ROLE OF WORLD BANK IN JORDANIAN ECONOMY

The World Bank group consists of the International Bank for Reconstruction and Development (IBRD) and its three affiliates: the International Development Association (IDA), the International Finance Cooperation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The IBRD accounts for about three fourths of all World Bank lending. IDA provides highly concessional "credits" to the world's poorest countries. IFC lends directly to the private sector without government guarantees. It also takes up equity positions in companies to foster development of capital markets in developing countries. MIGA promotes private investment in developing countries by providing guarantees on project investments.

JORDAN AND WORLD BANK

Jordan and the World Bank have been partners in development for nearly 35 years. Over this period, successive Jordanian governments have transformed Jordan's economy into one of the most open, dynamic and socially advanced in the Middle East. Today, the people of Jordan
are poised to seize the new opportunities and meet the new challenges presented by rapid integration into the global economy, with the support of the World Bank and other development institutions.¹

The government of Jordan has embarked upon a broad-based program of economic adjustment and reform that is designed to transform Jordan's considerable potential into reality. As a small country with limited natural resources, Jordan's future prosperity will depend upon the creation of an investment friendly economy with a strong export base. Fortunately, Jordan's people are among the most educated in the region. This talented workforce is Jordan's greatest asset. As the government's economic reforms improve the climate for the business activity, the professional and technical skills of the workforce can be applied to increase Jordan's productive capacity and competitiveness. At the same time, this combination of business investments and skilled workforce can develop the physical infrastructure necessary to sustain a vibrant private sector-led economy.

But a higher rate of economic growth is not an end in itself. The government of Jordan has repeatedly stressed that progress needs to be both broad-based and deep so that those on the bottom of the socioeconomic ladder are elevated and not left behind. A pattern of growth witnessed in many developing countries, where the upper strata of society while the poor absorb the benefits of increasing economic activity, is unacceptable in Jordan. The government is determined to
chart a course that combines national prosperity with greater social equity.

As the government of Jordan undertakes the process of economic restructuring essential to building a stronger economy. Some of the leading institutions of the international financial community have offered their support. The World Bank, the international monetary fund, the European union, Germany, the Arab fund for economic and social development, the Islamic development bank, and several others have all responded to government requests for assistance with a series of loans and project-oriented financing that is targeted to meet specific needs across all sectors of the economy. Jordan and the donors are active partners in such diverse areas as water, energy, education, health, agriculture, tourism, transportation, and export development.

Rapid and sustainable growth can only be achieved through a transformation of the economy that enlarges the role of the private sector, reduces barriers to trade, and enhances Jordan's productivity capacity. Thus, Jordan, the World Bank, and the various donors all share a common strategic vision.

The government of Jordan is rapidly moving beyond the macroeconomic shocks of the 80's and early 90's and is building a vibrant national economy that is becoming increasingly competitive in the global economy. Through public-private partnership, policy reforms, incentives, and greater economic integration within the region, the government is
moving forward on a broad range of fronts with policies and initiatives that are designed to secure a more prosperous future.

As this economic restructuring takes place, the World Bank and other donors have continued their support for investment projects in primary area of importance. The World Bank has also provided non-project assistance in the form of policy loans, analytical studies, policy recommendation, training and institutional developments that is designed to spur economic developments from within Jordan.

As of June 1996, ten bank-supported projects totaling almost $500 million were in progress, while two other loans totaling an additional $100-$150 million were nearing approval, and several other projects were in various stages of preparation.

The Need for Financial Aid

Jordan became independent in March 1946 with the end of the British mandate established by the League of Nations in 1922. In June 1949 the country was renamed Jordan (the Hashemite kingdom of Jordan). In 1955 the World Bank sent a mission to study the economy of Jordan and to make recommendations. The mission reported that Jordan had achieved a rapid expansion in economic activity since 1948, but the report added that overall, the expansion of economic activity has been far from sufficient to absorb the increase in the population of the working
age and all those displaced by the Arab-Israeli war. More than half the refugee population was without any occupation (employment, even seasonally), in 1954, and most of the rest, as well as many of the indigenous population, found only casual or seasonal employment. Consequently, in 1954 the country was heavily dependent on foreign aid.

The inflow of foreign aid with a smaller but mostly positive capital account has more than offset Jordan's resource gap, reserves have accumulated and the country's overall balance of payments has remained strong. This reflects Jordan's ability to meet its financial obligations, maintain a stable value for its currency in the foreign exchange markets, and attain a higher rate of growth by financing a relatively large import surplus.

The current economic development and the influx of capital allow Jordan to import whatever needed for the nutrition of its inhabitants. But what about the future? Dependence on food imports also means a large degree of economic and finally political, dependence. The evaluation of agricultural potential is, therefore, of great importance.

