



**ROSA  
LUXEMBURG  
STIFTUNG**  
REGIONAL OFFICE  
PALESTINE & JORDAN

# Economic Policy in Jordan

The research team  
Dr. Yusuf Mansur  
Bashar Al-Khatib  
Wael Abu Anzeh

**May 2019**



---

Photo Credit: Zaid Ibrahim Al Bahrawi

---

Translation: Ubab Murad

---

This research was commissioned by Rosa Luxemburg Stiftung Regional Office Palestine & Jordan and sponsored with funds of the Federal Ministry for Economic Cooperation and Development of the Federal Republic of Germany. This publication or parts of it can be used by others for free as long as they provide a proper reference to the original publication.”

---

The content of this research is the sole responsibility of the authors and can under no circumstances be regarded as reflecting the position of RLS.

---

This research was originally written by the research team in English language

---

---

## Table of Content

|  |    |
|--|----|
| Foreword                                       | 4  |
| Executive Summary                              | 6  |
| Political Background                           | 9  |
| Economic Growth                                | 15 |
| The IMF Reform Programs - A Summary            | 23 |
| Remittances                                    | 37 |
| DEBT: Overview of the Debt Situation in Jordan | 43 |
| External Debt                                  | 46 |
| Domestic Debt: Level of Domestic Debt          | 51 |
| Privatization                                  | 55 |
| The Story of the Aqaba Port Privatization:     | 59 |
| Summary of Some Major Privatization Processes  | 63 |
| Jordan Phosphate Mining Company (JPMC)         | 65 |
| Privatizing the Electricity Sector             | 69 |
| Summary of Interviews                          | 77 |
| Recommendations                                | 84 |

## FOREWORD

Global capitalism has consistently sought to establish its economic and political control as part of an integrated hegemonic system that continues to dominate the center and produce and export crises to the world at large. This characteristic, inherent in the capitalist mode of production, is not linked to one stage of this mode's development, but is rather an imbedded feature in all of its stages; whether industrial, utilitarian, or lending capital. Seeing that capitalism's mode of production is in the center (the "West"), it is evidently different in the periphery dominated and subordinated by this center. Moreover, the capitalist system is aware that its "historical" role as a class will not last long, and thus its attitude vis-à-vis the subordinate on the periphery and in countries governed by patterns of colonial production mode is to make larger gains in the shortest time possible. In this respect, this class does not seek to maintain production or provide services but simply repacks or manufactures consumer materials, which, ultimately, does not support a real productive economy. Therefore, the capitalist system only seeks to develop its own productive capacity in areas where there are big gains made with the least costs and in the shortest time possible. Based on the above, there have been many recorded socioeconomic battles related to improving the poor working conditions in general, such as raising wages and ensuring minimum, fair and equal wages. These battles have been fought between this demonstratively exploitative class vs. workers and the impoverished people – the rest of the society.

With that being said, this conflict does not emerge from a vacuum but is rather a culmination of the societal structure and political framework within the nation-state and between states. A nation-state seeks to achieve the interests of the class that shares its same interests –the local capitalist class– and which has interrelated economic interests with global capitalism, especially in the center. The state apparatuses enact special laws to protect and secure the interests of this exploitive class, and they take the appropriate measures and make all efforts to ensure that this situation remains as is. By its very nature, the state derives its "support" in continuing to exercise control of capital. It persists with adopting socio-economic policies that perpetuate this domination. Such policies do not take into account the interests of the masses, and thereby widen the gap between the subordinating representatives of the capitalist class and the rest of the impoverished society.

The capitalist center uses all means to ensure that periphery countries are in the orbit of their economic policies. Thus, large financial institutions such as the International Monetary Fund (IMF), the World Bank (WB), and the World Trade Organization (WTO) are skillfully and professionally playing their role in "proposing" economic policies and "helping" countries in the periphery to adopt socio-economic policies. The intention is to achieve "development and well-being," and, most importantly, to guarantee that the political authority maintains its position as long as it plays the role of scarecrow. If we look at the results of the "developmental" economic policies adopted by the periphery and their catastrophic results – a fact acknowledged in the reports of the financial institutions themselves – we can inevitably see that the fundamental interests achieved by these policies are first and foremost in the interest of global capitalism, and then of the domestic subordinating capital systems.

---

In recent decades, these financial institutions have focused their efforts, on the one hand, on “liberalizing” domestic markets, adopting privatization policies which target services and production, lifting subsidies on goods, reducing social services, and adopting fiscal policies that place the greater burden on the poorer groups. On the other hand, the financial institutions have facilitated lending for states and individuals and therefore immerse these states and individuals in unprecedented deficits and debts.

The study on the economic policies in Jordan is within our interest in taking a scientific look at these policies and their results on the Jordanian economy and the residents of Jordan. One of the advantages of Jordan – which makes it unique among the periphery countries – is that its geopolitical location has made it one of the biggest recipients of the results of shocks hitting most of the periphery countries. Jordan had hosted thousands of refugees and displaced persons from different countries and borne strong economic and social burdens, despite the fact that it had received in return “financial aid” to cope with these additional burdens. Nevertheless, its economic and social policies have been subjected to violent shocks which have affected, and continue to affect, the socio-economic status of the state. The study attempts to tackle this issue, analyze it, and shed light on its causes and consequences.

The Rosa Luxemburg Stiftung Regional Office Palestine and Jordan is pleased to present this study with the aim to benefit researchers and those interested in the socio-economic situation in Jordan. We consider this study as a qualitative addition to already available studies and analyses. We hope it can be used as a means to develop economic and social policies that would address the needs of the poorest and marginalized groups and an attempt to find economic alternatives to reduce the dependence of countries in the periphery on the global capitalist center. Our hope is that this study will highlight the ugly role played by economic policies as imposed by the financial institutions in the world, including privatization and impoverishment policies that target the majority of the people in favor of the most powerful factions. We also hope that it gives birth to popular conscious and influential initiatives.

In conclusion, we have nothing but praise for the role of the researchers in producing this study and for bearing the burden of going deep into the wilderness of the subject to make it easier for those who want to continue carrying on the torch and the spade to do more research. We thank all those who cooperated with the RLS and the researchers who produced this study, which does not necessarily reflect the views of the Rosa Luxemburg Stiftung or its sponsors.

Issa B&B Rabadi

Programme Manager

Rosa Luxemburg Stiftung Regional Office Palestine and Jordan

## EXECUTIVE SUMMARY

Jordan's economic policies are governed by its geopolitical situation. Reactive policies to regional developments, the lack of natural resources, and economic reform programs implemented under the auspices of the IMF and the World Bank, especially in the past three decades, have shaped the economic orientation of the kingdom.

Jordan has consistently been dependent when solving its economic woes on its neighbors and allies, namely the Gulf countries and the United States, among others. Foreign aid has always been available, albeit at varying levels, to buttress the economic needs of an ever-growing bureaucracy. Some of the aid came with conditionalities that typically emerged from the joint agendas of donors and the government that did not necessarily address the development needs of Jordan and encouraged the sustenance of Jordan as a rentier state.

In the past three decades, particularly since 1989, Jordan has engaged in economic reform ala the Washington Consensus (International Monetary Fund--IMF, World Bank and the World Trade Organization) that were aimed, at least outwardly, at liberalizing the economy. However, a quick review of historical data and events would show that Jordan attempted reform only when it was facing pressing or severe economic problems or downturns as in 1989, when an almost financial meltdown ushered democratic reforms and the return to parliamentary life; and in 2011 when the Arab Spring uprisings erupted and threatened to spread into Jordan, which resulted in the formation of a social and economic committee that quickly emerged with plans for reform.

One characteristic of economic reform in Jordan is that it would coincide with a looming or existing crisis; or as in some recent cases after the onset of a crisis.

To be added at the beginning of the sentence. The reform dialogue and impetus would be laid to rest in the good times when regional events created bonanzas for the government and the economy such as in the mid-1970s, an era flushed with petro dollars, and in 1991 when repatriated Jordanians from the Gulf in the aftermath of the First Gulf War brought with them their savings and compensations.

Not only was reform put aside, but bad habits, such as a burgeoning public sector aimed at enhancing loyalties in the good times through rentier modes of spending, were exacerbated. The 1970s were marked not by sustainable growth but by speedily rising government that led to continued government growth in the 1980s in spite of the downturn in the fortunes of the Gulf countries. Indeed, 1989 was over a decade in the making; signs were missed, and dire consequences emerged as the government had to search for aid from the IMF.

---

The first arrangement between Jordan and the IMF signed in 1989 was in response to the economic crisis that hit the country as a result of falling aid inflows to the country, mounting debt and running out of lending sources. The program extended for two years (July 1989 – January 1991) with an agreed amount of US\$60 million, to be followed by IMF eight agreements with the most recent agreement signed in 2016, and conclude in 2019.

Starting from the late 1980s, Jordan was an early participant at the regional level in the privatization drive. By the time Jordan signed its first agreement with the International Monetary Fund (IMF) in 1989, the privatization movement had become an international trend and was adopted by global institutions including the IMF, which included it as part of its recommendations for Jordan to liberalize the economy. The privatization effort resulted eventually in having 15 enterprises either fully or partially privatized, and with the revenues from such sales generating around JD1.7 billion.

Privatization was met with significant frustration and skepticism from the public at large. The decision to privatize public enterprises was taken at the top and was based on recommendations from the IMF and World Bank, both of which were unpopular, thus delegitimizing the decisions as impositions by outsiders that were not consistent with national interests. Arguably, the privatization did not lead to the shrinking of rentierism, but led mainly to cash inflows to the bureaucracy with little in terms of economic impact on the competitiveness and business environment of the country. The negative view of privatization was never improved, and it worsened at times when some privatization processes seemed opaque and rushed.

In some cases, however, the privatization decision also stemmed from the fact that many of the public enterprises had limited capacity to serve their beneficiary base due to the fiscal constraints placed upon the bureaucracy as the government budget went increasingly into operational expenditures (primarily salaries and pensions). Examples include the Jordan Water Authority and the Amman Bus Corporation, both of which used to provide what can be considered as public services. However, these entities were unable to serve their target groups both effectively and efficiently, thus making the privatization decision one of a national interest according to the government.

Nevertheless, the privatization of public enterprises, which started under severe economic conditions in 1989, was slow, selective, and uncoordinated. It wasn't until 2000 that the Privatization Law (No. 25 for the year 2000) was issued, four years after establishing the Executive Privation Unit (which later became the Executive Privatization Commission) in 1996. Although privatization had a positive impact on some sectors, where the additional follow-on capital FDI for privatized enterprises between 2000 and 2007 have exceeded US\$1 billion, and helped in creating over 25,000 new jobs in the telecommunications and IT sector, yet it failed to solve deep-rooted economic problems; the government size remained large in terms of public sector employment, and the private sector remained relatively small. In addition,

public debt and unemployment remained high, and Jordan maintained dependency on foreign aid and expatriates' remittances.

