending.

## Bank Instruments

### Loans

Through the IBRD and IDA, the Bank offers two basic types of loans and credits: investment loans and development policy loans. Investment loans are made to countries for goods, works and services in support of economic and social development projects in a broad range of economic and social sectors. Development policy loans (formerly known as adjustment loans) provide quick-disbursing financing to support countries' policy and institutional reforms.

Each borrower's project proposal is assessed to ensure that the project is economically, financially, socially and environmentally sound. During loan negotiations, the Bank and the borrower agree on the development objectives, outputs, performance indicators and implementation plan, as well as a loan disbursement schedule. The Bank supervises the implementation of each loan and evaluates its results and the borrower implements the project or program according to the agreed terms.

To-date, Jordan has received 15 IDA Credits and 66 IBRD Loans for a total of \$2,229 million, of which \$870 for development policy loans.

## Grants

The World Bank Group offers a limited number of grants to facilitate development projects. The grants are designed to encourage innovation, co-operation between organizations and to increase the participation in projects of local stakeholders. The grants are either funded directly or managed through partnerships. Listed below are some of the mechanisms through which the Bank distributes grants.

- **Development Marketplace:** Early stage seed funding is provided to entrepreneurs with poverty fighting ideas to promote their development projects. Entrepreneurs are linked with partners that have the resources to help them implement their proposals. Since 1998, more than US\$16 million has been awarded to 330 groundbreaking projects identified through global competitions.
- **Development Grant Facility (DGF):** The DGF establishes grant making as an integral part of the Bank's development strategy. It sets out the overall strategy of using grants to encourage innovation, produce partnerships and broaden the scope of the Bank's services. Initiatives funded through the DGF include: Institutional Development Fund (IDF); Consultative Group to Assist the Poorest (CGAP); Post-Conflict Fund (PCF); and Partnership for African Capacity Building Program. *To-date, Jordan has received 13 IDF grants for a total of \$2.8 million.*
- **Grant Resources for Civil Society Organizations:** Obtain information on a wide-range of Bank-supported grant resources that are available to qualified organizations.
- **Global Environment Facility (GEF):** An international mechanism for providing new and additional grants to achieve global environmental benefits in climate change, biodiversity, international waters and ozone-layer depletion. *A \$5 million project to support the conservation, management and sustainable utilization of medicinal and herbal plants is currently underway.*
- **InfoDev:** A global program managed by the Bank to promote innovative applications of information and communication technologies to improve the living standards of low-income communities in developing countries. The program pools intellectual, technical, and financial resources of public and private institutions from across the globe to assist promising projects and initiatives.
- **Japan Policy and Human Resource Development Fund (PHRD):** The Fund's objectives are to reduce poverty in developing countries by funding social development activities like improvements to education, health, nutrition, water, sanitation and social protection. Grants can also be awarded to enhance the participation of civil society, promote the role of and increase innovative use of information technology. *To-date, Jordan benefited from 37 PHRD Grants for a total of about US\$16 million.*
- **Japan Social Development Fund (JSDF):** The Japan Social Development Fund (JSDF) is a grant facility established by the Japanese Government and the World Bank in June 2000. The \$95 million fund assists countries the World Bank works with to effectively tackle the poverty and social consequences that resulted from the 1997 - 1999 global economic and financial crises. *Two JSDFs were awarded to Jordan to reintegrate children at risk into mainstream society and provide legal advice to poor women.*
- **Multilateral Fund for the Implementation of the Montreal Protocol:** The fund was established to help developing countries meet the costs of eliminating the production and consumption of ozone-depleting chemicals. *A \$5 million grant is currently under implementation.*
- **Official Cofinancing:** Cofinancing is where Bank funds or guarantees are associated with funds provided by third parties for a particular project or program.

- **Trust Funds:** There are 850 active trust funds that disburse over \$1 billion a year for development-related activities. Donors entrust the funds to meet specific objectives such as preserving biodiversity, relieving debt, supporting vaccination programs or creating initiatives to cut the emission of greenhouse gasses.

**Today's active Grant portfolio in Jordan consists of 13 grants for US\$42 million to assist Jordan on a variety of issues.**

### Guarantees

The World Bank Guarantee Program was created to address the growing need to offer political risk mitigation products to commercial lenders contemplating financial investment in developing countries. The Bank through its guarantee instruments can help accelerate growth in developing countries by mobilizing private financing for infrastructure development and other projects of national importance.

By covering government performance risks that the market is not able to absorb or mitigate, the Bank's guarantee mobilizes new sources of financing at reduced financing costs and extended maturities, thereby enabling commercial/private lenders to invest in projects in developing countries. Guarantees can mitigate a variety of critical sovereign risks and effectively attract long-term commercial financing in sectors such as power, water, transport, telecom, oil and gas. Guarantees can also enhance private sector interest in participating in privatizations and public private partnerships. It can also help sovereign governments access the financial market.

The Bank's presence in transactions is seen by investors as a stabilizing factor because of the Bank's long term relationship with the countries and policy support it provides to the governments. Bank Guarantees help catalyze private financing needed in emerging countries, which leads to greater job and income opportunities for people, and thus contribute to the achievement of the overall challenge of reducing poverty.

### Analytic And Advisory Services

Another role of the Bank is to provide analysis, advice and information to member countries so they can deliver the lasting economic and social improvements their people need. It is done through economic research on broad issues such as the environment, poverty, trade and globalization and through country-specific economic and sector work, where the Bank evaluates a country's economic prospects by examining its banking systems and financial markets, as well as trade, infrastructure, poverty and social safety net issues, for example.

The Bank also draws upon the resources of its knowledge bank to educate clients so they can equip themselves to solve their development problems and promote economic growth. Knowledge bank means the wealth of contacts, knowledge, information, and experience the Bank acquired over the years, country by country and project by project, in its development work.

**Over the past year, the Bank in cooperation with the Jordanian Authorities has prepared, among others, a Poverty Assessment Report, a Country Gender Assessment, and a Policy Note on Jordan's Strategic Options for Energy Sector Development.**

### Capacity Building

Another core bank function is to increase the capabilities of its own staff, partners and the people in developing countries—to help them acquire the knowledge and skills they need to provide technical assistance, improve government performance and delivery of services, promote economic growth and sustain poverty reduction programs. Linkages to knowledge-sharing networks such as these have been set up by the Bank to address the vast needs for information and dialogue about development:

- **Advisory Services** and **Ask Us** help desks make information available by topic via telephone, fax, email and the web. There are more than 25 advisory services at the bank.

- **Global Development Learning Network (GDLN)** is an extensive network of distance learning centers that uses advanced information and communications technologies to connect people working in development around the world. *Jordan's GDLN is located at the University of Jordan in Amman.*
- **World Bank Institute Global and Regional Programs** bring together leading development practitioners online and face-to-face to exchange experiences and to develop skills.
- **B-SPAN** webcasting service is an Internet-based broadcasting station that presents World Bank seminars, workshops and conferences on sustainable development and poverty reduction.

## RECENT ECONOMIC DEVELOPMENTS

### Overview

**Jordan continued to achieve exceptional economic growth in the First Quarter of 2005.** Real GDP growth is estimated to have reached 7.7 percent in the First Quarter of 2005. High growth helped boost public revenues, but the economy also showed signs of overheating, with the Trade Deficit soaring by 34 percent, inflation reaching over 3 percent, booming land prices, and a 6 percent increase in credit to the private sector. The higher Trade Deficit was partially compensated by larger remittances and by public transfers from abroad.