Jordan's natural resources are limited. Shortage of water and the poverty of most of the usable soil are predominant bottlenecks in the agricultural sector. An exception is the Jordan valley, which owing to its geographic characteristics, is a sort of a natural greenhouse here, in the course of an integrated development programme, an intensive horticulture has been established with high-quality fruit and (especially
tomatoes, eggplants, melons, grapes and citrus fruits). And animal products which, for the most part, are exported to neighbouring Arab countries. However, the amount of investments required confirms recent international experience that, due to increasing costs of land reclamation along with increasing shortage of arable land in many developing countries, the capital-output ratios in agriculture have often started to exceed those in manufacturing. On non-irrigated soils the yields vary year by year in line with the irregular rainfall. Several drought periods in the past years have stimulated large investments in irrigation, especially in the Jordan valley, which has the greatest agricultural potential of the country. By now, irrigation plants utilize most of the available river reservoirs. In order to secure the increasing water demand of the crowded urban areas, the possibility of importing in pipelines from Iraq has been discussed.

In the past, the traditional semi-arid soils were neglected over huge public and private investments in commercial and predominantly export-oriented agricultural production. Perhaps much greater emphasis in the future should be placed on the attachment of the rural population to their land, as the exodus from rural areas has been a major cause for concern to the cities as well as to the farms. To this goal, modern facilities should be made available to the rural areas, ranging not only from tractors but also to efficient transport electricity, health, communication, and recreation facilities.
World Bank Objectives in Jordan

The central objective of the World Bank’s assistance to Jordan is to promote rapid and sustainable outward-oriented growth. Three-sub objective support this overall theme:

1. To support the macroeconomic transition taking place and assist the government as it builds a market-responsive private sector capable of creating thousands of new jobs, while offsetting the temporary social adjustment likely to occur as Jordan continues its process of trade liberalization, privatization, and financial and regulatory reforms.

2. To help the government address infrastructure constraints while encouraging environmentally sound investment practices by providing investment loans and other forms of assistance in key sectors of the economy such as water, energy telecommunications, tourism, agriculture and natural resources management.

3. To support the government’s attempt to reduce poverty through targeted investment and continue its excellent track record ensuring quality access to education and health care for all Jordanian’s.

Jordan and the World Bank group have enjoyed an ongoing partnership since 1962, when the International Development Association (IDA), the group’s soft loan arm, was invited to assist the government in financing a water and sewer project for Amman. Since supporting that initial investment in Jordan’s economic well being, the World Bank, and IDA have provided assistance as partners in 55 projects. Total lending
commitments through mid-1996 approached $104 billion, with about $500 million committed for ongoing projects.

These funds have been used to help the government finance investments in priority areas of infrastructure development such as energy, water, mining and transport, as well as in human resource development through programmes in education, vocational training, and health. Since 1989 the World Bank has added a series of quick-disbursing adjustment loans that are designed to assist the government with sectoral reforms in energy, water, agriculture, and with the macro-economic restructuring that is currently taking place.

The World Bank is working with the government of Jordan and other donors on number of projects that span a broad range of economic sectors. The loan programmes and projects identified in this chapter offer a few specific examples of how Jordan, the World Bank, international and regional donors are working together to meet the challenge of better future.

In addition, the World Bank has extended grants to Jordan for environments improvements and institution strengthening, and has administrated millions more in grants from other sources for pollution control and other environmental protection.

World Bank's economic reform and development loans, which was approved in 1995, provided $80 million to help deepen and strengthen the government's economic adjustment program. The loan
supported Jordan's efforts to establish the outward-oriented trade environment and investment-friendly environment needed to pave the way for a stronger export capacity and closer relations with international trading partners. It is part of a series of major loans designed to help achieve these objectives. In addition, the World Bank's $40 million loans for the export development projects, approved in 1996, will provide better access to commercial financing for firms wishing to expand their exports.

Since the government's program of economic adjustment is likely to involve some short-term dislocations, the World Bank group is also working with the government to build an effective "safety net" for the poor and the adversely affected. This includes a micro enterprise financing facility by the International Finance Corporation (IFC) the World Bank group's private sector arm, and a programme of the public assistance targeted at the most needy.

World Bank and Finance Sector

The World Bank in March 1996 through the Jordan Export Development Project (EDP) proposed to fund $35 million through the IBRD in the finance sector. The objective of the (EDP) is to help and increase Jordan's export competitiveness and increase its export revenues. It is proposed to bring reforms to custom legislation, simplify, standardize and automate procedures. To allow private sector to establish export processing zones, providing term finance through a
credit line etc. expenditure by the fund will be on technical assistance, services of experts to help firms to improve their technical and marketing know how. Also on hardware and software to computerize custom operations. The project will be implemented by project teams at the central bank of Jordan, Customs Department, Ministry of Finance, Investment Promotion Agency and Ministry of Industry and Trade. A project coordination unit at the Ministry of Planning would ensure coordination among implementing agencies.

World Bank and Education in Jordan

As is true in all societies, there is a strong correlation in Jordan between low levels of educational attainment and poverty. Nothing improves a poor child's potential for social and economic advancement like education. In Jordan 80% of the poor are employed, but reside in households dependent on wages earned from menial and low-skill labour. This underscores the crucial importance in imparting skills necessary to rise above poverty level and low income employment. Consequently, the government has made a commendable effort to ensure that primary and secondary education is accessible to all children rich and poor alike.

That goal has, by and large, been achieved for the current school-age generation. But in the coming years-heavy new burdens will be placed on the primary and secondary school system. This is due to the
fact that Jordan is a young society. More than 67% of the population growth is still in the high range of 3.6-3.8% per annum. Meeting the needs of future generations will require increased investment in education to ensure the construction of new textbooks and learning materials.