Jordan's accession to the World Trade Organization (WTO) in April 2000 had a major impact on the country's economic legislation. Laws such as the Customs Law, Investment Law, Income Tax Law, Competition Law, Public-Private-Partnership Law, and many others were all changed to match the requirements of the WTO in response to becoming a member of the WTO. Other regulations were imposed as part of the reform package required by WTO members. These regulations included adjusting trade tariffs, renouncing exclusive franchises for some state-owned enterprises, establishing free trade and industrial zones, and lifting or lowering subsidies for some goods. Over 120 pieces of legislation were either revamped or introduced within a relatively short time span (2000-2002). The speed of introduction benefitted from the fact that the Jordanian Parliament had been dissolved at the time. Consequently, several new laws were issued as temporary laws, such as the Competition Law – which was issued in 2002 as a temporary law and then confirmed in 2004 as a permanent law.

The reforms failed to address social and economic issues. The last unemployment survey conducted in the fourth quarter of 2017 shows that the unemployment rate stands at 18.5%, reaching 36.4% for youth between the age of 20–24, and 22.8% among university degree holders (bachelor's degree and higher). By the end of 2017, gross public debt had reached JD27.2 billion, comprising 95.3% of the GDP.

Given that the government could rely on aid to pull out of a bad situation, and adding to the fact that ministerial positions and cabinets are appointed, neither political engagement nor NGOs were necessary for the Jordanian governance model. Jordanian political parties can easily be described as hardly existent, and when they do happen, they are weak and ineffectual. Almost none of the political parties has an agenda or framework by which to approach the issues systematically and provide comprehensive and well-framed alternative propositions. Lacking in capacity, they tend to move with the flow of public opinion in a reactive rather than proactive manner and go by government decisions with little in terms of quality of analysis, lobby techniques, or reach.

Civil society is also weak, with few royal NGOs dominating the socio-economic dialogue. In the past few years, civil society organizations have had some movement, albeit shy, to touch upon issues in connection with economic reform, yet they have not had the means to influence policy or the decision-making process. The status quo shows that previous and current economic reform lacks a clear constituency to support it, as debate is typically limited to sporadic involvement of the chambers of industry and trade, and the outcome is usually rubber-stamping government decrees. It also shows that meaningful economic reform is being hijacked by powerful elites to sustain the status quo that they themselves are benefitting from. As such, any attempt to impose reforms that might be deemed unpopular is being undermined by the public, knowing that previous reforms had failed to achieve the results hoped for.



# **POLITICAL BACKGROUND**

## POLITICAL BACKGROUND

After a prolonged period of martial law between the fifties and 1989, where the Jordanian constitution was amended many times to limit political life and the role of civil society, five amendments to the constitution have been approved since 1952; all pertaining to the National Assembly.

Two amendments were adopted in November 1974. The first permitted the king to dissolve the Parliament and to dismiss any individual parliamentarian for behavior unbecoming of the office, and the second enabled the king to postpone parliamentary elections for one year.

In February 1976, a third amendment permitted the king to postpone parliamentary elections indefinitely. Two amendments were adopted in 1984 authorizing the government to hold parliamentary elections in any part of the country. Until late 1988, when Jordan renounced claims to political sovereignty over the West Bank, the House of Representatives was equipped to select deputies to fill vacant elected seats from the West Bank.

In April 1989, people took to the streets in nationwide protests against economic decisions that were made by the government, such as cancelling bread subsidies. As a result, the so-called “political life” re-emerged in the country as all spectrums of society became re-engaged in public life. Political parties came back to the surface and started functioning openly, trade unions and professional associations assumed political roles, and NGOs started to come into view as political players.

The process culminated in holding parliamentary elections in 1989. At that time, politically active candidates, including members of political parties, organized themselves in coalitions. This resulted in a notable representation of political parties in the parliament. Twenty-six members of the Islamic Action Front Party made it to the parliament, which led the Prime Minister at the time to infuse MPs into the cabinet as ministers. This was a way to counter the Islamists in the parliament. Consequently, 26 MPs were appointed as ministers.

The election law was amended in 1993, mainly shifting away from political parties to a one-person-one-vote system or a Single Non-transferable Vote (SNTV). As a result, candidates ran on individual basis, and this significantly curtailed the role of political parties in the parliament as well as within the political sphere in general. Political parties were thus weakened, and in their place, voting on the basis of affiliation to a tribe was on the rise. Consequently, the primary candidates became tribal and clan leaders whose strength and influence, as well as their concerns and agendas, were all dictated by their tribal base.

The cumulative effects of the SNTV between 1993 and 2011, along with the periods

---

of time of no parliament that inevitably allowed the government to introduce a large number of temporary laws, led to nearly altering Jordan's economic policy. The new track prompted greater liberalization while maintaining and even strengthening the old structures of the rentier state and the status quo. Ultimately, this led to even greater economic distortions, as borrowing and aid dependence went to rise almost exponentially.

In 2011, a significant number of Jordanian reformist youth groups and political parties went in protests to the streets following the so-called "Arab Spring." A wave of more than 3,000 protests took place between 2011 and 2013. The wave, however, began to subside as the situation in neighbouring Syria worsened and refugees flocked into Jordan. Jordanians seemed almost collectively determined to avoid getting into a situation at home that might be similar to that of Syria.

The 2013 parliamentary elections were held based on a new law drafted by the National Reform Committee, which had been established as a consequence of the Arab Spring. It came to include representatives of the main political powers in the country such as the Islamic Action Front Party, the National Stream Party, Leftist Parties, and the Parliament. The new law introduced a system that substituted abysmally for political parties. Candidates were to form national lists. It was noted that voters, who effectively have two votes, can vote for a certain candidate and may choose to vote for a national list. A candidate could choose to ask his potential voters to vote also for a certain list. The new system allowed 27 MPs (only 18% of parliament members) to reach the parliament through the list system. Although a new electoral law was introduced, it remained highly disparaged due to the fact that the law came as a result of dialogue among the same traditional powers of the country, without any real engagement of the youth and of recently emerging reformist groups. In addition to that, the new law remained supportive of tribal/clannish based voting, and it did not lead to introducing new political powers based on a certain economic or political framework to the parliament; on the contrary, the 2013 parliament was highly criticized by the public. It was as if the nation, instead of being governed by parties that are based on certain schools of thought and frameworks, is to be ruled by parties of kinship and blood relation; indeed, a poor alternative.

The Lists Law was also accompanied by changing the political parties and the public gatherings' laws. Amendments to the constitution proposed by the Royal Committee for the Revision of the Constitution were introduced and were approved by the parliament. The most significant of these amendments was preventing the government from passing temporary laws as was the custom until then.

In 2016, a new voting system was introduced based on the open list system or the Multiple Non-Transferable Vote (MNTV). Theoretically, this is in the interest of political parties, especially that seven parties managed to reach the parliament represented by 22 MPs out of 130 (around 17%), most of whom were running in Amman. Outside Amman, the voters' behaviour remained based on tribal affiliations since

political parties had been playing a very limited role in the governorates. Even MPs representing political parties from outside the capital were elected on tribal basis rather than the platforms of their political parties. This was especially the case since, according to the new system, candidates have to be registered in their geographic districts even if they are running under a list or registered in a political party. In this respect, the system kept a tribal distribution of districts.

Based on the new elections and political parties' laws, the number of registered political parties and those that were under-registration increased to reach more than 47 political parties. Also, there was a slight increase in youth participation. The limited participation of youth was due to many factors, including the purveyance of laws limiting civic and political freedoms and rights, and a culture that neither favoured political parties nor the participation of youth.

In June 2018, the government introduced a draft income tax law that would raise taxes, expand the taxpayer base, and criminalize tax debt. The draft law was immediately faced with objections from trade unions and professional associations, and when discourse with the government seemed to yield no results, there was a call for a national strike – which was the first of its kind in Jordan with wide participation. Demonstrations took place in all governorates and lasted for 14 days; the last days witnessed an increased participation by political actors.

The epicenter of the demonstrations was at the Fourth Circle in Amman where the Prime Ministry is located. Initially, the demonstrators were mostly middle-class professionals, primarily from Amman, with representation from formal associations. Yet by the fifth day, truck loads from the outer governorates started trickling into the Fourth Circle, at which stage security bodies went into full alert due to the possibility of the spread and inconceivable consequences of what had started out as peaceful demonstrations. Thus, the demonstrations led to the resignation of the Hani Al-Mulqi Ministerial Cabinet and a new one, led by Omar Razzaz, was appointed. With that said, the demonstrations continued until the newly-appointed Prime Minister announced that the government would officially withdraw the draft income tax law.

Given the heightened expectations and the new found voice of the demonstrators, the formation of the new cabinet was met with a mixed response by many of the interlocutors of the country. Much was expected from the new government, especially with regards to the economic malaise and the governmental response to the worsening economic situation. Some saw the mix of appointees within the cabinet as a positive step in the right direction as it included social activists and non-traditional selectees, while others did not believe the new cabinet will bring anything new.

At the local governance level, Jordan recently introduced the decentralization law, which was ratified in 2015. This led to new elected councils on the governorates level, in addition to the existing executive councils at the governorates level. The

---

decentralization elections were held on the 15th of August 2017.

The expected role of the governorate councils is to approve and oversee, in collaboration with the executive councils, development plans and budgets at the governorate level. In case of a disagreement between the two councils, the issue is to be presented to the prime minister for a final decision.

There is room for expanding the role of the elected governorate councils should they decide to do so. However, this can only be done with the approval of the parliament. This provides an opportunity for youth to better engage in local politics and have a more active lobbying role with decision-makers, especially since the candidature age for the governorate councils' membership is 25 years, compared to 30 years of age for a parliament candidacy; thus opening the door for younger leaderships to emerge.

Many youth leaders emerged during the Arab Spring through political and youth movements as they played a crucial role in mobilizing the public during 2010-2013. However, they were later weakened as the regional situation, especially in relation to the Syrian crisis and the emergence of ISIS, caused fears of a similar outcome in Jordan. This adverse development was further bolstered by the divided position of political actors in Jordan regarding the Syrian crisis.

The situation of women, the most vulnerable and least economically active group, in political life has been no exception. Before the women quota in the parliament, only one woman managed to reach the parliament in the 1993 parliamentary elections. The women's quota in the parliament was first introduced in 2003. Currently, there are 20 women MPs, comprising 15% of MPs. In spite of the percentage being low, such participation rate is respectable when compared to women's participation in political life. The representation of women in political parties is considered dismal in comparison.

The parliament is believed to be weak and inefficient by the public. This is associated with many factors such as the electoral system, the appointment (by the king) instead of the election of the prime minister, and the way the prime minister chooses his ministers which (consistent with past practices,) is non-adherent to specific, objectively verifiable criteria.