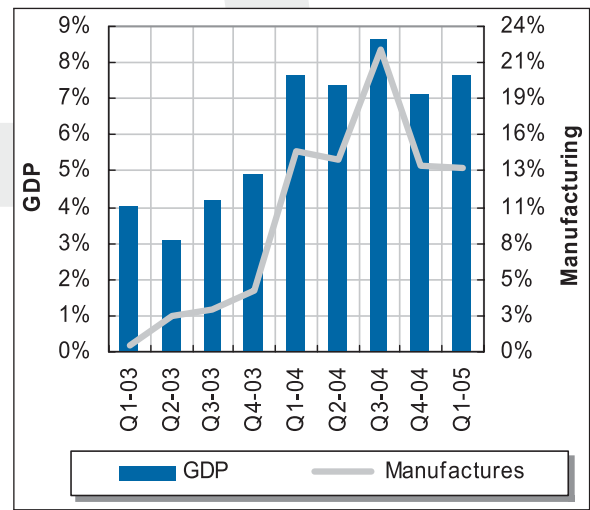
On the fiscal side, higher revenues largely compensated the rise in expenditures, mainly linked to the rising cost of oil subsidies, which the Government has recently reduced. The budget balance turned from a negative 13 percent of expenditures in the First Quarter of 2004 to a positive 2 percent in the First Quarter of 2005.

### Real Sector Evolution

**Economic growth sustained the high levels observed in 2004.** Figures for the First Quarter of 2005 demonstrate a 7.7 percent real growth rate in the First Quarter of 2005, against a quite similar 7.6 percent in the First Quarter of 2004. The highest performances were in the non-tradable sectors, including retail trade and services which benefited from higher external financial flows. *The finance and insurance services* grew by 15.3 percent, against 6.3 percent a year earlier. The **community, social and personal services** sector grew by 10.9 percent compared to 8.1 percent in the First Quarter of 2004. In the *wholesale and retail trade sector*, growth reached 8.3 percent against 6.3 percent a year earlier. Manufacturing, construction and transportation performed well, but at lower levels than in 2004. The *manufacturing sector* grew by 13.5 percent in the First Quarter of 2005 against 14.8 percent in the First Quarter of 2004. The *manufacturing sector* continued to benefit from the recovery in the exports to Iraq, the increase in Qualified Industrial Zones' exports to the United States and from the rise in the demand

of Jordan's products from the oil exporting countries. The recovery in activity with Iraq translated into an increase in the *transport and communications sector* by 9.4 percent compared to 10.6 percent growth in 2004. The *construction sector* continued to benefit from the transfers linked to the oil price cycle and investments of large numbers of Iraqis who relocated to Jordan for security reasons. As a result, the *construction sector* grew by 9.1 percent in the First Quarter of 2005, compared to 14 percent in the First Quarter of 2004. However, the results of 2005 are much more significant than those of 2004, which include the effects of the rebound following the war in Iraq.

Figure 1. GDP and Manufactures



Source: Jordanian Authorities and World Bank Staff Estimates.

### External Sector

**Jordan registered a large Trade Deficit in the First Quarter of 2005** (JD890 million), which grew by 34 percent between the First Quarter of 2004 and the First Quarter of 2005. The increase is linked to a 25.8 percent increase in imports, partially offset by a 15.7 percent increase in total exports. Domestic exports increased by 14.8 percent while re-exports rose by 20 percent. Over 31 percent of the increase in imports is linked to the increase in both oil prices (31 percent) and volume (5.4 percent).

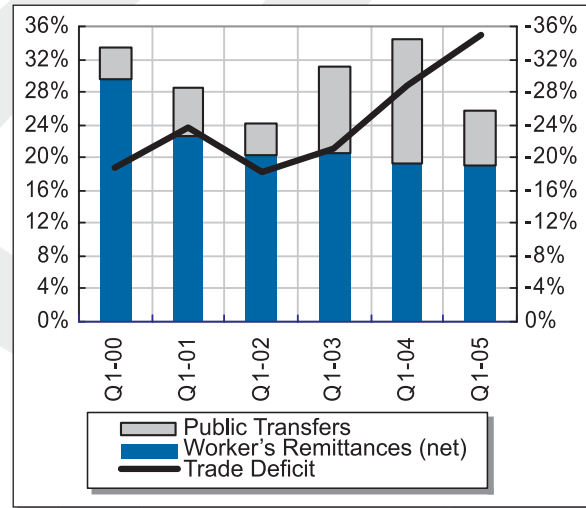
The rise in exports mirrored the dynamic of the manufacturing sector, with the clothing industries located in the Qualified Industrial Zones (QIZs) remaining the main exporters of manufactured goods. Clothes exports accounted for 87 percent of total exports to the United States in the First Quarter of 2005 and for 30 percent of total exports. Jordan seems to be diversifying its exports both geographically and by type of goods. Exports of chemicals and manufactured goods other than clothes rose by 25 percent and now account for 29 percent of total exports, against 26.5 percent in the First Quarter of 2004. These exports have a high value added and are mainly directed to the Arab countries and the European Union. The Arab countries' propensity to import has indeed increased with the rise in oil prices. Jordan also benefited in the First Quarter of 2005 from the appreciation of the Euro against the US Dollar. Exports to the EU increased by 35 percent between the First Quarter of 2005 and the First Quarter of 2004.

The breakdown of the increase in the value of imports shows that the rise in oil imports contributed to 31 percent of the total increase in imports and to 55 percent of the increase in Trade Deficit. Also, the rise by 37 percent in the imports of machinery and transport equipment accounts for 35 percent of the total increase in imports. Interestingly, 24 percent of this increase is due to volume increase, while prices increased by 9.6 percent. The increase in the imports of manufactured goods, including intermediary goods, reached 27 percent and represents 18 percent of the total increase in imports. These developments underline the dynamic of Jordan's economy (higher imports of equipment and inputs), its high dependence on imported intermediary goods, and the development of re-exports with Iraq.

Eighty five percent of the 26 percent rise in total imports is linked to inputs, intermediary goods, equipment and machinery. Forty five percent is due to an increase in volume and 40 percent is due to an increase in prices mainly due to the rise in oil prices.

The geographical breakdown indicates that the increase in the value of the Euro is responsible for at least 5.1 percent of the increase in the value of imports, which matches the rise in prices of equipment, Jordan's main import from the European Union.

Figure 2. Transfers and Trade Deficit  
As percent of GDP



Source: Jordanian Authorities and World Bank Staff Estimates.

By year-end 2003, Jordan had recovered its pre-war export level to Iraq. However, the unstable security induced high volatility into the evolution of exports to Iraq with a decrease during the year 2004. Exports and re-exports to Iraq increased by 60 percent in 2004 and accounted for 15 percent of Jordan's overall figure, against 13 percent in 2003. This is, however, still below the 20 percent share in exports (and re-exports) observed in 2002. The share of exports to the United States jumped to 31 percent in 2004, from 28 percent in 2003. Exports to the United States increased by 54 percent. The increase is consistent with the 48 percent increase in clothing exports, the principal item produced by the QIZs, the main Jordanian exporters to the United States.