The World Bank on 19 Feb 2000 approved $34.7 million for the higher education development project in Jordan. According to the World Bank, the objective of the project is to “initiate improvement in the quality, relevance and efficiency of Jordan higher education, and to support the kingdom’s program to reform sector governance” (World Bank, 2000). After the implementation of the above project, it is expected that there will be establishment of systems with modern information technology, management, information systems and library infrastructure for higher education. Also grants to public universities for innovative and economically relevant subprojects and initiation of reforms for higher education governance.

The World Bank through IFC has invested $4.4 million in Jordan’s Middle East Investment Bank in May 2000 through bonds and equity options. This investment is part of a $14 million re-capitalizing, restructuring and management program. It will allow it to meet the minimum capital and the restructuring will provide technical experience and be able to introduce a wide range of retail banking products.
It is expected that the IBRD loans to Jordan would average $100-150 million per year between 2000-2002, assuming an overall satisfactory macroeconomic management. Also IBRD guarantees could total $200 million for private sector infrastructure investments.

The World Bank group expects to lend for higher education, agriculture export, vocational education, tourism, social protection, water and public sector reforms.

The government is making this investment and is committed to raising the quality of the educational system. To assist in that process the World Bank has provided fund for nine major education projects in Jordan. Other donors have contributed additional millions by participating as co financiers of various education projects.

Since 1987 the World Bank has committed $173 million in three loans to help Jordan meet the challenge of providing high quality education for its rapidly growing student population. These loans financed the construction of new schools with well-equipped libraries and improved the quality of instruction through the establishment of teacher resources centers, the provision of an improved curriculum and other teaching resources materials, and training for teachers and other education professionals. In order to strengthen the link between education and employment, a vocational training curriculum has also been established at community colleges. The emphasis of these education efforts is strongly on quality. To produce graduates who are
skilled in problem-solving and creative thinking, as well as equipped with the traditional knowledge base.

**World Bank and Jordan's Telecommunication**

Jordan's telecommunications infrastructure is undergoing a rapid expansion to meet all of the demands imposed by modern business practices, and the government has adopted a long-term plan for telecommunications network development. To assist the government in the modernization of Jordan's telecommunications system, the World Bank in 1994 approved a $20 million investment loan designed to improve the capacity and efficiency of the current system. An additional $81 million in confining is being provided by other donors. This ambitious project will double the number of lines in Jordan's telecommunications system by the year 2001 while greatly expanding geographic converge.

The modernization of the telecommunications system will be achieved not only through physical expansion of the state-owned telecommunications corporation, but also through the recent privatization of cellular telephone and data transmission and the introduction of transparent regulatory framework and few technologies support for the startup of the private firm which installed and operates the cellular network.
Direct loan financing provides only a portion of the World Bank’s assistance. The government has also received a $50 million bond guarantee from the World Bank, which paved the way for private sector financing on attractive terms. This creative approach has succeeded in leveraging private capital into the telecommunications sector and speeding the space of modernization.

The presence of a modern telecommunications infrastructure will help Jordan make the most of its talented human resources by opening new possibilities for outward-oriented service industries.

**Health Care and World Bank**

Health care in Jordan ranks among the best in the Middle East, the continued viability of the public health care system is threatened by the increasing demands being placed upon it and by persistent deficits within the sector. A high 0.75% of Jordan’s GDP is devoted to health services. To help the ministry of health address problems that have caused persistent inefficiencies within the system, the World Bank provided it with a $20 million loan in 1993. This loan brought total World Bank assistance in the health care sector to $55 million.

World Bank funds will also be used to support a ministry of health project that seeks to improve Jordan’s health care system through better organization and management, greater reliance on pre-hospital services, increased training of medical personnel, and the construction of
additional hospital emergency rooms. In addition, a program is being designed to implement measures for higher levels of cost recovery that include more effective collection mechanism. As a result of this program, it is expected that the ministry of health will be to contain the rising costs that threatens the system, while medical personnel will be able to provide better quality care that ensures continued access for the financially disadvantaged. By addressing health care delivery problems before they reach crisis proportions, Jordan and the World Bank is working together to make certain that all citizens continue to receive the high-quality health care to which they are entitled.

The World Bank is also now working with the government to prepare a project, which would carry these improvements further. It would help produce more and better services for each person in several ways; health facility managers would be given incentives and flexibility to manage their hospitals and health centers efficiently. Public health programmes would be targeted better to the major disease burdens facing the population. The private sector would be regulated and coordinated with public health services better, cutting down on duplication of expensive new technologies and excess hospital capacity. And pharmaceuticals, which account for over a quarter of health spending, would be procured, sector, and distributed in more cost-effective ways.
Water Supply and the World Bank

Due to shortage and scarcity of water, it means every effort must be made to conserve and recycle it, and new ways to finance new water supplies need to be developed. The World Bank and the government are working closely together on these fronts. They plan to launch a series of projects over the next few years to reduce the system losses in Amman and other cities (where over half the incoming water is lost); to upgrade waste water treatment so that agricultural and industrial users receive good quality recycled water; to bring new supplies of water to urban areas' and to raise the efficiency of irrigation.