In 2012, it seemed as if political reform in Jordan was emulating the reform in Morocco; one of the three other monarchies in the region, as a response to the Arab Spring. The King of Morocco had announced that the ministerial cabinet would be formed by political parties, while the king retained the appointment of the security chiefs (the army, intelligence, and police). Jordan was to do the same.

The king of Jordan retained the right to appoint the army, intelligence and police chiefs. However, with no political parties in the parliament in Jordan, the lists were supposed to act as blocks, instead of political parties, and negotiate with the Chief of

the Royal Court the appointment of the prime minister. This was practiced in Jordan only once in 2012, and the government soon reverted to the old practice of the king appointing the prime minister who in turn suggested names for cabinet ministers subject to the approval of the king. The list of appointees is also vetted by the security apparatus and some recommendations are made regarding the removal or addition of ministers. The appointed cabinet presents its program to the parliament which decides through a voting mechanism whether to grant it a vote of confidence or not. With the exception of one incident in the 1950s, every parliament gave its confidence in every cabinet since. In reality, it is the king who chooses the prime minister and his cabinet.

# ECONOMIC GROWTH

## Economic Growth

The economic growth section commences with the real economic growth rate. It is worthy of note that the growth rate has been widely susceptible to external shocks (both supply shocks and demand pulls). Unless growth is steadied for several years and with an upward trend, one cannot assert with any degree of certainty that the economy is becoming more developed.

### Real GDP

The Real GDP grew at an average annual rate of 5.3 per cent during 1993-1995, the period following immediately after the repatriation of Jordanians from the Gulf in the aftermath of the First Gulf War. This period signalled the beginning of a fall in the GDP from 14.4 per cent in 1992, the year in which repatriated Jordanians brought their savings and doubled the level of investment in Jordan. The sudden fall by almost 10% in the growth rate should have signalled the alarm but it did not do so for several reasons. The growth rate used to be predicted in the early 1990s by a committee presided upon by the Secretary General of the Ministry of Finance and the membership of the various sectoral ministries such as the Ministry of Planning, the Ministry of Industry and Trade, the Ministry of Agriculture, etc. They made ad hoc predictions based on own expertise and not actual growth figures—the actual figures would typically come 3-4 years later. The committee did not have any cause to be alarmed and continued to focus on gradual, not severe, reductions in growth. They did not realize that the significant rise and fall in one year was due to the majority of the savings going into real estate projects, which would typically cause quick growth but create little to no lasting effect on the economy after the funds are frozen in real estate.

After the drop in 1994, the economy picked up briefly again when Jordan signed a peace accord with Israel in October of that year. The sense of optimism that was generated in that era that came together with aid-increase from the US and promises for “fruits of peace” to manifest in a debt cancellation to the US of US\$700 million, pushed the GDP into a growth rate of 6.2 per cent. However, this optimism was short-lived, as a conservative government took over in Israel after the assassination of Yitzhak Rabin in November 1995. The hopefulness generated by the signing of the peace accords was replaced by pessimism over the outcome. People had expected a type of peace dividend such as tremendous inflows of aid from the US instead of simply the forgiveness of the outstanding US\$600 million of US debt to Jordan. Expectations of FDIs gradually seemed to disintegrate as Netanyahu made statements that came across as threatening to prospects or at least showcased that the Israeli-Jordanian normalization would not in any way be beneficial to Jordan.



---

Thus, the optimism was immediately replaced with pessimism and uncertainty.

The second most significant period was that of 1996-1999, which was a period of dismal growth rates – starting at 2.1 per cent in 1996 – and economic growth averaged 2.9 per cent for the period. There were two major regional developments in 1996: The first was that Benjamin Netanyahu's government took a conservative stance regarding the peace accords, and the second was the attack on German tourists in Aswan which significantly dampened tourism receipts in Jordan after Western tourists did not decouple tourism into Jordan from other countries in the Middle East. The passing of the late King Hussein, which happened in 1999, had less of an adverse impact than would have been expected as the transition to the new leadership was relatively smooth. Again, the impact of positive regional events seemed non-sustainable, and was quickly overtaken by negative neighbouring developments.

During 2000-2003, the growth averaged 4.9 per cent per annum. The Second Intifada in Palestine, which started in 2000 and lasted almost five years (2000-2005), had an early impact on Jordan, yet its impact was of little significance on the Jordanian economy due to two factors: For starters, King Abdullah II, through Royal Directive, prompted the government of Jordan to launch the Social Economic Transformation Program (SETP) in late 2001, with its funding to be supplemented by financial aid from donors and privatization-stemming funds, and its explicit aim being to accelerate the pace of social and economic reforms and raise the quality and standard of living of Jordanians. Furthermore, the Jordanian government's initiatives were coupled with the flow of aid and several aid-funded technical support projects that helped buttress the economy.

The following period, 2004-2009, was dominated by the Second Gulf War wherein economic growth in Jordan averaged 7.6 per cent per annum. Wealthy Iraqis flocked into Jordan and sparked the period of significant growth that persisted until the third quarter of 2008. In 2004, Jordan announced having graduated from six reform programs of the IMF. In spite of the loss of the oil subsidy from Iraq, the negative impact was eclipsed by donor funding, not to mention the wealthy Iraqis and professionals that flocked into Jordan in search of safety and security. The greatest increase in real GDP was in 2005, where it grew by 8.6%, and continued to grow by 8.1 per cent annually in 2006 and 2007 due to Iraqi investments and the growth of the international community in Amman. Looking at Jordan as a safe and stable country from which to function and base their operations into Iraq, as well as help ease the burden of the war in Iraq and its aftermath, donors went ahead and brought their resources into Jordan. Property prices increased many folds, and Jordan was flush with liquidity.

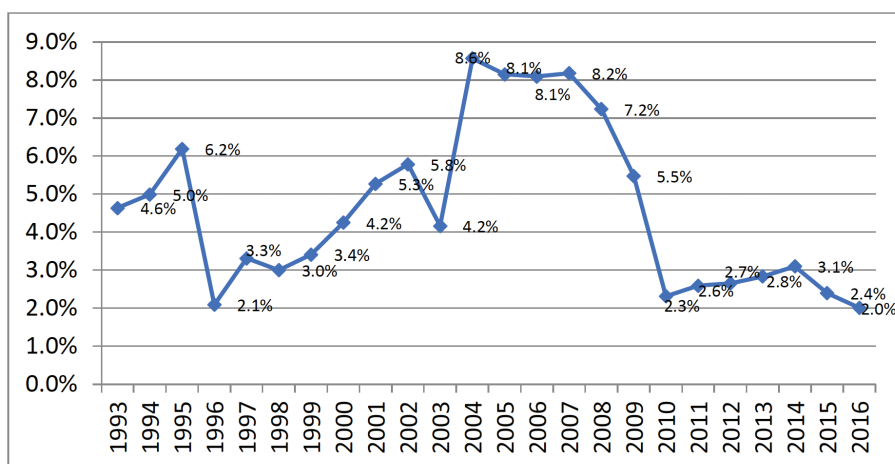
During this period, Jordan boasted one of the highest growth rates in the world and the region. It was not until the third quarter of 2008 when economic activity began to decline as a result of what became known as the "Bourse Crisis," which was

triggered by the collapse of the Lehman Brothers on the 30th of August 2008 and the beginning of the Global Financial Crisis. In 2009, growth dropped to 5.48% due to panic in Jordan and to the so-called “International Bourse” companies, which were Ponzi schemes that took deposits from innocent investors and claimed to invest them in international stock markets. They were in fact paying the depositors fractions of what the companies had received from them and never invested the money.

The government’s reaction was to immediately confiscate the properties of these companies’ owners. However, no announcement was made for years to come of the size of the damage, which prompted great speculation and rumour-mongering to estimate the damage to be around JD2 billion.

When the amount (JD 190 million) became known, several years later, and it turned out to be a tenth of the media-claimed amount, the damage had already taken root in the economy. The panic that ensued negatively affected the Jordanian stock market and real estate prices. The street linked the domestic stock market with the global market, and an era of decelerated growth began. Bank lending decreased as monetary policy moved toward retrenchment and prudence, and money suddenly became scarce (growth in lending to the resident private sector was 1.3 per cent in 2009; a dismal rate compared to the 20% average growth rate of the years 2004-2008). In August 2009, the developed countries announced the end of the Global Credit Crisis, which Jordan was to enter and start a period of severely low growth rates.

**Figure - Real GDP Growth Rate**



---

The growth rate slowed further during 2010 to 2.3%, a significant drop from the average growth experienced during the previous period. The decline in the growth of GDP may be attributed, in part, to a fall in foreign direct investment (as FDI reached JD 1.2 billion in 2010; its lowest level since 2005), and, among other things, to the continued vulnerability of the economy in the face of external shocks and the inability of reforms in enhancing competitiveness. Investment in real estate took a major hit as credit decreased, and several major real estate projects were stalled or stopped altogether after the middle of 2010. The impact of the Credit Crisis and the prudent policies that resulted was little felt in 2009, and it was not until the middle of 2010 that the demise of the growth era was deeply felt as projects contracted and funded in 2008 were completed. Others that were to start simply did not!

Growth during 2010-2013 rose at a very slow annual pace: from 2.3 per cent to 2.8 per cent. The Arab Spring had started in December 2010 with Mohammad Bouazizi's self-immolation in Tunisia. Almost immediately after the onset of the Arab Spring, demonstrations started in Jordan asking for economic and political reforms. In February 2011, the Samir Rifai Cabinet was replaced by a new cabinet led by Marouf al-Bakhit, which was followed months later (October 2011) by the cabinet of Aoun Khasawneh. The latter was also too short-lived as it lasted for six months and was replaced in April 2012 by the cabinet of Fayez Tarawneh. The Tarawneh Cabinet was replaced five months later by the cabinet of Abdullah Nsour in March 2013. During 2011-2013, Jordan had four cabinets.

The year 2012 ushered the beginning of the impact of the Syrian Civil War on Jordan when more than 100,000 Syrians entered Jordan, and Jordanian trade with Syria (40% of which by then passed through the Syrian borders) was halved. Refugees continued to pour into Jordan as of 2012, with reports of severe impacts on the Jordanian economy. The influx of refugees, which accelerated in 2012 and after (the total number of registered refugees has reached more than 630,000 according to UNHCR's 2018 numbers), has increased the pressure on public service provision and finances. Furthermore, the in-pouring of new workers into the workforce impacted the informal labor market and affected job opportunities available to Jordanians in this sector. This happened at a time when public finances were already being challenged by an ever-rising energy bill due to the fall in the supply of natural gas from Egypt, which had been the main source of fuel for electric power generation in Jordan. Balance of payment pressures increased—new sabotage of the gas pipeline in February and April reduced gas inflows even more compared with 2011. This further increased imports of expensive fuel for electricity generation and, along with it, increased the National Electric Power Company losses.