The Current Account Deficit reached US\$370 million in the First Quarter of 2005 against a surplus of US\$64 million a year earlier. Lower Net Public Transfers<sup>1</sup>, at US\$190 million, and increasing Net Workers Remittances and Compensations<sup>2</sup>, US\$540 million, fell short of compensating the large increase in the Trade Deficit. Net Workers Remittances and Compensations had, indeed, covered only 54 percent of the Trade Deficit in the First Quarter of 2005 against 66 percent in the First Quarter of 2004. The decrease in the Current Account surplus was compensated by Direct Investment (US\$195

<sup>1</sup> Mostly, but not exclusively, grants and rescheduled interest accounted for in the Central Government budget.

<sup>2</sup> Including UN compensations to Jordanian nationals for their losses during the 1990 Gulf War.

million), Portfolio Investment (US\$100 million) and by a positive capital inflow under the item Errors and Omissions (US\$390 million).

**The foreign currency reserves of the Central Bank increased by US\$0.3 billion between March 2004 and March 2005, from US\$5 billion to US\$5.3 billion.** The reserves increased by US\$50 million since December 2004, despite the deepening trade deficit and the substantial current account deficit. Jordan reserves have indeed benefited from a substantial rise in capital inflows, especially under the item Errors and Omissions.

### Fiscal Situation

**Government revenues increased dramatically thus far in 2005.** Revenues increased by 29 percent compared to the actual figures of the First Quarter of 2004. The rise in revenues is due for more than 35 percent to a 48 percent soar in the tax on income and profits collections, and for 31 percent to a 27 percent increase in sales tax receipts. The sales tax benefited in 2005 from the substantial rise in imports, which has also boosted customs revenues by 18 percent. The increase in the taxes collected on income and profits were driven by the sustained economic dynamic, which also had positively affected the Fees collection. Fees increased by 29 percent, due mainly to an 84 percent increase in the collection of land registration fees.

**The increase in oil prices continued to exert important pressures on expenditures.** Expenditures increased by 10 percent between the First Quarter of 2004 and the First Quarter of 2005. Oil subsidies increased by 46 percent and represented 50 percent of the total increase in expenditure. The Defense and Security expenditures, which increased by 16 percent, represent 36 percent of the total expenditures increase. On the contrary, Capital Expenditures decreased substantially by 38 percent.

**Despite the increase in expenditures, the budget balance turned positive due to the substantial increase in revenues.** Both budget and primary balances turned positive in the First Quarter of 2005. The budget balance to expenditures ratio increased from a negative 13 percent in the First Quarter of 2004 to a positive 1.9 percent in the First Quarter of 2005. The primary balance turned from a negative JD42 million to a surplus of JD45 million. These surpluses were reinforced by the grants received during the First Quarter of 2005.

**The Grants and the revenues dynamic helped Jordan reduce the outstanding debt stock.** The debt stock decreased by JD305 million between December 2004 and March 2005, despite its re-evaluation driven by the weakening of the US Dollar.

The structure of the public debt changed between December 2004 and March 2005. The share of the debt held domestically decreased from 27 percent to 25 percent. The outstanding external debt decreased by JD104 million over the same period.

**Table 1. Fiscal Balance**  
Jordanian Dinar Millions

	2004	2005
<b>Domestic Revenues</b>	<b>503</b>	<b>650</b>
Tax Revenues	357	474
Income and Profits	108	160
Sales Tax	170	215
Customs	58	69
Other	21	30
Non Tax Revenues	114	169
Repayment	33	7
<b>Total Expenditures</b>	<b>578</b>	<b>638</b>
Current Expenditures	507	594
Excl. Debt Service	475	561
o/w Oil Subsidies	137	159
o/w Defense and Security	65	65
Debt Service	32	33
External	21	20
Internal	11	13
Capital Expenditures	71	44
<b>Surplus/Deficit</b>	<b>-75</b>	<b>12</b>
as percentage of GDP	-12.9%	1.9%
<b>Primary Balance</b>	<b>-43</b>	<b>46</b>
<b>Balance Including Grants</b>		
<b>Surplus/Deficit</b>	<b>-8</b>	<b>120</b>
as percentage of GDP	-1.3%	18.7%
<b>Primary Balance</b>	<b>24</b>	<b>153</b>

Source: Jordanian Authorities and World Bank Staff estimates.

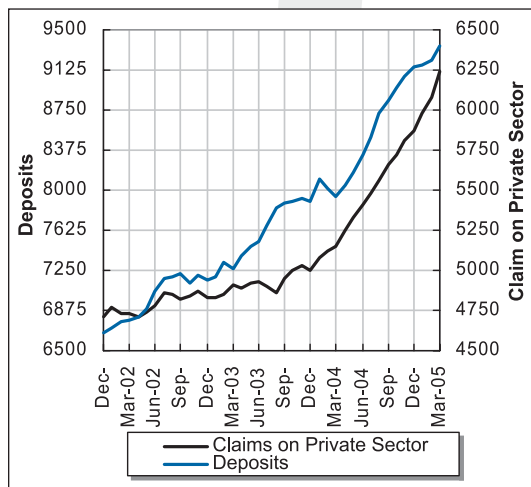
### Prices, Money And Banking

**Price inflation remained on the rise in the First Quarter of 2005.** The CPI rose by 3.1 percent on average between the First Quarter of 2004 and the First Quarter of 2005 compared to 2.4 percent a year earlier. The “food” items and “other goods and

services”, which weigh respectively 44.3 percent and 21.3 percent of the total index, have respectively increased by 5.2 percent and 2.6 percent. The increase in oil prices has so far not impacted the index significantly, as it has been mainly absorbed by the rise in oil subsidies. The GDP deflator also experienced a substantial rise by 4.4 percent. The immigration from Iraq and the inflows of oil money continued to inflate land prices.

**The broad money supply (M2) increased by 2 percent between December 2004 and March 2005, compared to 0 percent a year earlier.** Deposits in foreign currencies reached 1 percent against 10 percent a year earlier. The time deposits in Jordanian Dinar (JD) increased by 2.6 percent compared to a 2.8 percent decrease a year earlier. The most dynamic aggregates of the money supply remained demand deposits, which increased by 4 percent for the deposits in JD and by 6 percent for the deposits in foreign currencies.

**Figure 3. Deposits and Claims**  
JD Million



Source: Jordanian Authorities and World Bank Staff Estimates.

**The increase in money supply mostly reflects the dynamic of deposits in the banking system.** Deposits at the Commercial Banks continued to increase, in line with the inflow of capital triggered by the soaring cost of oil prices. Resident deposits increased by 2 percent since year-end 2004, and by 18 percent since March 2004, compared to respectively 1.5 percent and 9 percent a year earlier. Foreign liabilities, mostly non-resident deposits, increased by 8.1 percent. The dollarization of resident deposits remained stable at around 25 percent, reflecting the same level it reached in March 2004. The stabilization of the dollarization rate at

this historically high level is linked to the decrease of the spread between the interest rate on JD-denominated deposits and the Libor. Three months Libor reached 3.02 percent in March 2005, while the average rate on JD-denominated time deposits stood at 2.66 percent. The spread between the time deposits in JD and the Libor has indeed turned to a negative 36 basis points (bpt) in March 2005, from a slightly positive 4 bpt in December 2004 and 139 bpt in March 2004, making deposits in JD much less attractive.