The World Bank through the IBRD and IDA had laid great emphases on water supply and sanitation. Water supply is the most important input for agriculture. Appropriate water supply and sanitation is important to the health of the people and is an important indirect input. For the people working in agriculture need clean water and sanitation facilities. IBRD and IDA in 1999 have funded various projects in the area of water and sanitation. The countries that have benefited are as diverse as Jordan, Argentina, Bangladesh, China, Kazakhastan, Turkey, West Bank &Gaza, Yemen, etc. For Jordan the IBRD is giving $ 55 million out of total cost of $135 million. This particular project is for an estimated 2 million people specially from low income and refugee camps. It will enable them to enjoy health benefit through more efficient management, operation and access to water services. All the other countries will be receiving funds in the range of $16 million to $ 369 million for sustainable
improvement in water and sanitation services, water sector reforms, institution of tariff policies and be more efficient and environmentally responsible.

Approximately three-quarters of Jordan's water supply are devoted to agriculture. Crop substitution that is away from water-demanding crops such as fruit, wheat, and barley would substantially less water use and create an economically more efficient agriculture sector. The gradual implementation of the government's policy reforms should help reduce water waste by creating a more realistic incentive structure for farmers. Market-oriented reforms include the removal of price controls and subsidy for farm products and the liberalization of trade that will encourage expansion into export markets.

To assist with this transition, the World Bank approved $80 million agriculture sector adjustment loans to help offset some of the transition costs of reform. In addition, the World Bank has approved a $6.6 million technical assistance loan that will help facilitate water management in the Jordan valley, assist with ground water control, and help strengthen agricultural support services. Now in the planning stage is a project with making international finance corporation support for building up agricultural exports.

In the coming century emerging technologies will make water a renewable resource for those countries that make the necessary capital outlays. Revenues derived from water supply as well as general
economic growth need to be reinvested to increase water availability and to steer clear of the dangers of a water crisis. The World Bank and other donors are working with the government to stave off the potential for a future crisis by taking steps today to promote water conservation, development, and an equitable distribution of this scarce resource. The water supply problem can be understood as follows:

Per capita water supply is among the lowest in the world, and falling rapidly as population rises, by 2025, it will be only 17 % of its level in 1960. Most aquifers are seriously overused; highland aquifer extraction is almost 80 % above natural recharge. Saline intrusion and higher pumping costs are serious problem. Significant losses of water (54 % in urban systems, 45 % in the Jordan valley). Water quality, especially of wastewater, is poor and declining causing losses on farms in the central Jordan valley and elsewhere. The cost of new water and wastewater in high and rising faster than the GDP.

The possible solutions for the management of water supply could possibly be as follows:

1. Improve the management of the sector. This includes bringing private management into system operation.

2. Invest in reducing system losses in both municipal and irrigation systems.

3. Upgrade wastewater treatment facilities and put in place incentives to reuse treated wastewater where appropriate.
4. Implement major investments for new supply.

5. Help farmers in the Jordan valley switch to higher-value, less water-incentive crops.

6. Control extraction from aquifers to reduce it to sustainable levels.

7. Exploit all opportunities for well-regulated private investment in water development, including price incentives.

The World Bank has understood the grave nature of the water problem and is effectively engaged in solving it through the following possible ways:

1. Partnership with government in putting together the strategy and plans to address the water challenge.

2. Provide initial funds for improving sector management and doing feasibility studies of specific projects.

3. Finance specific projects with loans and guarantees.

4. Help mobilize other official assistance for investments and technical assistance.

**World Bank and Power and Oil in Jordan**

The World Bank has financed several power and oil/gas exploration projects in the past. Now it is helping the government through an $80 million energy sector adjustment loan, to improve the efficiency
of energy sector organizations, improve their services, bring private investors into the energy sector, and enhance energy conservation. Specially, the loan supports the government's strategy featuring energy prices that cover economic costs and satisfy commercial goals; an independent and transparent regulatory framework; a level competitive playing field between public and private firms; autonomous and commercially-oriented publicly-owned firms power and oil/gas, and improved environmental framework, and improved energy conservation measures.

The government is encouraging private investment in electric production and energy development under a new electricity law enacted in 1996. Jordan electricity authority has moved from traditional public enterprise status and now operates under the private sector companies law. A separate independent body to protect the public interest will regulate the entire sector. Most new power investments are expected to be privately finance, freeing up public funds for other uses.

Although Jordan's geology makes oil and gas exploration more risky than in several neighbouring countries, the World Bank has financed such exploration with some success. Recently, the state owned oil and gas authority became a public shareholding company and entered into production-sharing oil exploration agreements with four international oil firms, effectively graduating to reliance on private financing. Private investments are also planned to take advantage of Jordan's attractive location for refining. A 1996, $205 billion oil refinery
agreement, involving foreign and Jordanian private investors, offers the prospect of major job creation and foreign exchange earnings.

The World Bank's latest energy loan also, supports improved environmental regulation energy conservation. Many energy conserving regulations and practices affecting the transportation sector, households, and other sectors have been put in place. In addition, studies are being carried out on tariff restructuring measures to improve electricity demand management. Finally, discussions are underway for a major grant from the bank administered global environment fund to encourage private initiatives in solar power generation.