The Gulf Cooperation Council (GCC) countries pledged an aid package of JD 3.5 billion in 2012 for development projects over a five-year period to be shared equally by Saudi Arabia, the UAE, Kuwait and Qatar. By the time of writing this report, total receipts from this grant reached JD 1.661 billion: Saudi Arabia, Kuwait and the UAE

transferred JD 524.94, JD 721.4, and JD 415.4, respectively. The value of grants that were approved by 2016 was JD 2.469 billion. Following the unrest in Jordan in the aftermath of the proposed taxation law that purportedly was agreed upon with the IMF, another aid package was received from KSA, UAE and Kuwait with the total of \$2.5 billion. Moreover, Qatar pledged \$500 million in aid and 10,000 jobs for Jordanians. In addition to that, other European countries pledged more aids to Jordan.

Growth remained considerably low at 2.8 percent in 2013 as a result of the increase in energy prices to the industrial sector. The government announced it would sign a Stand-By Arrangement with the IMF which would result in loans to the government, provided that reforms do take place. The 2010-2013 period demonstrated a weakened economy in the midst of an unfolding Arab Spring and an escalating crisis in bordering Syria and then in Iraq with the ramifications of the Islamic State of Iraq and Syria (ISIS), which began to impact Jordan through an influx of refugees and neighboring instability.

A 36-month Stand-By Arrangement (SBA) in the amount of Special Drawing Rights (SDR) of 1.364 billion (about \$2.1 billion, 800 percent of quota) was approved by the Executive Board of the IMF on August 3, 2012. The Board approved the fifth review under the SBA on November 10, 2014, bringing total disbursements to SDR 937.75 million (approx. \$1.38 billion). A staff-level agreement on the sixth review was reached on March 18, 2015.

The years between 2014-2016 demonstrate a period of continued low growth; the average growth rate was 2.6 per cent. While protests subsided, refugees continued to flow into Jordan from Syria, and also from Iraq. The World Bank had expected the real GDP growth rate to reach around 3 per cent in 2014 (up from 2013) and reflecting higher growth, thus forecasting that the real GDP growth rate would accelerate to 3.5 per cent in 2015 and 3.9 per cent in 2016. The slowdown in growth, according to the report, was due to the closure of borders of Syria and Iraq in the middle of 2015. However, the report also asserted that lower energy prices and resultant investments aimed at diversifying energy resources together with a lower trade deficit due to falling oil prices, and growth in the real estate and tourism sector due to new government incentives, would have a positive effect (thus reducing the trade and budget deficit) as would higher public investments. Consequently, the growth was expected to rise to 3.7 per cent and 4 per cent in 2016 and 2017, respectively. The report showed that all sectors of the economy contributed positively to growth, most notably mining and quarrying in the third quarter of 2014. The sectors that contributed most to growth included construction, wholesale and retail trade, finance and insurance services, which also happened to be the sectors affected by the significant rise in the population of Jordan due to the refugee influx.

---

In 2015, the economy was subject to another external shock as both borders with Syria and Iraq were closed. The borders with Iraq were re-opened in July 2018, but the borders with Syria remain closed until the time of writing this report. While trade was shifted with some losses associated with the new realities and adjustments thereto, the focus became set on the Port of Aqaba, particularly the Container Terminal. The rising significance of the Aqaba Port Terminal may have led to demands of labor at the Terminal for better pay and work conditions—interestingly the demands would coincide with the beginning of the Month of Ramadan: a period of heightened demand for food products in Jordan; a country that imports 87% of its caloric intake. Importantly a strike did go into effect in 2015, and another was thwarted in 2016 and after.

In 2016, the government adopted a new set of measures aimed primarily at increasing certain sales tax rates on goods and on expanding the coverage of taxes into new goods and services. The idea behind the thinking of the IMF was to make the taxes as uniform as possible, doing away with sales tax and customs duty differences on items so as to alleviate “distortions.”

On August 24, 2016, the Executive Board of the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Jordan for an amount equivalent to SDR 514.65 million (about US\$723 million, or 150 percent of Jordan’s quota). Following the Board’s decision, an amount equivalent to SDR 51.465 million (about US\$72.3 million) is made available for immediate disbursement; the remaining amount will be phased in over the duration of the program, subject to six reviews.

The program states, “Public debt needs to be put on a downward path through gradual fiscal consolidation over the medium term while preserving essential social spending. To this end, it is critical to reduce the general sales tax and customs duty exemptions and to amend the income tax law. The electricity company NEPCO needs to reach operational cost recovery and the Jordanian Water Authority’s finances should be consolidated. Public financial management should be strengthened to enhance fiscal transparency and reduce fiscal risks.” Also, “A swift implementation of the structural reform agenda would enhance the resilience and depth of the financial sector, the business environment, and help tackle challenges facing SMEs in terms of access to finance. Labor market reforms are needed to boost youth and female employment and lessen informality.”

Among other things, the assumption underlying the IMF program is that exports and imports would increase. However, according to the Department of Statistics, the recent increase in exports was nowhere near that predicted by the IMF and was simply in potash, fertilizer and garment exports. Potash and fertilizer exports are due to companies’ own efforts of mining and the global demand, and the garment exports, which are primarily directed at the US market, have increased due to the

temporary recovery in the US market following the election of Donald Trump.

In short, the IMF program calls upon the government to reduce spending and increase taxation. However, a quick glance at the IMF calculations shows the absence of allowances for consumer and producer responsiveness (elasticities of demand and supply). Furthermore, the upshot of the program is to reduce debt, not spur growth—the latter requires a reversal of most of the requirements of the IMF. In addition, given that the economy has suffered for several years of low and endemic growth rates, increasing taxes and fees by the government will simply deepen the recessionary period and create political risks. Note that government receipts from taxes and fees decreased in the first quarter.

# **THE IMF REFORM PROGRAMS - A SUMMARY**

## The IMF Reform Programs - A Summary

The International Monetary Fund programs are highly criticized by political parties, professional associations, activists, and the public in general. Jordan's dependency on aid and loans led to following these programs with the IMF without any clear vision on how to break from the IMF model and transform these programs to be in line with the Jordanian context rather than implementing most of them without thoroughly studying their economic and social implications.

One of the biggest issues related to the public's criticism of the IMF programs is the lack of transparency by the government when it comes to designing and negotiating these programs. There are no regular information dissemination mechanisms or nation-wide dialogue(s) in place to engage the people in the process and gain the needed momentum to implement economic reform programs. The same can be said about all of the government's economic decisions whether related to an IMF program or not. One reason for this is that governments are appointed, not elected, and therefore feel little need to convince the masses as their opinions, unless such opinions might lead to mass protests, are for the continuity of the cabinet or its departure. Even if sorts of dialogue or consultation are to take place, they would simply involve the chambers of trade and industry in the conversation, and this would be after the debate with the IMF had already taken place and matters had been agreed upon. Traditionally, discussions with these chambers have produced little change.

This section provides a summary of all the IMF programs that Jordan underwent so far. The programs started in 1989, and after having announced in 2004 its graduation from the IMF reforms, Jordan returned in 2012 to the IMF. The last program will conclude in 2019. For the list of programs please see ANNEX 1.

### IMF Programs in Jordan from 1989 – 2004

In 1989, Jordan requested, for the first time ever, to sign an arrangement with the IMF. The first arrangement, which came as a result of the economic crisis that hit the country in 1988, was followed by five other arrangements that lasted until July 2004 to amount to six arrangements in total. Afterwards, the IMF announced Jordan's "graduation" from the economic correction program successfully.

Jordan's engagements with the IMF varied between Stand-By Arrangement (SBA) and Extended Fund Facility (EFF). Jordan has usually managed to implement most of the structural benchmarks and achieve its performance criteria. However, this mostly came at the expense of the society's vulnerable segments and the economy's quality of overall growth. Moreover, since the beginning of its engagement with the IMF, Jordan postponed many times reforms that are considered politically sensitive,



---

such as the lowering of its public wage bill, a progressive income tax, subsidizing fuel, electricity, water, and other main consumer goods.

The reform programs' objectives were determined by the IMF based on the country's circumstances and goals indicated in national development plans. The objectives were then used to develop macroeconomic and social policies, as well as structural reforms. Much of these policies and objectives were developed by the IMF staff in Jordan, and the role of the Minister of Finance was very significant in dictating what was to be implemented. At a later stage, specifically in 1996, when Jordan was negotiating for the second program, the IMF staff felt that the Jordanian authorities and the CBJ "have developed enough expertise and confidence" to start engaging and influencing the design of the programs.

All programs between 1989 and 2004 had similar objectives varying from increasing growth, creating jobs, enhancing living standards, and reducing the balance of payments deficits. Yet the policies that followed focused on removing all forms of subsidies and rentier state, and replacing it with free market values, in a relatively very short period. The IMF also did not provide the necessary technical assistance for the GoJ to cope with these changes, and the government's political credit amongst the public was not sufficient to move on with the required reforms. Slowly and gradually, the GoJ was able to implement a fair number of policies and waiver on the rest. The implemented reforms created multiple protests during the course of the six programs between 1989 and 2004, which most importantly were against a state that continued to expand reliance on aid but that was meanwhile unable to meet the expanding demands of its population.

Most IMF-sponsored economic policies aimed at increasing the government revenues through higher tax rates and removing subsidies, with the consequential aim of increasing growth. Nevertheless, not enough attention was given to the factors that would help the population to cope with the implemented reforms, or that would enable the private sector to grow and compensate for the extra burdens. As a result, the Jordanian economy did not grow sufficiently in comparison to the increased burdens, and it maintained its reliance on aid and while crises in neighboring countries expanded. Moreover, no measures were taken to prepare for the projected decrease in grants that happened later on in 2007, where grants were expected to drop from 10% of the GDP in 2005 to 1.2% in 2007.

After Jordan "graduated" from the IMF programs in 2004, the GoJ continued the trend of increasing taxes and fees on public services, and removing subsidies on consumer goods, as means to answer for economic hurdles. This trend was reinforced again in 2017 and 2018 where subsidies on electricity and bread were either partially or completely removed, and a new income tax law was introduced to widen the tax base. Consequently, it can be easily said that the government's methods in forming economic policies are influenced by the IMF's approach, and they try hard to imitate it rather than actually looking for solutions that will respect the

natural progression and capacity of the Jordanian economy.

With the onset of the Arab Spring and a rising energy crisis, Jordan quickly went back to reform and aid via the IMF. One reason for this return was what had become a usual practice: donors requested that a “bill of clean health” is provided by the IMF as a condition to their own participation in aid. There is also a controversial theory, brought up every once in a while by political elites and public figures, that the current pressure for reforms aims to force Jordan to commit to political concessions, sponsored mostly by the United States and Gulf countries. Although there is no official statement either from the government or the royal court that support such allegations, many people and experts’ opinions lean in that direction.