**With the rise in banks’ resources, lending to the private sector continued to increase, in line with the strong GDP growth.** The claims on private sector (resident) increased by 6.2 percent over the First Quarter of 2005, and their share in the commercial banks’ assets rose to 33.5 percent from 32.9 percent in December 2004 and 32.6 percent in March 2004. In value, this corresponds to JD337 million. The breakdown of lending by sector shows that lending to the *agriculture, industry, construction and trade sectors* increased by 4 percent. The lending to the tourism sector decreased by 0.7 percent and reflects the difficulties encountered by this sector. *Consumption and stock market* remained the most dynamic borrowers. For instance, the lending to share buyers soared by 28.6 percent since the end of 2004. Claims on *public sector* decreased by 9.5 percent over the same period, while deposits with the Central Bank increased by only 1 percent.

**The monetary policy had contrasted effects in the First Quarter of 2005, as in 2004.** The Central Bank continued to increase the re-discount rate. However, the slight increase of the re-financing cost for the banks, through the 13 bpt rise in the real re-discount rate, fell short from exerting any upward pressure on the banks’ real lending interest rates to the private sector. The First Quarter of 2005 witnessed further decreases in real interest rates on deposits, short-term treasury bills and, to a larger extent, loans to the private sector. The substantial decrease of real interest rates on private lending boosted the loans to the private sector and favored the risks of inflation. The Authorities also substantially raised the nominal interest rates on the Certificate of Deposits in order to absorb the liquidity from the market, with little effect so far. The stock of CDs has indeed remained roughly unchanged. The surplus of resources provided by the decrease in the claims on the public sector and by the increase in deposits was used by the banks to increase their private lending.

## STRATEGIC OPTIONS FOR ENERGY SECTOR DEVELOPMENT

In close cooperation with the Government of Jordan, the World Bank prepared a policy note examining the strategic options for the future development of the energy sector. The full report is available on-line.

Jordan has almost no indigenous energy resources. The provision of reliable energy supply at reasonable cost has been recognized by the Government as one of the crucial elements required to transform Jordan into an export-oriented service economy with the private sector playing a leading role. Within the Middle East and North Africa region, Jordan has been one of the first to initiate fundamental reforms in the electricity sector and much progress has been made.

***Jordan remains an economy in transition.*** About a decade of reforms have transformed Jordan from a highly indebted and mostly state-controlled economy into an export-oriented service economy in which the private sector is increasingly playing the leading role. Jordan has been one of the more advanced countries in the region with regard to trade and investment liberalization and ranks first in terms of attractiveness for foreign direct investment. Despite this progress, the growth of the economy remains vulnerable due to regional uncertainties and an unfinished reform agenda. In order to meet its job creation and poverty reduction goals, Jordan needs to achieve an even higher and sustained growth than it was able to achieve in the past. It also needs to improve the quality and efficiency of public services, which is crucial for making the country a service economy.

In late 2001, the Government of Jordan (GOJ) adopted a Program for Social and Economic Transformation (PSET) covering the period 2002–2005. This Program aims in particular to: (i) attract more private capital by accelerating the privatization program; promote private investment in large infrastructure projects and; further improve the environment for private investment; (ii) improve the efficiency and effectiveness of government institutions and delivery of basic public services through

public sector reform programs; (iii) adopt a results-based budget that maintains fiscal stability; and (iv) create the institutions, incentives and infrastructure necessary for information and communication technologies and knowledge-based development. The ongoing privatization program in the electricity sector is seen as crucial for attracting foreign investment and reducing public debt. Addressing energy resource constraints and the provision of reliable energy supplies at reasonable cost are essential pillars of the Government's Program.

***Jordan will continue to rely almost entirely on imports to meet its energy needs.*** Jordan's lack of indigenous energy resources poses specific challenges. The start of importing natural gas from Egypt in 2003 has not only introduced fundamental changes in the electricity sector, it also has important consequences for the future of the Jordan Petroleum Refinery Company (JPRC) and the downstream hydrocarbon sector. Addressing these issues has become extremely urgent with the end of the concession for the refinery in 2008 fast approaching.

***Reforms have been initiated, but much remains to be done to complete the transformation of the Jordanian energy sector.*** Significant progress in the reform and restructuring of the electric power sector has been accomplished. However, increasing private sector participation in the power sector has proven to be difficult. In the hydrocarbon sector, important decisions concerning the future of the refinery need to be made as the concession agreement that grants the Jordan Petroleum Refining Company (JPRC) the exclusive rights to refine, import, store, transport, distribute and market petroleum products will expire in 2008. The recent start of imports of natural gas is also dramatically changing the market for fuel oil. Moreover, the Association Agreement with the European Union, Jordan's membership in the World Trade Organization, as well as regional developments in the energy markets require further adjustments in energy industry structure, governance and pricing arrangements.

Five main issues have been identified in this report:

- *The absence of a publicly announced comprehensive energy policy.* This would help to achieve the objectives of the government to: (i) keep the cost of energy as low as possible to foster growth and job creation; and (ii) develop an efficient energy market that responds to market signals. It would ensure that government policies promote the efficient use of energy and curb demand growth, optimize the use of indigenous renewable energy resources, ensure supply security in the face of rising demand and improve the environment.
- *The need to formulate rational pricing policies for electricity, natural gas and petroleum products and removal of distortions.* The challenge is to remove these distortions and to ensure that pricing policies elicit an efficient supply response and are sufficient to ensure the financial viability of the sector enterprises and attract private investment into the sector.
- *The need to put in place an adequate regulatory framework for natural gas.* The introduction of natural gas in Jordan was an urgent response to the need to reduce the country's import bill of petroleum products, especially for power generation. In this situation, the issues of gas regulation and pricing were only partially addressed. Appropriate institutional, regulatory and pricing policies for natural gas have to be put in place to ensure a dynamic and orderly development of the gas market in Jordan.
- *The completion of the regulatory and institutional framework for the electricity sector.* Given the Government's objectives of attracting private financing and introducing competition in the electricity sector, as well as promoting regional trade, an important question is the adequacy of the current institutional and regulatory framework and the amendments that may be necessary.
- *The need for reform of the petroleum downstream sector.* The introduction of imported natural gas and the expiration of the concession for the refinery in 2008 raise a number of issues among which are the determination of viable

options for the refinery and, in general, the restructuring options for the downstream petroleum sector after that date, including the formulation of an adequate legal and regulatory framework that should be put in place to support this new environment.

The Government, with the World Bank's assistance, has made a determined effort to address these strategic issues and many initiatives are either already completed or well underway. The Government has been actively looking at ways to promote exploration and development of energy resources in Jordan, particularly oil, gas and oil shale. It has adopted a new Electricity Law and the unbundling of the power sector has been completed. Privatization of sector enterprises has been initiated and it is expected that the privatization of the Central Electricity Generating Company (CEGCO), will be successfully completed in the months to come. The regulatory authority for the power sector, the Electricity Regulatory Commission (ERC) has been set up. A good start has been made with the gradual price increase of petroleum product prices to bring them in line with international market prices. The recent introduction of natural gas for power generation will have a major positive impact on the sector. Preparatory work to address issues resulting from the expiration of the concession of the refinery in 2008 has been undertaken. The Government has sought the assistance of the Global Environment Facility (GEF) to reduce barriers to the adoption of renewable energy and energy efficiency measures.