**Jordan Transportation and World Bank**

Jordan's locations makes it a transportation crossroads and transportation is a major sources of income (11% of GDP), employment (8.5% of all the jobs) and foreign exchange (about US $ 380 million in 1996), mostly through transshipment services via the port of Aqaba and overland routes). The road, rail and air infrastructure is good, but it faces the dual challenges of expanding to meet the demands of the emerging regional market, and keeping existing infrastructure in good condition. With its heavy transit and mining traffic, the network is under great pressure, and domestic funding has not been adequate to meet both construction and maintenance requirements.
To help address the maintenance requirements of the road infrastructure, the World Bank has provided a $80 million transport project. This project is rehabilitating and upgrading several major roads, including the main north-south highway that links the port of Aqaba to the economic centers and transit corridors in the northern region. This highway is a critical artery for foreign trade, and will need to carry much more traffic as the domestic and regional economic growth. The project is also improving construction standards to reduce future maintenance costs, and preparing plans for a user-based system of raising funds for the road maintenance.

The government and the World Bank are planning a new project to implement many improvements developed under the current one. As road rehabilitation and construction work progress, the government is planning to introduce regulatory reforms to improve competition and secure the financial health of the transport industry. Road maintenance will improve as road users begin contributing through a modest fuel surcharge to a fund dedicated to keeping roads in top condition. And the overstretched public transport system in the greater Amman area, on which many low-income families depend, will be upgraded and a ring road begun to allow transit traffic to a growing center.

The World Bank in May 1999 through the Jordan Amman Ring Road Project proposes to raise $45 million through IBRD in assisting the Jordanian government in developing an urban ring road for the Greater
Amman Area (GAA) which has no bypass or ring road to handle regional as well as urban traffic. The proposed ring road is anticipated to have an overall positive environmental impact associated with the support it would provide for the planned special development of the Amman region. The target population for the ring road component of the project is primarily the people living in GAA or over 2.5 million people. The Amman Ring road in addition to reducing urban congestion and pollution will also benefit regional traffic between the West Bank/Gaza, Iraq and Syria by allowing such traffic to bypass built up areas in Amman.

Jordan's rail infrastructure and equipment are well adapted to their main need, carrying rock phosphate to Aqaba for processing and export. The operational efficiency of the Aqaba railway corporation and its equipment maintenance need to be improved, however, a new rail line to carry expanded output from the Shidia phosphate mine is urgently needed. The World Bank is helping the government to attract private financing, as part of an agreement under discussion for private operation and maintains, for this line.

Tourism in Jordan and World Bank

The government and the World Bank are working on possible cooperation in expanding and modernizing Jordan's airports, serving Amman and Aqaba, and the port of Aqaba, to deal with expanding tourist traffic and goods trade. This is an area where the World Bank offers
technical advice, linkage with other sources of official financing, and help in developing ways to bring in private participation, rather than direct financing, to ensure that the infrastructure is designed, financed and operated in the most efficient way possible.

Jordan's unique religious and historical sites, its beautiful recreational areas, its archeological treasures, and its sunning natural landscapes combine with a rich cultural heritage to drew the interest of tourists from around the globe. The magnificent carved stone structures of Petra and roman ruins of Jerash, the coral reefs of Aqaba, the natural majesty of Wadi rum, and the imposing castles of the grusades are provide Jordan with some of the most wonders of the world.

Quite naturally tourism is one of the Jordan's major industries. In 1990's tourism accounted for approximately 10% of Jordan's GDP. The potential for tourism is enormous. If properly managed, an expanded tourism industry can create thousands of new jobs while attracting hundreds of millions in investment dollars and annual income. Recognizing the still untapped potential of tourism, the government has begun work on a series of projects aimed at providing investment in hotels, restaurants, resorts, and recreational facilities. These will expand the capacity at Jordan's most popular tourist areas and provide travelers with the five-star comforts available to them elsewhere in the Mediterranean.
In order to help tourism industry its full potential, the government is accelerating the privatization process to attract the investment necessary to upgrade facilities and accommodations, while it improves roads, highways, and addresses environmental issues. Jordan's most popular tourists' sites- Petra, Aqaba, and the dead sea- possess fragile ecosystems, and the government is mindful that growth and development within the tourism industry need to be accompanied by sound environmental management and planning.

To help meet these needs, the World Bank is working with the government to develop a tourism project that will support the growth of competitive sustainable and environmentally sound tourism. The tourism development project will have three basic components;

1. Assisting in the formulation of policies and regulations that will increase the role of the private sector within the industry.

2. Implementing a priority action plan for Petra, Wadi Rum, Aqaba and the Dead Sea that includes infrastructure investments and environmental protection measures and.

3. Providing resources to encourage private investment and development in the Dead Sea tourist area.
Human Resources in Jordan and the World Bank

Human resource constraints effect Jordan in several ways:

1. The lack of adequate academic and vocational preparation of their staff is a major impediment to firms in achieving international competitiveness.

2. Inadequate access to affordable and high quality health care, including health security, imposes additional costs on workers and employers, and many also delay the reduction of population growth.

3. High population growth imposes a costly burden on the physical environment and on the public exchequer, diverting funds which might be used for productive investment into the social overhead of schools, health clinics etc. required for the growth students population; and

4. In the public sector, an inadequate system of managing tasks and motivating people creates considerable waste and well-known burdens on the private sector. The strategy would address each of these four problem areas.