## **2012 SBA**

On July 27, 2012 Jordan requested, through its Minister of Finance and Governor of the Central Bank, a Stand By-Arrangement (SBA) from the IMF for a period of 36 months and with an amount of JD 1,364 million Special Drawing Rights “SDR” to help Jordan mitigate its financial crisis. This amount represents 800 percent of Jordan’s quota in the IMF and is approximately equal to US\$2 billion.

As outlined in the government’s Memorandum of Economic & Financial Policies (MEFP), which is part of the LOI, the program has three main objectives. The First Objective focuses on maintaining macroeconomic stability through implementing “appropriate fiscal, monetary, and structural policies.” These policies would also include bringing the National Electric Power Company (NEPCO) and other utilities into cost recovery. The Second Objective focuses on making the Government of Jordan’s (GoJ) policies more “equitable and inclusive,” which is to be achieved through targeted and focused subsidies to the most vulnerable segments of the society and eliminating any subsidies to the more-able to pay. The Third Objective aims to support growth and medium-term external positions by conducting targeted structural reforms to enhance the investment climate.

## **Economic Policies to be Implemented by GoJ**

In order to achieve the declared program’s objectives, the Jordanian government has proposed a number of economic measures in different areas to be implemented by responsible authorities through the course of the program. The reforms were divided into fiscal policies, energy policies, monetary and exchange rate policies, financial sector policies, growth-enhancing policies, and other policies to be determined based on IMF reviews.

The policies outlined by GoJ emphasized three aspects, bringing down budget deficit and public companies’ losses, maintaining the dollar peg to safeguard against inflations, and conducting structural reforms to boost the economy’s capacity to produce and export.

---

## **Fiscal Policies**

### **2012**

In the fiscal policies' section annexed to the initial LOI, the government aims to consolidate its fiscal position by conducting measures on the side of the revenues and expenditures that amount to 3.3% of the GDP.

On the revenues side, the government increased taxes on a number of luxury goods including airlines tickets, cars, alcohol, and tobacco. In addition, a new sales tax on mobile phones and air conditioners were introduced, and exemptions of general sales tax on agricultural usage items were removed. As for non-tax revenue, additional residency fees for non-Jordanians were introduced as well as fees for sending money from Jordan abroad. These measures were expected to yield 0.4% of the GDP. Moreover, increases on different types of fuel (cars fuel, jets fuel, cooking gas, and heavy fuel) with different percentages were introduced, and their prices were liberalized as they became subject to monthly change in global fuel prices.

On the expenditures side, military expenditures were cut by 0.7% of the GDP, subsidies to independent institutions were cut by 0.1% of the GDP, and operational and other current spending by 0.2 percent of the GDP. On the other hand, capital expenditures were limited to 1.1% of the GDP. Lastly, the government expected to receive grants from regional and international donors that would amount to 4.2% of the GDP.

### **2013 and beyond**

The GoJ outlined specific measures to bring the primary budget deficit by 6.3% of the GDP. These measures were based on the assumption that the oil barrel price would stand at US\$94 per barrel.

On the revenues side, a comprehensive review for all tax incentives will be conducted, and the GoJ decided to refrain from giving any new ones. In addition, the GoJ restored the standard sales tax on luxury goods, hotels, and building materials on January 1, 2013, and implemented special tax on fuel products and additional fees on licensing agreements. A new income tax law was presented in 2013, which lowered the threshold of families and individuals subject to income tax, and increased taxes on large corporates including the mining taxation.

Additional steps that fall under fiscal structural reform were implemented, such as improving the tax administration system and strengthening public financial management.

## **Energy Policy**

In 2012, the GoJ started taking steps to reduce the losses of NEPCO as it reached 5.8% of the GDP. The GoJ increased tariffs for selected sectors (telecommunication, hotels, and energy-intensive industries) in June 2012 that yielded a reduction of 0.5% of the GDP, bringing down losses to 5.3% of the GDP. By the end of September 2012, a detailed plan was laid out to address Jordan's energy issues. The plan intended to reduce NEPCO's losses as a percentage of the GDP to 3.8% in 2013, 2.7% in 2014, 1.8% in 2015, and 0.7% in 2016, and to finally bring to cost recovery by the beginning of 2017.

To mitigate the crisis of cutting Egyptian gas and the massive surge in heavy fuel prices between 2012 and late 2014, the GoJ started seeking to diversify its energy sources by building a Liquefied Natural Gas (LNG) port in Aqaba, in addition to solar and wind farms, and later on in 2016 the government struck a deal with Israel to import natural gas. Moreover, the GoJ started looking into exploring the possibilities of extracting shale oil, which is widely available in Jordan. Other options such as a rail from Aqaba to Amman to provide LNG or a pipeline from Iraq to Jordan are on the table.

On the infrastructure level, the GoJ will work with the three electricity companies in Jordan to reduce the losses of electricity distribution and will open the markets for new refineries in Jordan.

## **Monetary & Exchange Rate Policy**

The CBJ continued with its policy to peg the Jordanian Dinar against the US Dollar, as this had served the Kingdom well in the past. In addition, it narrowed the interest rate corridor in the first half on 2012 and introduced a weekly repo rate to inform the market of the interbank rate and accumulated a portfolio of short-term government securities. This helped the CBJ in controlling the interest rate structure and the liquidity in the markets.

## **Financial Sector Policies**

The Jordanian banking system retained its soundness as the Nonperforming Loans (NPL) stabilized at 8.5% since 2011. Moreover, the CBJ took steps to further strengthen its supervisory framework including conducting the Internal Capital Adequacy Assessment Process (ICAAP) for local banks, analyzing the banks' quantitative impact studies to implement the Basel III regulatory framework, and establishing the credit bureau which would allow for better financial access to MSMEs.

---

## **Growth Policies**

The GoJ outlined a number of policies that it would adopt to enhance short, medium, and long-term growth including steps to enhance the business environment, strengthen Jordan's trade promotion efforts, improve transparency and accountability, and create a plan for private sector-led innovation.

## **Other Policies**

The GoJ indicated that it is open to any new policies that may be introduced by the IMF during the course of the program or that it may find necessary. This was left to be determined by the IMF monitoring and evaluation of the government's ability to achieve the program's criteria. However, any new measures will most probably be similar to the ones already in place such as increasing taxes and fees, lowering capital expenditures, and removing subsidies.

## **Results of the GoJ's Economic Measures & the SBA Program on the Local Economy**

As mentioned earlier, the government's measures mainly revolved around tax increases, additional fees, removing subsidies, and lowering some public expenditures (mainly capital expenditures). However, and despite the many efforts, levels of public debt increased during the course of the program, and the purchasing power declined. As a result, several shops were closed, foreign brands relocated, and many essential public infrastructure projects were cancelled, which also affected growth and the level of services provided. On the other hand, the government tried to enhance MSME's access to finance, but due to high taxes, the lack of a comprehensive economic policy between different sectors, as well as the volatile legislative environment, these efforts failed substantially.

## **IMF Staff Appraisal of Jordan's Performance**

The staff appraisal for Jordan's performance during the 2012 SBA, which was part of the IMF's seventh and final review to the SBA program issued in August 2015, was satisfactory. The main guiding principle for the IMF evaluation process is the criteria of economic measures agreed upon at the beginning of the program. Despite the IMF's satisfactory rating, the impact of these measures as well as the public opinion was "very dissatisfied." Nevertheless, a number of recommendations that came out stressed the importance of conclusive decision-making in the government. The Jordanian economy's performance improved, albeit slowly, according to the IMF's criteria, as the macroeconomic outlook stabilized and its fiscal positions

strengthened. With that said, the road to recovery remains long.

One recommendation that was mentioned multiple times was the need to conduct further structural and fiscal adjustments. This included reforming the income tax law, revising the tax incentives, lowering the public wage bill, which is considered a rigid cost, and improving the tax administration and public financial management. These are all in addition to maintaining the commitment to cut the losses of the NEPCO and the Water Authority of Jordan (WAJ).

At the end of the program, the macroeconomic outlook has improved and became stable as the inflation declined, the external current account deficit narrowed, the financial sector got strengthened, and reserves increased to adequate levels. Furthermore, subsidies to NEPCO and WAJ started to be gradually removed, and the fuel pump subsidy was eliminated and replaced with direct cash transfers to the most vulnerable, which accounted for around 70% of the public at the time.

On the side of structural reforms, the IMF staff indicated that the GoJ could have been more “ambitious” in introducing an income tax law that would have lowered the threshold for families and individuals to be eligible to pay income tax, and tax incentives could have been lowered further. Reforms in tax administration and public finance management could have been accelerated, while the establishment of the public-private partnership unit at the Ministry of Finance MoF could better help in identifying and directing public investments. On the business environment side, the public-private partnership law was approved by the parliament, a one-stop shop for investors was established, and access to credit was enhanced.

## **2016 Extended Fund Facility (EFF)**

On the 20th of June 2016, the GoJ announced that it had reached an agreement with the IMF to start an Extended Fund Facility (EFF) program that would extend from 2016 to 2019. On July 26, 2016 the GoJ, through its minister of finance and governor of the CBJ, sent an official LOI to Christen Lagarde the managing director of the IMF, requesting an arrangement under the EFF with an amount of SDR 514.65, which amounts to 0.7 billion US\$, and equals 150% of Jordan’s quota.

The EFF arrangement, which came to build on what was achieved in the SBA arrangement, is underpinned, as the government described it in its initial LOI, by the “2025 Vision;” the government’s ten-year framework for economic and social policies. The EFF’s objectives were not starkly different from those of the previous SBA arrangement. Preserving macroeconomic stability, fostering growth, reducing external vulnerabilities, preserving social spending to protect the most vulnerable segments of the society, enhancing the business climate and competitiveness of the Jordanian economy, reducing public debt, promoting good-governance, and reducing unemployment especially among youth and women were all outlined as

---

objectives of the 2016 EFF.

The GoJ's expectations for GDP growth under the EFF were conservative and more realistic as they were expected to reach only 2.8% in 2016 and 4% at its highest in the medium term, compared to 4.5% at least as predicted at the beginning of the previous arrangement. This conservative outlook was fostered by the inability to fully achieve the fiscal adjustment goals outlined in the 2012 SBA, where budget deficit was expected to decline from 9.5% of the GDP to 3.5%. Instead, it declined only to 5.5% as a result of low nominal growth, and the fall of GST revenues that came as a result of low growth and decreased oil prices.