The introduction of private sector participation in the electricity sector has proven to be difficult. In part, this was related to the security situation in the region, but the time taken to adopt a suitable new electricity law and to secure gas supplies from Egypt have been factors. Despite these problems, however, the Government has been consistent in pursuing its strategy in the power sector.

Although the policy note concludes that no major change in strategic direction for sector reform is necessary at this time, there are still important policy, institutional and regulatory issues that need to be addressed. In addition, there are still issues of sector governance that need attention, such as gov-

ernment interference with the regulatory process and the long delays in moving forward with privatizing sector companies.

### Conclusions

Although Jordan still lacks a comprehensive and coherent energy policy, particularly in areas such as pricing and promotion of energy efficiency and renewable energy, no major changes in strategic direction seem necessary at this time. The regulatory system for electricity needs to be further developed or made operational. Given its dependency on imports and the importance of energy security, diversification of energy resources, and stability of prices are of paramount importance. The import of

natural gas is consistent with that strategy, but more needs to be done to mitigate the risk of interruption in gas supplies. The Government has recognized the benefits of private sector participation and has been providing comfort to investors through long-term concession agreements and various other forms of support, including guarantees. The current regulatory framework lacks incentives to improve efficiency and more emphasis should be put on introducing competition, whenever possible. This is consistent with the objectives of the Government in the energy sector. Key decisions need to be made regarding the future of JPRC and preparatory work should start immediately.

## BANK GROUP OPERATIONS

### IBRD Projects In The Pipeline

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

### IBRD Ongoing Projects

The current portfolio in Jordan consists of six projects for a total commitment amount of US\$268 million, of which US\$107 million has been disbursed to-date.

○ **Amman Water and Sanitation Management Project (AWSMP)**. (US\$55 million.) The Project aims at: (i) improving the efficiency, management, operation, and delivery of water and wastewater services for the Amman Service Area; and (ii) laying the groundwork for the sustainable involvement of the private sector in the overall management of these services.

○ **Higher Education Development Project (HEDP)**. (US\$34.7 million.) The objective of the

Project is to initiate improvements in the quality, relevance, and efficiency of Jordan's higher education, and to support Jordan's program to reform sector governance.

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

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

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

Active Portfolio	Approval Date	Loan Amount US\$ M	Undisbursed Amount US\$ M	Primary Sector	Closing Date
Amman Water and Sanitation Management	Mar-99	55.0	2.7	Water Supply/Sanitation	Jan-06
Higher Education Development	Feb-00	34.7	14.9	Education	Dec-05
Horticultural Exports Promotion Learning and Innovation	Jun-02	5.0	3.2	Agriculture Markets and Trade	Dec-06
Education Reform for Knowledge Economy	May-03	120.0	89.9	Education	Dec-08
Amman Development Corridor	Jun-04	38.0	35.9	Transport	Jun-09
Public Sector Capacity Building	Mar-05	15.0	15.0	Public Sector	Mar-09
<b>Total</b>		<b>267.7</b>	<b>161.6</b>		

○ **Public Sector Capacity Building Project** (US\$15 million). The objective of the Project is to support the ongoing implementation of the Government's public sector reform strategy by ensuring that the required institutional infrastructure is in place and functioning. It also seeks to support an important set of cross-cutting reforms in areas ranging from policy coordination to improved financial and human resource practices.

## Ongoing Grants

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

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

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

○ **Conservation of Medicinal/Herbal Plants Project** (US\$5 million Global Environment Facility). The Project supports the conservation, management, and sustainable utilization of medicinal

and herbal plants in Jordan through ensuring effective in-situ protection of threatened habitats and ecosystems and ex-situ sustainable use. The main components are: (i) institutional strengthening; (ii) pilot sites conservation; (iii) public awareness and education; and (iv) income generation activities.

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

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

## IFC Ongoing Projects

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

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

- ***Business Tourism Company.*** The Project consists of building and operating the Jordan Valley Marriott and Spa, a resort of international standards which include: (i) a 216-room hotel; and (ii) a health/medical spa and beauty care facility. The Dead Sea, due to its unique therapeutic characteristics and climate, has established itself as a world-class center for the treatment of various skin and muscular-joint ailments, such as psoriasis and rheumatism. The complex is managed by Marriott International and targets both health and leisure tourists.
- ***El-Zay.*** El-Zay specializes in the manufacture of high quality men's suits. The Project consists of: (i) an expansion program to diversify El-Zay's product line by manufacturing men's outerwear; and (ii) a financial restructuring designed to strengthen El-Zay's balance sheet by replacing most of its short- and medium-term debt with long-term debt. IFC's investment is to help the company complete the Project's financial plan and improve its financial structure by providing funding on terms and maturities not otherwise available in Jordan.
- ***Arab International Hotels Company (AIHC).*** The Project consists of the renovation and expansion of the Amman Marriott, a leading hotel located in the Shmeisani area of Amman. The work comprises: (i) the complete refurbishment of all the hotel's 294 rooms; and (ii) the addition of conference and banqueting facilities, a health club, retail space, movie theaters, and an underground parking facility. The expansion and modernization of the Marriott will boost the hotel to a 5-star international level, allowing it to match the quality level provided by its competitors.
- ***Jordan Hotels and Tourism Company (JHTC).*** The Project comprises an extensive refurbishment of most of the Intercontinental Hotel's existing 366 rooms and the addition of 125 new rooms and facilities. The hotel will replace 15 of its elevators, its boilers, and the kitchen, safety, and telecom equipment. The Management Agreement between Intercontinental Hotels Corporation and JHTC has recently been extended to 2007. IFC has approved a rescheduling of its loan to JHTC and JHTC has prepaid IFC.
- ***Modern Agricultural Investment Company (MAICO).*** The overall objective of the company's operations is to act as a market and technology beacon to help diversify and upgrade the range and combination of crops and irrigation methods, which would develop a modern export sector, thereby maximizing the economic return on irrigation water, and ultimately rationalize its overall consumption.
- ***Middle East Investment Bank (MEIB) Recapitalization.*** The Project involves both MEIB's (the smallest commercial bank in Jordan) recapitalization to meet the Central Bank of Jordan's minimum capital requirements, and its restructuring, managed by Société Générale Libano-Européenne de Banque. IFC investment is part of the larger recapitalization and restructuring program for MEIB. It complements the Technical Assistance Program in Jordan, provided by both IFC and the World Bank.
- ***Boscan Jordan (International Luggage Manufacturing Company).*** The Project is to expand operations of Boscan Jordan Group, a Jordanian manufacturer of soft-side luggage products selling primarily to the United States market. The company has since switched its operations to textiles.
- ***Jordan Gateway Project.*** The Project is to develop, construct, and operate an industrial estate covering about 65 ha (of which about 50 ha would be in Jordan) at the Jordan-Israel border.
- ***Al Tajamouat Industrial City (ATIC).*** The Project will expand the existing integrated industrial estate, ATIC. The expansion commenced in late 2000 to keep up with the high demand for QIZ space in Jordan.
- ***Indo Jordan Chemical Company.*** The company owns and operates a 244,000 mt/year (as of 100 percent P205) phosphoric acid plant and ancillary facilities adjacent to a phosphate rock mine in the south of Jordan, as well as storage facilities at the Red Sea Port of Aqaba. P205 is used to produce DAP, a widely used fertilizer. The company has prepaid IFC.
- ***Middle East Regional Development Enterprise (MEREN) Silica Sand.*** The US\$15.5 million Greenfield Project is to establish the MEREN

Silica Sand Plant, which will manufacture high quality silica sand to be mainly exported to European glass manufacturers.