Although Jordan is well endowed with university graduates, their skill mix and the nature of their pedagogical training have resulted in shortage of managerial and several modern skills, and a lack of innovative problem-solving orientation among graduates. There is no
strategy to link the allocation of resources in public university program to the needs of the labour market, nor is the higher education system required to manage its resources cost-effectively. These problems of quality and efficiency at the university level affect Jordan's international competitiveness as well as the level of public funding available for the larger pre-university public education system. The World Bank is studying these and other issues, and subject to its findings and availability of other sources of support, the next World Bank involvement in education may therefore, be at the post-secondary level. In the health sector, the most pressing need is for competitive, efficient financing mechanisms appropriately mixing public and private sector roles to improve Jordan's generally high public and clinical standards in a fiscally sustainable way. Sector work now underway would identify such mechanisms, and future lending would support their introduction. The goals would be to create a universal health insurance system, and to strengthen the capacity of the government to provide (or contract for the provision of) services which are of sustainable high quality, yet affordable to the poor on population issues, the goals would be to create universal health insurance system, and to strengthen the capacity of the government to provide (or contract for the provision of) services which are of sustainable high quality yet affordable to the poor.
On population issues, the bank would use three types of intervention: ongoing project support to improve clinical care for mothers family planning services and data on family health our ongoing health sector study, mentioned above and a persistent and well-informed dialogue with the government on the need to accelerate family planning efforts. In public sector management, World Bank efforts would be spread throughout the assistance programme. Most loans would improve the managerial quality of the public sector, and several would also shift its orientation from controlling to assisting the private sector.

World Bank Strategy for Jordan Economy

World Bank’s assistance has changed both in the scale and scope through the years of IDA lending (FY 62-78). IBRD lending began in 1979, and quickly became large enough to effect domestic investments and other donor assistance. It averaged $ 44 million p.a. during 1979-83 and $ 104 million p.a. during 1984-98, when other donor assistance had fallen sharply. During the 1980’s the World Bank’s strategy emphasized education, power, water, and urban investments. These finance important infrastructure as well as institutional improvements.

With the advent of serious macroeconomic problems in 1988 the bank’s strategy changed in 1989 toward helping the government design and implements a growth oriented adjustment program. This process
began with the Industry and Trade Policy Adjustment Loan (ITPAL) in 1990. The ITPAL supported initial trade reform, price liberalization, and subsidy reduction. While ITPAL supported reforms were being implemented, the bank supported reforms in other key sectors. Energy sector adjustment loan (ESAL) supports sectoral restructuring, private participation, market-oriented pricing and environmentally sound energy development. In the context of the ESAL the government has decided to set up an independent and transparent regulatory system and to increase power tariffs in line with commercial operating principles, sending a positive signal to potential private investors. But the complexity of the institutional reform issues combined with political considerations on timing of tariff increases has delayed the actions required for the release of the second trench. Agriculture sectors adjustment loan (ASAL) supports prices-based irrigation demand management to economic on the use of Jordan’s scarce water resources, agricultural market liberalization, and competition. The government took the difficult decisions to increase irrigation tariffs in the Jordan valley to cover operation and maintenance costs, eliminate import monopolies, and allow market-based pricing. Pressure from farmers and some internal resistance in affected line ministries have led to a few lapses in implementation of the reforms, but the overall program is processing satisfactorily. Now the government is ready to extend its reforms programme over the next 3-4 years a long a broad front, including the trade and investment regimes, the financial sector, the regulatory
environment and the role of the public sector, with new support from the bank and other official financiers.

While adjustment operations have been under design and implementation, the bank has continued in recent years to support investment projects in priority areas of infrastructure (water, transport, telecommunications) and human resources development (education, health). The World Bank concurrently used its economic and sector work to provide an analytical basis for reforms to enhance efficiency in trade, finance, public expenditure and administration, the social safety net, the labour market, and the use of water resources, and to help the government plan for the impact of peace. And as investment and growth following the post-Gulf crisis, the World Bank took the lead in helping the government mobilize external concessional financing.

World Bank and Local Participation in Jordan

Building local participation and partnership in the World Bank's work in Jordan is an essential element of the proposed strategy. Local participation and partnership enhance the effectiveness of the other instruments by bringing the local knowledge, building local analytical capacity, and most important, enhancing local ownership. This has become more important since 1989, when the economy was in crisis, adjustment lending began, and the first elected parliament took office, making intensive dialogue with the government towards new adjustment
measures essential. Particularly as the adjustment operations deal with areas where sensitivities regarding political interference and economic interests run high, it is important to make a good case for these operations with potential public opponents, and build into their content as much local input as possible. Greater local participation is also useful in increasing local ownership of investment projects, thus reducing the number of projects dropped well into preparation and in improving the response to Economic and Sector Work (ESW).

The World Bank would tailor its actions in building local participation and ownership to the stakeholders, the government, parliament royal court, and private sector. With our most direct counterparts, government official, we would continue the practice of regularly reviewing our lending and ESW programme, seeking greater inputs by the government in early definition of future plans diversifying high-level dialogue to include the economic council of the cabinet, and sharing analytical tools and data. We would make greater use of Jordanians as members of project preparatory would and ESW teams.