The outlook that the GoJ relied on included the relaxation of the EU rules of origin for Jordanian exports (which failed dramatically), the investments that will come with the signing of the Cooperation Agreement with Saudi Arabia (which was never actually materialized on the ground), the opening of the trade routes with Iraq which happened in late 2017 and did not witness a strong movement of goods as it did before, and the investment projects planned under the Jordan Response Plan (JRP) which are supposed to be financed by the "Jordan Compact". On the other hand, the GoJ took into account the continuing conflict in Syria and the spillover effects it has had on Jordan, as well as the declining remittances and grants from GCC countries because of declining oil prices, and the decline of tourism receipts and exports due to the unstable regional situation.

## **GoJ Economic Policies Under the EFF**

The GoJ's monetary and fiscal policies under the EFF were guided by the aim of lowering public debt, reducing the deficit of NEPCO and WAJ, preserving macroeconomic stability and foreign reserves, and preserving space for social safety net spending.

### **Fiscal Policies**

The GoJ's fiscal policies mainly aim to bring down public debt to 77% of the GDP in the medium term by 2021. To do so, the GoJ will roll over a set of policies during the course of the program to achieve this goal, including reviewing tax policies and administration by introducing a new income tax law that would broaden the tax base and increases revenues. Moreover, a new framework will be implemented to streamline the general sales tax (GST) and custom duties exemptions. Additionally, measures to improve public debt profile and debt management capacity have been introduced.

The tax-related measures were also supposed to stabilize the public debt to 94% by the end of 2016, reduce the losses of WAJ, and bring NEPCO to cost recovery by

the end of 2016. However, these measures failed as public debt has reached 95.1% by the end of 2016 and currently stands at 96% as by the end of April 2018, with NEPCO still registering monthly losses to date. As expected, raising energy prices and fees at a time of weakened economic growth would adversely cut the growth rate further and cause the reduction in government revenues as people dampen their consumption, production, and investment activities.

In addition to the previously-mentioned, the GoJ plans to commit to certain measures on the expenditures' side, including ensuring that the annual growth in the wages bill does not exceed 1.5% between 2017 and 2019. In addition, it will work on reducing the arrears of the health bill while maintaining a floor for social spending and social safety net, which includes old age, primarily targeted at illness and disability, family and children, housing, and research and development in the field of social protection. Moreover, the GoJ committed to assessing any additional public investments under the newly-established public investment framework and with technical help from the IMF, to ensure selecting projects with the highest rate of social return. The measures also included measures for WAJ and NEPCO to reduce losses and increase efficiency by updating the Ministry of Water and Irrigation's (MWI) strategy to reduce water losses and adopt an automatic tariff adjustment mechanism for electricity prices.

Two major steps that were outlined in the government's program are restructuring Royal Jordanian to reverse operational losses that the company is suffering from, which are covered by the government since it is the major shareholder in the company. They are also trying to limit as much as possible the costs that will be incurred from the implementation of the decentralization law. Additional structural measures to strengthen Public Financial Management (PFM) are to be conducted during the course of the program.

## **Monetary & Financial Policies**

As in the previous arrangement, the exchange rate peg to the U.S. Dollar and the maintenance of adequate levels of foreign reserves will remain the cornerstone of the government's monetary policy. The stability of the exchange rate is considered a mainstay for economic stability in Jordan; any attempt at upward or downward departures from this rate could bring harmful effects on the economy as viewed by consecutive leaderships of the CBJ and the ministerial cabinets that followed after the 1989 crisis. Taken into account is the strong bank supervision from the CBJ, and strengthened legislative frameworks including implementing Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT). Additionally, the supervisory responsibilities on the insurance sector have been transferred to the CBJ as of mid-2017, and further regulations to supervise the microfinancing companies have been implemented.



---

## **Policies for Jobs & Growth**

A number of structural benchmarks and measure have or will be adopted during the course of the program to enhance the business climate, facilitate access to finance especially to MSMEs, activate labor-market reforms, strengthen public oversight, and provide accountability and good-governance, in addition to measures to improve competitiveness and boost exports.

## **Results of the GoJ Economic Measures & the EFF Program on the Local Economy**

The program is still ongoing and is scheduled to be completed in 2019. Yet the implemented measures and their results are very similar to the 2012 SBA so far. Although a final judgement on the program cannot be issued at the moment, one can easily predict that many of the program's goals, especially the ones related to reducing the public debt to 77% of the GDP by 2021, which currently exceeds 95% of the GDP, will not be met. Moreover, becoming less reliant and more self-dependent also does not seem to be happening, at least not until the end of the program, as the country is still struggling with tax administration and tax-related policies. Having said that, the question that poses itself here is whether Jordan will submit a request for another program, and if so, will it be different or help solve the many issues that still stand.

## **For the details of the EFF agreement with IMF please see ANNEX 2.**

### **Labor and Unemployment**

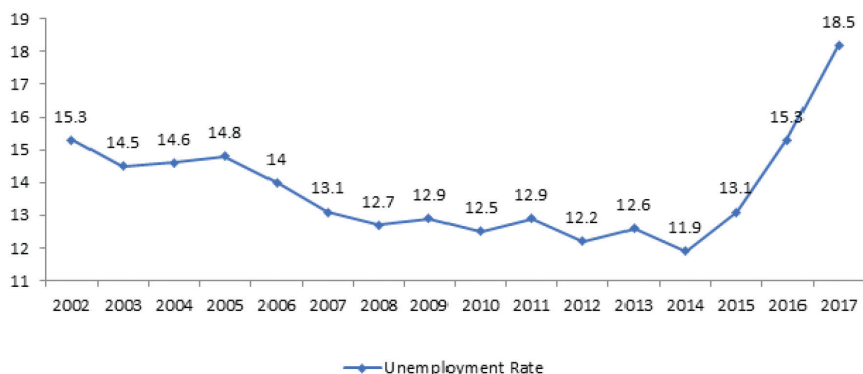
Unemployment in Jordan remains one of the most discussed issues in the Jordanian economy, and the biggest stressor for the population. This is especially the case since unemployment significantly rose over the past four years and opened the way to more poverty and socio-political complications, such as the increasing societal violence and extremism.

The Jordanian labor market is highly segmented and exhibits a number of traits commonly found in labor markets across the MENA region, namely the relatively high unemployment rates especially amongst youth (which in great part is a result of its demography). They include the public sector as the major source of employment, the presence of a significant informal economy, and very low-levels of women's participation in the workforce. These peculiarities are, in turn, compounded by regional events that have prompted, time and time again, work-age populations from neighboring countries to seek refuge in Jordan, with the Syrian crisis being only the most recent example.

The population of Jordan currently stands at 9.905 million, with the nationals comprising 7.868 million according to the UN. Thus, the number of the guest population is slightly over 2 million or 26 per cent of the population. However, of the Jordanian population, almost 3.5 million people are of working age, and less than 1.5 million of them are economically active. Furthermore, the Ministry of Labor estimates that there are about 425,000 Jordanians working in the Gulf countries and that these migrants are among the best educated Jordanians (55 per cent have a first university degree or higher), thus making for a case of “Adverse Selection”.

A first look at the unemployment rates in Jordan demonstrates that the highest annual unemployment rate suffered during the period between 2002-2017 was 15.3 per cent, which first occurred in 2002 and recurred in 2016 as shown in the Figure below. Indeed, 2002 was a period of economic uncertainty due to the buildup to the Invasion of Iraq, a source of supply of cheap energy to Jordan, and the consequent regional flux that followed a period of low growth rates in Jordan toward the end of the past millennium. Interestingly, the 15.3 per cent unemployment rate is the same unemployment rate suffered in 1995.

**Figure - Annual Unemployment Rate (2002-2017)**

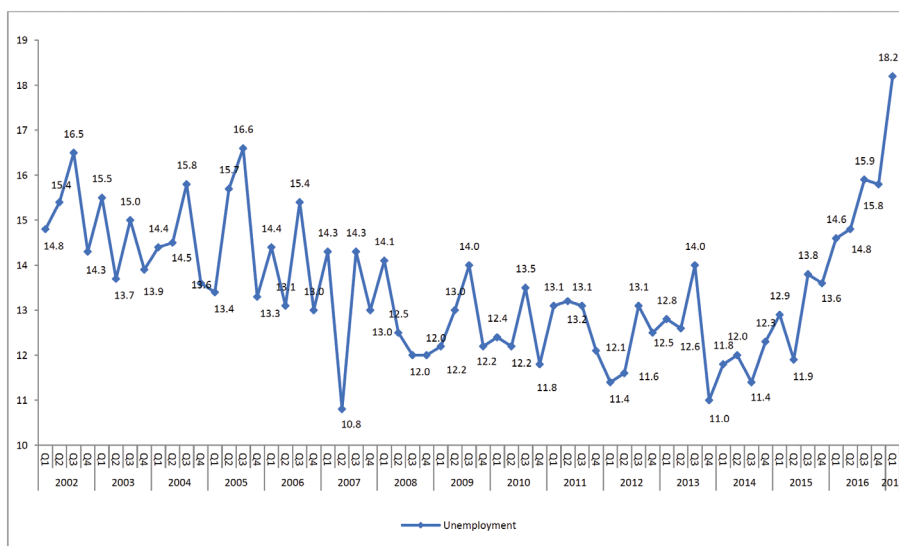


inflationary and recessionary pressures on the whole economy by increasing the cost of production, thus curtailing supply and demand simultaneously. The improvement

was not driven by increased employment as the Figure 17 shows but rather by a sizable drop in the labor force participation rate from 37.1 per cent in 2013 to 36.4 per cent in 2014.

The figure below shows the quarterly unemployment rates for the period from 2002 to the first quarter of 2017. The first quarter of 2017 shows the highest unemployment rate in the past 35 years.

**Figure - Quarterly Unemployment Rate (2002-2017)**



unemployment rate due to the announced tax reforms, which hampered economic growth by having the government increase the energy prices yet again and raising taxes, which, as expected, also increased unemployment. The latter has worked in two ways to increase the official unemployment rate: The first was people who tended to hide the fact that they received wages for employment from surveyors. The second was those who did not, since they had more of an incentive to do so in fear of rising taxes. The rise in the cost of consumption and production in Jordan was, as expected, to lead to a curb in economic activity, growth and consequently

employment. A third factor is that the Department of statistics (DOS) made another change in its methodology, as it started to include all residents of the country in the unemployment survey. With that said, an overview and analysis of unemployment rate trends in Jordan only tell part of the story.

The recent Syrian crisis, and the ensuing influx of mainly low-skilled Syrian workers in the Jordanian labor market has impacted the informal economy in Jordan, meaning that it had minimal effect on Jordanians, since the majority of workers in the informal sector come from other countries, mainly Egypt. While attempts to quantify such an impact are certainly met with difficulty given the lack of regulation and data regarding the sector, the fact that Syrian refugees were not given work permits since the beginning of the crisis and till the end of 2016, added to their willingness to work for less and under worse conditions, all exert downward pressure on wages in the informal sector, mainly in agriculture, construction, and retail commerce. This pressure then negatively affects the most vulnerable segments of the Jordanian employed population – the working poor, and threatens to push those under most risk under the poverty line, perpetuating the vicious low skill/low wage/low productivity cycle that is already present in the Jordanian economy.