○ *Middle East Complex for Engineering, Electronics, and Heavy Industries (MEC).* MEC is the leader in Jordan for electronics and household appliances. It is the premier appliance assembler in the country and is the sole distributor of products for the Korean companies LG Electronics, Inc. and Daewoo. The Project aims to: (i) relocate MEC's existing production facilities for modernizing its assembly lines and increasing efficiencies; and (ii) expand by establishing a joint venture with the Haier Group of China. The expansion project will broaden MEC's product line while maintaining the focus on household goods to be sold primarily in regional markets.

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

<http://www.ifc.org/projects/>

### MIGA Ongoing Projects

Jordan has been a member of MIGA since MIGA's inception in 1988. While MIGA does not have any current exposure for guarantees in Jordan, the agency was, until early 2005, covering an important fertilizer project in the Aqaba Special Economic Zone. MIGA issued US\$39.1 million in coverage to Kemira Agro Oy of Finland in Fiscal Year 2001 for this Project. This Project is significant in many ways: it involves international collaboration between the European Investment Bank and the Islamic Development Bank, the Project's financiers; as MIGA's first project in Jordan, it underscores the agency's intent to play a larger role in the region; and the Project is the first reinsurance of a MIGA contract by Finnvera, Finland's investment insurance agency, resulting from an October 2000 agreement between the two agencies to work together to coinsure and reinsure projects, with the goal of increasing Finnish investment into emerging economies.

MIGA's online investment promotion services ([www.fdixchange.com](http://www.fdixchange.com) and [www.ipanet.net](http://www.ipanet.net)) feature 161 documents on investment opportunities and the related legal and regulatory environment in Jordan

Bank Lending to Jordan – Fact Sheet

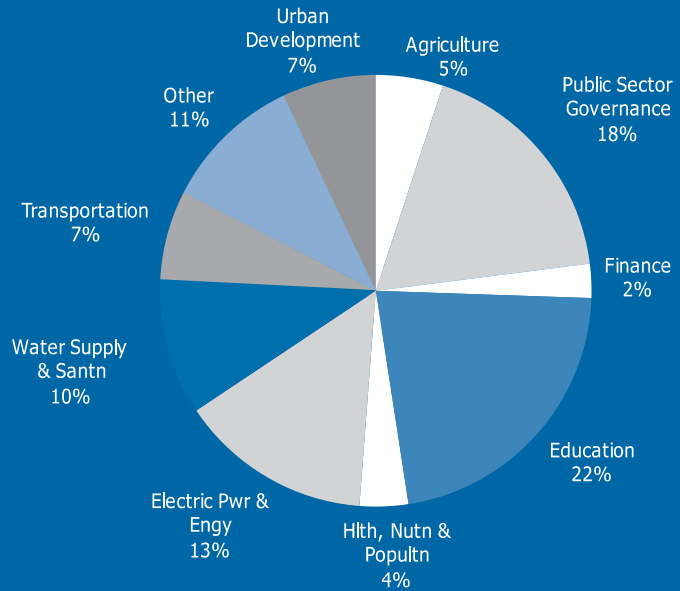
Jordan joined the World Bank in 1952, and received its first IDA credit in 1961. Over the past 42 years, a total of 86 credits, loans, and grants have been granted to Jordan for a total amount of US\$2,229 million. Jordan is also a member of IFC, ICSID, and MIGA.

IDA: US\$86 million (15 Credits)  
 IBRD: US\$2,144 million (66 Loans)  
 Of Which:  
 Investments: US\$1,369 million  
 Development  
 Policy Loans: US\$870 million (8 Projects)

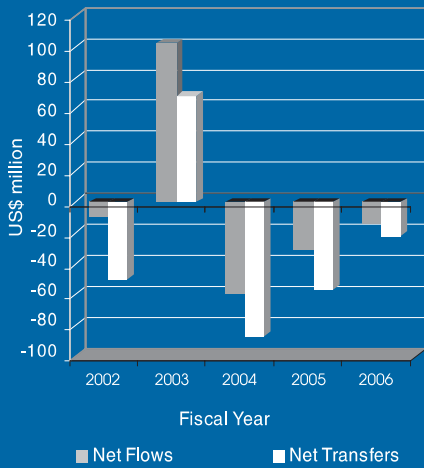
Disbursements: US\$2,064 million

Repaid: US\$1,063 million  
 Obligation: US\$985 million

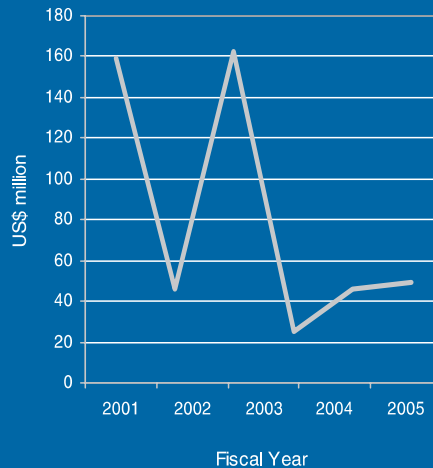
Sectoral Distribution by Value



Net Flows and Net Transfer



Disbursements



Projects Approved by Fiscal Year

Fiscal Year	# of Projects	US\$ M.
1994	2	100.0
1995	3	146.6
1996	2	120.0
1997	2	140.0
1998	3	67.0
1999	3	210.0
2000	1	34.7
2001	1	120.0
2002	1	5.0
2003	2	240.0
2004	1	38.0
2005	1	15.0
<b>Total</b>	<b>22</b>	<b>1236.3</b>

## NEWS, RECENT AND UPCOMING ACTIVITIES

### Global Development Marketplace 2006 Competition Launched in October 2005



The World Bank's Development Marketplace (DM) is a competitive grant program that identifies and provides direct support for innovative, grassroots development ideas. These small-scale projects not only deliver results, but also have the potential to be expanded or replicated elsewhere. To-date, DM has awarded roughly US\$35 million to more than 800 projects through Global and Country-Level Marketplaces.

The 2006 Global Development Marketplace (DM2006) will focus on three key elements of the Millennium Development Goals (MDGs)—Water, Sanitation, and Energy. DM2006 seeks to support innovative, local-level solutions for improving the quality and access to water, sani-

tation, and energy services to poor communities in developing countries. The call for proposals will be launched in early-October and will stay open until late November. Proposals will be welcome from a range of development innovators—civil society groups, social entrepreneurs, private foundations, academia, private sector corporations, as well as staff from the World Bank and other donor organizations.