With Parliament, and the support of the government, this has been positive reactions to the World Bank's outreach efforts, and would plan to continue the dialogue. It seeks opportunities during senior management visits to ensure similar interaction with the royal court. With the private sector, It has very good dialogue on questions of policy as well as on design of specific projects, and the World Bank would broaden and deepen this by several means, including;
1. Mobilizing support for the creation of one or more economic policy research institutes to produce policy analysis, enlist private opinion leaders in support of reform efforts, and improve aid coordination.

2. Holding open to the public where bank research of local interest is presented and discussion invited.

3. Widening the local people get contacts with NGOs and academics to ensure both the World Bank and the most accurate information possible on issues shared concerned.

4. Continuing to seek the views of project shareholders early in the design of each project.

5. Developing regular contracts with the local news media to ensure that bank policies and positions are well reported there.

Sustainable growth relies on greater inflow of productive private investment, and certain key investment is so large that private investment is essential to supplement donor and government funds. The World Bank has already demonstrated, through its first partial credit guarantee can attract private funding on longer terms and at an attractive cost. Jordan's bond their first borrowing in the capital markets, was heavily oversubscribed by international investors. In selecting future recipients of bank guarantees, the main criterion would not be simply an entity's need for long-term foreign financing, but rather the impact of the guarantees in bringing about sectoral reforms.
Consistent with the expectation of private financiers: institutional streamlining, private participation and competition, and market-sensitive investments and pricing. Use of the World Bank partial risk guarantee would also be explored to complement our private sector projects associated with government commitments to take action or adhere to policies, which are critical to project success. The World Bank has begun to develop opportunities for partial credit and partial risk guarantees in number of sectors, including water, power, transportation and agriculture. It is also exploring the use of guarantees to support regional infrastructure projects.

Since independence in 1946, Jordan has invested heavily in the development of human resources. Education and health care were made accessible to the general public, and the foundation was laid for transforming Jordan into one of the most professionally advanced nations in the region. New schools, universities, clinics, and hospitals have been built, and dramatic improvement has taken place in virtually every indicator of human well-being, life expectancy, literacy, and school enrollment rates have been risen to among the region, while infant mortality has fallen to among the lowest.

The accomplishments that followed independence have been substantial and ensuring. In spite of these achievements, however, the economy has undergone periods of “boom” and “bust”. Although Jordan is not an oil-exporting country, the oil boom years 1973-83 were profitable for Jordan because oil-exporting neighbors were generous in
the provision of grants and soft loans and in generating employment for Jordanians. This helped spark a period of unprecedented economic growth. From 1973 to 1983 Jordan's GDP grew in excess of 10% per year, while per capita income approached an all-time high of $2,250 in 1987.

The steep decline in oil prices that hit the region in 1983 caused a significant economic slowdown in the oil-exporting states, causing grant assistance and income to decline in Jordan. The growth of the boom years was not self-sustainable due to excessive reliance on foreign assistance and foreign labour markets, and after a few years of accumulating costly foreign commercial debt, Jordan began to experience successive years of weak and negative growth. By the time the economic crisis bottomed out, per capita income had declined from the $2,250 peak of the boom years to $1,080 in 1991. The process of recovery was greatly retarded by the 1991 gulf war, which witnessed the return of more than 300,000 Jordanian from Saudi Arabia and Kuwait, and caused unemployment to soar to 25%.

Jordan has rebounded in remarkable fashion, and recent economic performance has been impressive. Real GDP rose by 16% in 1992, 5.9 in 1993, 5.8% in 1994, and 6.4% in 1995, fueled by a construction boom, rapid increases in exports, strong rebounds in several other sectors from the recession of 1990-91, and a major expansion of remittances from Jordanians returning home as a consequence of the Gulf War. These successive years of strong growth are a direct result of
the government's economic adjustment programme and improved political situation in the region, which are stimulating increased and more efficient investments. These are creating jobs at a rate, Which has cut unemployment in half from its Gulf crisis peak.

Present Needs and Future Concerns

A healthy private sector driven by market-oriented principles is essential to maintain long-term economic growth. The government is responding to this need with reform policies that reward the professional and entrepreneurial talents of the Jordanian people. An expanding private sector is stimulating job creation and building the production base that is essential to future prosperity.

Dependence on regional labour markets and official assistance create unnecessary vulnerability to political and economic shocks. As recent events in Jordan have demonstrated these shocks can wreak economic havoc. Jordan is responding to this lesson by developing its export trade the export of goods and services rather than people.

Peace and political stability are prerequisites for long-term economic development. The wars that have rocked the Middle East have deterred private investment and encouraged capital flight, while necessitating some of the highest capita military expenditures in the world. This has had a crippling effect on all of the economies of the region. The peace process has laid the foundation for the establishment
that has the potential to reverse the debilitating trends of the past. By initiating policies designed to attract private capital while gradually reallocating resources away from national defense to more productive ventures, Jordan is laying the basis for an economic renaissance.

Jordan's impressive recent economic performance owes to the government's demonstrated commitment to its adjustment program, which has centered on three main areas since 1989.