# REMITTANCES

## Remittances

Remittances from Jordanian expatriates working mainly in the Gulf constitute an important component of the Balance of Payments as they counter some of the stress caused by the persistent trade deficit that Jordan suffers from. It is also directly connected to supporting those who are unemployed and may rely on family and relatives working in the Gulf or other countries. However, while one is quick to note that remittances have grown by 100 per cent during the period of 2000-2016, the Nominal GDP grew by 300 percent during the same period, which means that remittances are falling in terms of their significance as a source of savings and foreign exchange. Remittances, the percentage of the GDP, and the percentage change in remittances, calculated year on year for the period from 2000-2016, are shown in the table below.

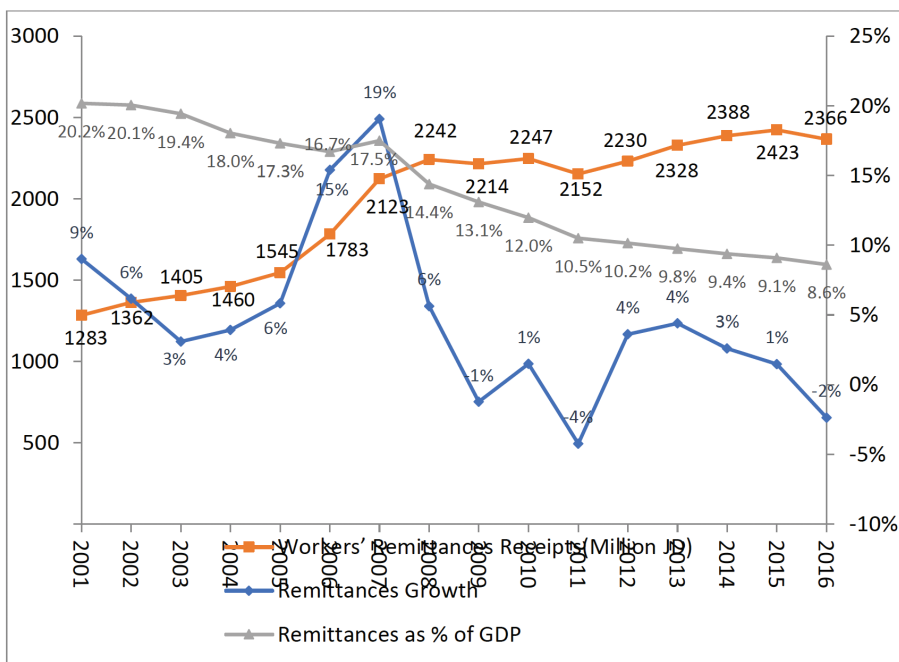
**Table - Remittances as a Percentage of GDP, Percentage Change**

| Year | Workers' Remittances Receipts (Million JD) | Nominal GDP | Remittances as % of GDP | Change in Remittances (%) |
|------|--|-------------|-------------------------|---------------------------|
| 2000 | 1177.3                                     | 5998.6      | 19.6%                   | -                         |
| 2001 | 1283.3                                     | 6363.7      | 20.2%                   | 9.0%                      |
| 2002 | 1362.3                                     | 6794.       | 20.1%                   | 6.2%                      |
| 2003 | 1404.5                                     | 7228.8      | 19.4%                   | 3.1%                      |
| 2004 | 1459.6                                     | 8090.7      | 18.0%                   | 3.9%                      |
| 2005 | 1544.8                                     | 8925.4      | 17.3%                   | 5.8%                      |
| 2006 | 1782.7                                     | 10675.369   | 16.7%                   | 15.4%                     |
| 2007 | 2122.5                                     | 12131.423   | 17.5%                   | 19.1%                     |
| 2008 | 2242.                                      | 15593.411   | 14.4%                   | 5.6%                      |
| 2009 | 2214.2                                     | 16912.209   | 13.1%                   | -1.2%                     |
| 2010 | 2247.3                                     | 18762.02    | 12.0%                   | 1.5%                      |
| 2011 | 2152.1                                     | 20476.59    | 10.5%                   | -4.2%                     |
| 2012 | 2229.8                                     | 21965.5     | 10.2%                   | 3.6%                      |
| 2013 | 2327.7                                     | 23851.6     | 9.8%                    | 4.4%                      |
| 2014 | 2388                                       | 25437.1     | 9.4%                    | 2.6%                      |
| 2015 | 2423.3                                     | 26637.4     | 9.1%                    | 1.5%                      |
| 2016 | 2365.7                                     | 27444.9     | 8.6%                    | -2.4%                     |

Source: CBJ database

The relationships are shown in the figure below in order to facilitate a better view of the trends of these variables and their coincidence with regional events. In terms of absolute value, the remittances in 2010 were at a peak in comparison with those of the previous period. They dipped slightly in 2011 and then reached an all-time high in 2015, only to fall again with the adoption of the IMF program in 2016. There were two periods beyond 2004 of steady growth; the first was a result of the Invasion of Iraq and the influx into Jordan of Iraqi investors (2004-2008), which created high growth rates in Jordan and prompted expatriated Jordanians to remit their savings to Jordan; and the second was 2012-2015, which, most likely due to regional instabilities in some of the Gulf countries such as Bahrain, prompted greater remittances. Rising oil prices during the two periods also helped the growth of these remittances as Jordanians fared better in these economies than before. In short, remittances are tied to the incomes of the oil producing countries.

**Figure - Remittance Receipts, Growth, as a Percentage of GDP**



When looking at the remittances as a percentage of the Nominal GDP, a different story emerges, although the conclusion as to the important and significant correlation between remittances and oil incomes of the Gulf countries holds true. The story is that as a percentage of the GDP, remittances have fallen from 20.2 percent in 2001 to 8.6 percent in 2016, and they have been falling steadily since 2007.

## **Jordan Economic Strategies**

With the absence of a clear and identified economic policy for Jordan and in order to tackle the issue, different governments came up with temporary solutions in the shape of economic strategies based on documents such as the National Agenda or Jordan Vision. These strategies are temporary and provide guidelines to the government that developed them. When there is a new government, usually they come up with different strategies that may overlap with previous ones and even contradict them, adding more to the state of confusion in applying clear economic measures and informing economic decisions. A summary of Jordan's strategies is listed in Annex 3.

## **Government Expenditures**

The analysis covers three distinct periods, which are: (2005-2007), the period of high growth following the Invasion of Iraq and inflow of wealthy Iraqi refugees; (2008-2010), the period that followed the commencement of the Global Credit Crisis and its impact on Jordan prior to the Arab Spring; and (2012-2016), the start of the Arab Spring, Syrian Crisis and refugee inflows, closure of borders with Syria and Iraq, and the IMF's Reform package. Note that 2011 is excluded and treated separately. The data is presented below as per the Central Bank of Jordan Database.



**Table 1 - Government Total Expenditures and Real Economic Growth (2005-2016)**

| <b>Year</b> | <b>Total Expenditures (JD Million)</b> | <b>Total Expenditures Growth Rate (%)</b> | <b>Real GDP Growth (%)</b> |
|-------------|--|---|----------------------------|
| 2005        | 3104.3                                 | 6%  | 8.15%                      |
| 2006        | 3860.4                                 | 24%                                       | 8.09%                      |
| 2007        | 4540.0                                 | 18%                                       | 8.18%                      |
| 2008        | 5431.9                                 | 20%                                       | 7.23%                      |
| 2009        | 6030.5                                 | 11%                                       | 5.48%                      |
| 2010        | 5708.0                                 | -5%                                       | 2.31%                      |
| 2011        | 6796.6                                 | 19%                                       | 2.59%                      |
| 2012        | 6878.2                                 | 1%  | 2.65%                      |
| 2013        | 7076.9                                 | 3%  | 2.83%                      |
| 2014        | 7851.1                                 | 11%                                       | 3.10%                      |
| 2015        | 7722.9                                 | -2%                                       | 2.39%                      |
| 2016        | 7948.2                                 | 3%  | 2.00%                      |

The period (2005-2007) was a period of expansion in both the GDP and the government expenditures. The real GDP averaged a growth rate of 8.14 per cent while expenditures averaged 13 per cent. The correlation coefficient was 81 per cent during the period, showing a positive and strong relationship between the two variables, which also means that the government expanded its spending as the economy expanded, and in this case at a higher rate; thus, indicating a highly procyclical policy of government spending during the period.

The period (2008-2010) signaled the onset of the Global Credit Crisis and Jordan's cautionary response to it, which started in the last quarter of 2008, a somewhat undeclared policy that continued throughout 2010, which marked the beginning of disruptions in the gas supply from Egypt. As the average real GDP growth rate declined to 5.01 per cent during this period, government expenditures growth rate also declined to 8%; thus moving in the same direction with the real GDP. The correlation coefficient for the period was a perfect score of 100 per cent. In other words, there was a perfectly strong correspondence between expenditures and growth. The extremely high positive correlation indicates a determined policy to contract spending growth at a time of real economic contraction.

In 2011, the disruption of the flow of natural gas from Egypt started to impact the Jordanian economy and there were several additional one-time expenditures by the government including several bonuses targeting the poor. Nevertheless, this did increase the growth rate slightly as shown in the table above. These expenditures, since they targeted low income groups, increased private spending and led to the slight rise in growth.

The third period (2012-2016) was also a period of economic contraction as government expenditures grew at 3.3 per cent while the real GDP was growing at 2.59 per cent. The correlation coefficient was 62%; yet again a significantly pro-cyclical policy in government spending. As the GDP contracted in real terms, the government decided to decrease the growth in spending, which would typically have an adverse effect on the business.

The total correlation coefficient for the whole period (2005-2016) was 62% indicating a significant and positive relationship between the two variables, i.e., they were moving in tandem. Hence, it is clear that the government expanded spending as the economy was expanding and did the reverse in periods of economic contraction-- a pro-cyclical fiscal policy. Note that such a policy is viewed as "bad" in economic literature since it spurs inflation and is common among developing nations, not the developed, as the latter better manage their resources and the economy.

Most economists argue for a counter-cyclical fiscal policy: during a period of high economic growth, total government spending as a share of GDP should decrease, and budget surpluses as a share of GDP should increase. The opposite would occur in recessions. Countercyclical fiscal spending is common in OECD countries. However, in many developing countries, the behavior is pro-cyclical. While other economic schools of thought such as the Monetarist, Supply Side and New Classical argue against counter-cyclical fiscal policies. None (including the Keynesians) advocate pro-cyclical fiscal policies.