**For more information on DM2006 and other Development Marketplace projects, please visit:**

[www.developmentmarketplace.org](http://www.developmentmarketplace.org)

### Doing Business in 2006: East European Nations Encourage Businesses with Aggressive Regulatory Reforms; Middle East and African Nations Lag Behind



Eastern European nations are aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes, but African and Middle Eastern nations with high youth unemployment rates continue to thwart small and medium businesses with heavy legal burdens and piecemeal reforms, according to the new *Doing Business in 2006: Creating Jobs*. The Report co-sponsored by the World Bank and International Finance Corporation, the private sector arm of the World Bank Group, finds that such reforms, while often simple, can create many new jobs.

Doing more to improve regulation and help entrepreneurs is key to creating more jobs—and more

growth. It is also a key to fighting poverty. Women, who make up three quarters of the work force in some developing economies, will be big beneficiaries, as will young people looking for their first job.

The annual Report, which provides a global ranking of 155 nations on key business regulations and reforms, finds that African nations impose the most regulatory obstacles on entrepreneurs and have been the slowest reformers over the past year. Meanwhile, every country in Eastern Europe improved at least one aspect of the business environment, and countries such as Serbia, Montenegro and Georgia topped the global rankings for most reforms enacted.

The Report tracks a set of regulatory indicators related to business startup, operation, trade, payment of taxes, and closure by measuring the time and cost associated with various government requirements. For example, an entrepreneur in Mozambique must undergo 14 separate procedures, taking 153 days to register a new business. In Sierra Leone, if all business taxes were paid, they would eat up 164 percent of a company's gross profits. In Syria, it takes 63 days, 18 documents, and 47 signatures from the time imported goods arrive in ports until they reach the factory gate.

Many African countries that desperately need new enterprises and jobs risk falling even further behind other countries that are simplifying regulation and making their investment climates more business friendly.

Governments in conflict-affected countries are especially hard-pressed to create jobs. Continued peace depends on demobilizing rebel armies and finding livelihoods for thousands of refugees and former combatants. This year, for the first time, *Doing Business* studies five conflict-affected countries: Afghanistan, Eritrea, Iraq, Sudan, and Timor-Leste. Afghanistan was the top reformer among these countries in the past year. The number of start-up procedures for new businesses was cut from 28 to 1, and the time to complete the process from 90 days to 7. Transport infrastructure and property registries are also being improved.

*Doing Business* in 2006 updates the work of last year's report in seven sets of business environment indicators: starting a business; hiring and firing workers; enforcing contracts; registering property; getting credit; protecting investors; and closing a business. It expands the research to 155 countries and adds three new indicators, dealing with business licenses, trading across borders, and paying taxes.

The new indicators in this year's Report further reinforce the overwhelming need for reform, especially in poor countries. The Report finds that poor countries levy the highest business taxes in the world. These high taxes create incentives to evade, driving many firms into the underground economy, and do not translate to higher revenues. Similarly, the analysis shows that reforming the administrative costs of trading can remove significant obstacles to exporting and importing. Contrary to popular belief, customs paperwork and other red tape (often called "soft infrastructure") cause the most delays for exporting and importing firms. Less than a quarter of the delays are caused by problems with "hard infrastructure" such as poor ports or roads. For manufacturers in developing countries, the administrative burdens of trading can pose larger costs than tariffs and quotas.

**For more information, please visit:**

<http://www.doingbusiness.org>

## Sixth Annual Conference of the Parliamentary Network on the World Bank

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The 6th Annual Conference of the Parliamentary Network on the World Bank, jointly organized by the World Bank and the Parliamentary Network on the World Bank (PNoWB), took place in Helsinki at the invitation of the Government and Parliament of Finland on October 22-23, 2005.

This gathering came four months after the G8 Leaders' summit in Gleneagles, Scotland, which focused on Africa's development challenges and climate change, a few weeks after the United Nations summit in New York on the Millennium Development Goals, and just ahead of the World Trade Organization ministerial meeting in Hong Kong on the Doha Development Agenda. The outcome of these summits—aid effectiveness, trade, climate change and other important issues—topped the agenda in Helsinki. The conference identified

specific contributions parliamentarians can make in each of these areas.

Some 200 parliamentarians from all regions in the world, along with development leaders, including World Bank President Paul Wolfowitz, will participate. Official letters of invitation will be sent out in early September so please get in touch (contact details below), if you are interested in attending the conference.

**For further information, please contact :**

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*Naye Bathily-Sylla*, [nbathily@worldbank.org](mailto:nbathily@worldbank.org), or

*Ivar Slengesol*, [islengesol@worldbank.org](mailto:islengesol@worldbank.org)

Or visit [www.PNoWB.org](http://www.PNoWB.org)

## World Bank and IMF 2005 Annual Meetings



Each autumn, the Boards of Governors of the World Bank Group and International Monetary Fund (IMF) hold their Annual Meetings to discuss a range of issues related to poverty reduction, international economic development and finance. The Annual Meetings provide a forum for international cooperation and enable the Bank and Fund to better serve their member countries.

Because the Annual Meetings bring such a large number of member country officials together, they provide opportunities for consultations large and

small, formal and informal. Numerous seminars are held in conjunction with the meetings, including seminars conducted by staff members for members of the press. The Annual Meetings Program of Seminars is designed to foster creative dialogue among the private sector, government delegates and senior Bank and Fund officials.

**For more information, please visit:**

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

## Private Sector Development Blog – a Market Approach to Development Thinking

The Private Sector Development Blog (PSD Blog) gathers together news, resources and ideas about the role of private enterprise in fighting poverty. The blog is informal and represents the quirks and opinions of the bloggers, not the World Bank Group.

### The Objectives

- To provide intelligent comment on private sector development issues in the news.
- To highlight new Web sites, articles and books that development practitioners might find useful.
- To provide a link between the detailed resources on the World Bank Group's Rapid Response Web site, and the ever changing world of the blogosphere.

### Its Hosts

The PSD Blog is maintained by the World Bank Group's Rapid Response knowledge service, which specializes in policy advice on business environment reform and privatization policy in developing countries. Rapid Response is a joint knowledge initiative of the World Bank and International Finance Corporation (IFC). Information on the mission and products offered by Rapid Response is available online.

### Terms of Service

PSD Blog and its contents are provided "as is," subject to the following disclaimers and comment policies.

### About the Authors

All of the PSD Blog authors are members of the World Bank Group. Their posts are their own, and do not necessarily reflect the views and opinions of the World Bank Group, its Board of Directors or the governments they represent.

**For more information, please visit:**

<http://psdblog.worldbank.org>

## RECENT WORLD BANK PUBLICATIONS

## MENA Publications

**The Economic Advancement of Women in Jordan: A Country Gender Assessment** (Report Number 32237). Despite impressive attainment in education, Jordanian women's economic roles, in some ways, do not fit the pattern seen in similar lower-middle-income countries or even in MENA. Women's participation in the economy and their economic advancement are important for equality of opportunity, improved human capability, and access to and control over resources. Regarding indicators of women's economic participation, Jordan ranks consistently below other lower-middle-income countries and is on par with the MENA region's averages; given the rate of improvement in women's health and education, however, it would be expected to rank higher.

The Report seeks to understand the extent to which the different patterns of women's economic participation reflect the society's own choice of a socio-economic development model, the result of specific constraints and discriminatory practices, or a combination of these factors. More specifically, why have Jordanian women not advanced as far as they could in terms of lowering fertility and participating in the labor force and political arena, despite the investments that have been made in their education and health? Is this attributable to personal choice, labor market constraints, or discriminatory practices? What are the implications for Jordan's vision for economic development?