Stabilization through resolution of the external debt problems and mobilization of domestic resources to restore balance in external and internal accounts. This has major tariff and tax reforms and expenditure controls to reduce the budget deficit, a flexible exchange rate policy following the 1998 devaluation, adoption of a flexible interest rate policy in 1994 to maintain foreign exchange reserves, and extraordinary efforts to reduce the foreign debt.

Efficiency improvement through a door open trade regime, improved financial intermediation and a lighter and less discretionary regulatory framework. The government has reduced tariff protection and improved the trade incentive regime, and decontrolled nearly all prices including interest rate.

Market orientation through gradually reducing the role of the public sector in commercial activities and ensuring a competitive level playing field for the private sector. This has been approached on several
fronts, including structural reforms and steps towards privatization in the energy and agriculture sectors, allowing limited private competition with public companies in power and telecommunications, taking preliminary steps towards eventual privatization of royal Jordanian airlines, and strengthening institutional support for export development.

In mid-1994 the government began preparing a range of new legislation, much of which was enacted in 1995. Recognizing that Jordan's low domestic saving rate, limited potential for greater external official financing, and even more limited potential for substantial new external debt offer no alternative means to support a high growth rate, the government intends to improve the business environment to attract significant private foreign investment. The agenda for creating this enabling environment for private sector based and outward-oriented growth was outlined broadly in the government's economic and social development plan 1993-1997.

**Future Economic Prospects**

The most likely scenario is one of the steady relatively high growths, based on a continuation of progress in stabilization and an acceleration of the structural reform process. Priority would be given to maintain stabilization and an acceleration of the structural and sectoral adjustment would progress in such areas as tariff reduction, investment-licensing land leasing financial markets, monopolization. And
privatization, this would require bold decisions— with some challenges to vested interests— to which the government is committed. This would help set Jordan apart from most of its Arab neighbors as a good place to do business, a site for relatively high-value-added production aimed at wider world market, a base for production aimed at the region (for which the benefits would be magnified by adjustments leading to higher growth elsewhere in the region) and a magnet for joint ventures with regional investors. Under this scenario, GDP would rise by about six% annually through the end of the decade, reflecting primarily the greater investment efficiency that would result from the reforms in trade, finance and the regulatory environment. Per capita incomes would rise by an average of a little under 3% per year. Saving incentives are expected to result in a major increase in gross domestic savings between 1995 and 1999 (from 5.6 to 10.6% of GDP). During the same period, the current account deficit would fall steadily, from 9.8 to 5.8% of the GDP. Exports of goods, starting from lower a base, would grow at an average of 8.5% per year through 1999, while imports would rise at an average of half that rate. Debt service indicates would improve, depending on the mode of financing new investments. The opportunities opened by peace and euromed initiative make this an entirely feasible scenario. This based case high growth performance of GDP and trade is well within Jordan’s capacity and best performance in the past.

Achieving the above economic targets depend an adequate external financing. In 1995-97, the current account deficit (excluding
grants) was projected at an average of about 8.5% of GDP. This deficit, along with scheduled amortization of loans and a major build-up of reserves, would raise Jordan's gross financial requirements to an annual average of about US $ 1.3 billion during 1995-97. Based on the new incentives, foreign direct investment would rise from less than 2% in 1995 to 4% of GDP by 1999. This, together with disbursements of loans and grants that have already been committed and other private capital inflows, would cover most of the gross total financing requirements. But even with the debt rescheduling agreed in 1994, the need to rebuilding reserves to prudent levels would underlie a financing gap (excluding bank adjustment lending, fund disbursements and their co financing) of about US $ 180 million for 1997.

The proposed objectives of the World Bank's country assistance strategy are based on the same central theme as that of the government to promote rapid and sustainable, growth needs to be private sector based and environmentally friendly. The strategy aims to establish a business-friendly policy and physical environment in which private investors guided by market signals will determine the sectoral direction of growth. The growth theme would be supported by three objectives, in order of priority:

1. Assisting the government, in collaboration with the IMF for introducing in trade and financial market regulatory and public enterprise reforms and privatization measures necessary to establish
1. The enabling environment for sustainable growth, and hence to reduce poverty and unemployment.

2. Assisting the government to address critical infrastructure constraints-particularly water-with special efforts to induce the private sector to participate in such environmentally sound investment;

3. Assisting the government to address human resources constraints more efficiently in education, health care, family planning, and protection of the poor during adjustment.

In agriculture many of the most serious problems stem from poor marketing organization and infrastructure, which forces farmers to accept prices largely controlled by the powerful consignment agents and wholesalers. The World Bank and IFC would consider providing private sector-based for agricultural export market and other essential agricultural services. In tourism development, while IFC provides long-term financing for commercial hotel development, the World Bank would address the lack of adequate physical infrastructure supporting the government in providing the trunk connections, in the context of a policy-oriented investment loan to help reduce the unnecessary regulations retarding the industry. Finally, the need for housing and housing related infrastructure benefiting particularly the poor is of special interest to the government, and the challenge is of special interest to the government, and the challenge is to satisfy the need in a way which is fiscally
sustainable and efficient. The approach of IFC is to pursue supports for privatization of the now-public service of housing infrastructure development and limiting the public role to policy formulation, enforcement of standards, and slum upgrading activities which are not of interest to the private sec
References