**Seawater and Brackish Water Desalination in the Middle East, North Africa and Central Asia: A Review of Key Issues and Experience in Six Countries (Vol. 4 of 7): Annex 4 - Jordan** (Working Paper 33515). The Study aims at improving the understanding of desalination within the World Bank and among its clients in the Middle East, North Africa and Central Asia. It also tries to clarify the conditions under which desalination can help in reaching the United Nation's Millennium Development Goals (MDGs) for water supply and sanitation. A key conclusion of the Study is that desalination alone cannot deliver the promise of im-

proved water supply. The ability to make the best use of desalination is subject to a series of wider water sector related conditions. In some countries weak water utilities, politically determined low water tariffs, high water losses and poor sector policies mean that desalinated water, just like any other new source of bulk water, may not be used wisely or that desalination plants are at risk of falling into disrepair. Under these conditions, there is a risk that substantial amounts of money are used inefficiently, and that desalination cannot alleviate water scarcity nor contribute to the achievement of the MDGs. It may be preferable not to engage in desalination on a large scale unless the underlying weaknesses of the water sector are seriously addressed. Desalination should remain the last resort, and should only be applied after cheaper alternatives in terms of supply and demand management have carefully been considered. A second conclusion is that the private sector can play a useful and important role in funding and operating desalination plants, but only if the above conditions are met. A third conclusion is that desalination technology itself has evolved substantially, making it significantly cheaper, more reliable, less energy-intensive and more environmentally friendly than it was a few decades ago, and this trend is likely to continue.

**A Water Sector Assessment Report on the Countries of the Cooperation Council of the Arab States of the Gulf** (Report Number 32539). The main objective of the Water Sector Report in the member countries of the Cooperation Council of the Arab States of the Gulf (GCC) is to: (1) conduct a diagnosis of the current situation of the water sector, identify issues in the GCC region, evaluate the GCC governments' current water policies, and propose recommendations for improved Integrated Water Resources Management (IWRM) in Phase I of the study; (2) present key findings and recommendations at the GCC Water Conference in Bahrain, September 19-20, 2005, where Government officials, academic specialists and technical experts from the region would provide inputs to this study; and (3) if amenable to the GCC governments, conduct Phase II of the study to develop specific policies and action plans for more sustainable water resources management in individual GCC states.

**The Macroeconomic and Sectoral Performance of Housing Supply Policies in Selected MENA Countries: a Comparative Analysis** (Report Number 32174). This Report analyzes housing sector policies and their effects on macroeconomic and sectoral performance in a number of Middle East and North African countries, including Jordan. Some of these countries confront very rapid growth in their labor forces; others are now experiencing the world's highest rates of urbanization. In such countries, the spill-over effects of housing policy on labor markets, savings behavior, factor productivity, and ultimately the quality of economic growth are important. Similarly, policies that cause housing costs to rise for the entire population can have a greater effect on the poor than do direct housing subsidy programs. In short, untangling the effects of housing policy requires a broad sectoral perspective. Accordingly, the analysis examines these broader issues, even though the focus remained on how policies could improve the situation of the poor. The Report concludes that provision of subsidized housing and/or subsidized financing and production will not effectively address the housing shortfall problem. Rather, increased attention to broader policy reforms are essential if the sector is to address the housing problems of the poor, as well as the deleterious effects that the sector now has on the economy.

**Public Infrastructure and Private Investment in the Middle East and North Africa** (Working Paper Series 3661). The Paper examines the impact of public infrastructure on private capital formation in three countries of the Middle East and North Africa—Egypt, Jordan, and Tunisia. It highlights various channels through which public infrastructure may affect private investment. The analysis suggests that public infrastructure has both “flow” and “stock” effects on private investment in Egypt, but only a “stock” effect in Jordan and Tunisia. But these effects are small and short-lived, reflecting the unfavorable environment for private investment in their sample of countries. Reducing unproductive public capital expenditure and improving quality must be accompanied by policy reforms aimed at limiting investment to infrastructure capital that crowds in the private sector and corrects for fundamental market failures. This will entail privatization and greater involvement of the private sector in infrastructure investment. While infrastructure (in the form of the provision of critical telecommunications, transport, and energy services) is im-

portant, other improvements in the environment in which domestic investment is conducted are crucial. These include the need to provide financing on adequate terms and guarantee a secure and efficient justice system.

**Also available:**

- *Gender and Development in the Middle East and North Africa: Women in the Public Sphere* (ISBN: 0-8213-5676-3 SKU: 15676).
- *Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract* (ISBN: 0-8213-5678-X SKU: 15678).
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**Bank Publications**

**World Development Report 2006** (ISBN: 0-8213-6249-6 SKU: 16249). This year's World Development Report (WDR), the twenty-eighth, looks at the role of equity in the development process. It defines equity in terms of two basic principles. The first is equal opportunities: that a person's chances in life should be determined by his or her talents and efforts, rather than by pre-determined circumstances such as race, gender, social or family background. The second principle is the avoidance of extreme deprivation in outcomes, particularly in health, education and consumption levels. This principle thus includes the objective of poverty reduction. The Report's main message is that, in the long run, the pursuit of equity and the pursuit of economic prosperity are complementary.

**Remittances: Development Impact and Future Prospects** (ISBN No. 0-8213-5794-8 SKU: 15794). New research shows the astonishing scope of remittances, with formally documented flows now estimated at US\$90 billion for 2003. Globally, remittances now constitute the largest source of financial flows to developing countries after Foreign Direct Investment (FDI), and indeed in many countries they now exceed FDI flows.

The Report explores policy options for enhancing the poverty alleviation impact of remittance money in recipient countries, and addresses concerns about increasing migration and inequality. It looks at new technologies that allow remittance service providers to reduce direct transaction costs and open new channels, enhancing convenience for remitters and improving levels of transparency and accountability for regulators and policy makers.

**Water, Electricity, and the Poor: Who Benefits from Utility Subsidies?** (ISBN: 0-8213-6342-5 SKU: 16342). While consumer utility subsidies are widespread in both the water and electricity sectors, their effectiveness in reaching and distributing resources to the poor is the subject of much debate. *Water, Electricity, and the Poor* brings together empirical evidence on subsidy performance across a wide range of countries. It documents the prevalence of consumer subsidies, provides a typology of the many variants found in the developing world, and presents a number of indicators useful in assessing the degree to which such subsidies benefit the poor, focusing on three key concepts: beneficiary incidence, benefit incidence, and materiality. The findings on subsidy performance will be useful to policy makers, utility regulators, and sector practitioners who are contemplating introducing, eliminating, or modifying utility subsidies, and to those who view consumer utility subsidies as a social protection instrument.

**International Cooperation and the Reform of Public Procurement Policies** (Working Paper Series 3720). This Paper examines the available evidence on public procurement practices in developing countries that could be relevant to further multilateral rule-making on state purchasing. Although there is considerable agreement on ends (efficient, non-corrupt, and transparent public purchasing systems), little information is available on means and, in particular, on the effective and replicable strategies that developing countries can adopt to improve their public procurement systems. A concerted effort to substantially add to the knowledge base on public procurement reforms in developing countries, through targeted research and international exchange of information on implemented procurement policies and outcomes, is critical to identifying areas where further binding multilateral disciplines may be beneficial.

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