# **DEBT: OVERVIEW OF THE DEBT SITUATION IN JORDAN**

## DEBT:

### Overview of the Debt Situation in Jordan

In Jordan, as in many countries, public debt management should focus on ensuring that the stock and the rate of growth of debt are manageable and sustainable over time, that public obligations are fully met, and that the economy's susceptibility to contagion and financial risk are reduced. Within the International Financial Institutions' (IFI)-induced reform framework, introduced after the 1989 crisis, considerable success has been achieved in reducing total external debt as a percentage of GDP, which dropped from 120 percent in 1992 to 37.5 percent in 2016. This success in the government's external debt-reducing endeavors has been both a result of regional developments, and internal debt management efforts, exemplified in the -non-binding- 2001 Public Debt Law, whereby external debt cannot exceed 60 percent of the total GDP.

The external debt to the GDP ratio declined sharply following Jordan's buy-back of its Paris Club debt in 2008 using privatization revenues. The shares of total domestic debt to GDP increased significantly since then from an average of 29.8 percent during 2004-2008 to 53.11 percent from 2009 to the present day. This shift, while theoretically reducing Jordan's vulnerability to external shocks and foreign lenders, has had the twofold implication of pushing domestic interest rates, consequently driving up the cost of production and consumption, and crowding out private sector investment domestically. As such, it negatively affected the GDP growth rate.

Debt management policies of the government have impacted and been in turn affected by the structure and level of debt accumulated since the late 1940s, leading to decades of borrowing and an amalgamation of discontinuities in policy. Prior to the 1990s, debt management policies simply enmeshed cycles of short-sighted strategies, with ad hoc measures and a voracious appetite for debt, as well as the absence of clear guidelines or benchmarks.

With the start of economic reform initiatives in the 1990s, caution and long-term debt management objectives necessitated by the Breton Woods institutions, namely the IMF and World Bank. This was coupled with a rising flow of foreign aid to Jordan by foreign governments and financial institutions alike which enabled the economy to avoid the worst-case scenarios tied to the poor debt management policies of previous years, particularly 1989.

The Jordanian government's inability to rein in on ever-rising public expenditures during the new millennium and, subsequently, its choice to fund expanding budget deficits through domestic borrowing, leave much to be desired in way of prudent debt management policy. In the last decade, the majority of borrowing has been motivated by the government's attempt to cover the cost of the rising size of its workforce and

---

government pensions, implying that Jordan's debt burden is not directed at capital spending and projects but rather on current expenditures that have grown beyond the size of government domestic revenues. Borrowing for unproductive activities is in negation of the Golden Rule in economics that governments should never borrow to cover current but capital expenditures.

# EXTERNAL DEBT

## External Debt

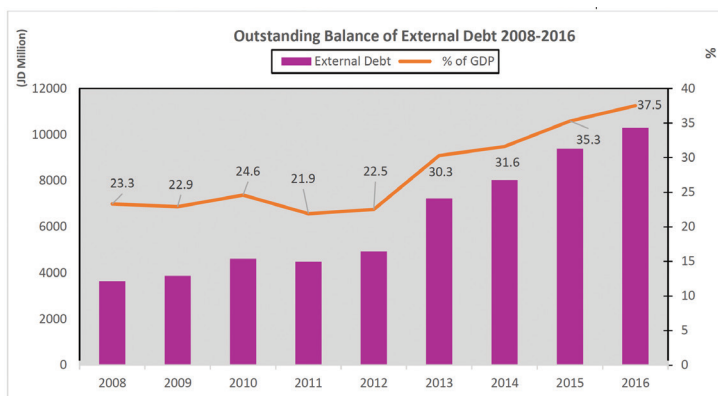
### The section presents the external debt from 2008 - 2016.

The Jordanian government's buy-back of Paris Club debt (US\$2.4 billion at an 11% discount) in 2008, paved the way for Jordan's external debt-to-GDP ratio to drop to an all-time-low of 21.9% in 2011. The Paris Club buy-back marked the start of the Jordanian government's shift in its public debt-management strategy, whereby external debt would be reduced in favor of its domestic counterpart.

The shift enabled the Jordanian government to meet its external debt goals under the 2001 Public Debt Law, with external debt averaging 35.7% of GDP during 2004-2016, well below the 60% ceiling set by the Law. Moreover, the weakening of the Euro against the US\$ facilitated the Jordanian government's debt-related efforts in the aftermath of the global financial crisis in 2008-9, given the Jordanian Dinar's peg to the latter.

The declining trend in Jordan's external debt would be reversed after 2011 and the onset of the "Arab Spring" uprisings that, starting in 2012, wrought havoc in the region, and most importantly in Jordan's neighboring Egypt, Syria, and Iraq. As made evident in Figure 3 below, these negative regional developments manifested -among other things- in a surge of Jordan's external debt by 7.8 percent between 2012 and 2013, due to the influx of over 600.000 Syrian refugees and NEPCO's significant losses, owing to the disruption of Egyptian gas supply to Jordan, all of which put pressure on Jordan's public finances and pushed the public deficit to new heights.

**Figure – Outstanding Balance of External Debt 2008 - 2016**



Source: CBJ figures Compiled by the author

As of Q1, 2017, Jordan's external debt appears to have stabilized, albeit slightly increasing compared to the end of the previous year. Jordan's external debt stood at JD10592 million in April 2017 (38% of GDP), compared to JD10299 million in December 2016 (37.5% of GDP). The Jordanian government's total external debt service (budget and guaranteed) on cash basis amounted to JD1670.5 million in 2016, or 6.1 percent of GDP; an increase of JD208 million from the previous year.

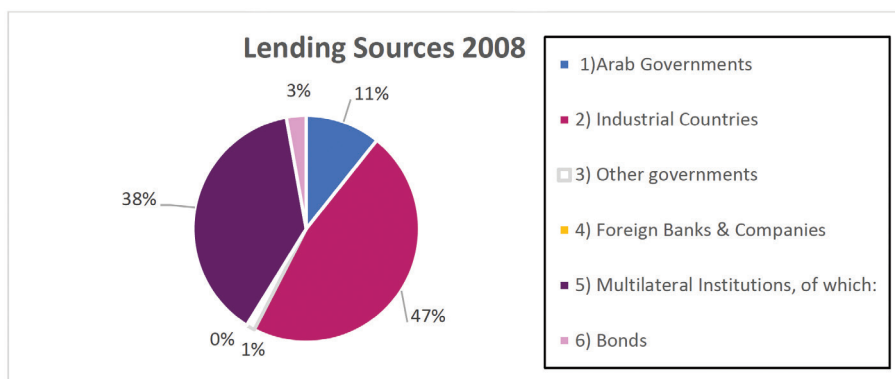
Adding to Jordan's external debt have been US and European-guaranteed government bonds, issued on a yearly basis since 2013. Most recently, the Jordanian government issued USD\$1.5 billion worth of bonds in 2015, guaranteed by the states, and USD\$1 billion in Eurobonds in late 2016. Net external borrowing at the end of Q1, 2017 was JD245.4 million, almost a four-fold increase quarter to quarter.

### **Sources of External Debt, 2008-2016**

The year 2008 nevertheless marked the beginning of a shift in the trend of external debt, seeing that the Jordanian government was opting to buy back its debt with the Paris Club countries. This was part of broader government efforts to limit the country's exposure to external debt by reducing its share of total public debt in favor of domestic debt. Consequently, as illustrated in the Figure below, the share of external loans stemming from industrial countries dropped to 47 percent in 2008, compared to 62 per cent the previous year. This decline corresponded to the massive drop to JD1705.7 million in 2008, and from JD3263.2 million in 2007. As a result, the debt shares of all other major lenders increased, with multilateral institutions totaling 38 percent of external debt in 2008 and coming in a close second. Arab governments also increased their share of loans to Jordan by 4 percent compared to the previous year, reaching JD390.7 million. It is important to note that despite these developments however, industrial countries remained the principal external source of funds for the Jordanian government until 2011-12.



**Figure –External Lending Sources 2008**



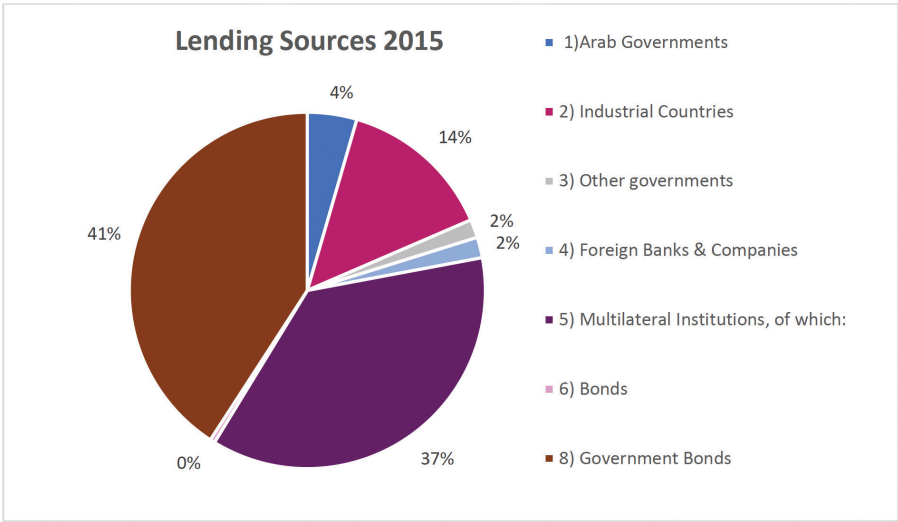
*Source: CBJ data compiled by the authors*

The shift in trend would continue unaltered until the coming of the ‘Arab Spring’ uprisings in 2011, coupled with the aforementioned gas disruption from Egypt, and the resulting influx of Syrian refugees into Jordan the following years in the aftermath of the Syrian crisis. The combination of negative external developments put pressure on Jordan’s public finances, infrastructure, and scarce resources, all of which prompted the Jordanian government to seek foreign aid and to issue government bonds in the international markets. These bonds were guaranteed to a large extent by the United States and the IFIs. Moreover, Jordan would enter a 36-month long Stand-by-Agreement with the IMF in 2012, and then again in 2016. As a result, Jordan’s external debt mix was altered accordingly.

In adherence to the Jordanian government’s external debt-reduction strategy, loans from industrial countries (19%) have lost their leading position to funds coming from multilateral institutions (47%), which stood at JD2783.2 million in 2013, an increase of JD784.4 million from the previous year. Following the Jordanian government’s issue of government bonds under US and other donors’ guarantee in 2013, government bonds constitute the second largest source of external debt for Jordan, standing at 31%, or JD 2236.5 million, a staggering 320% increase from the previous year.

Government-issued bonds as a share of Jordan’s external debt have continued to rise, reaching JD3834 million in 2015 (41%), becoming the primary source of external debt for the Jordanian government, followed by multilateral institutions, standing at JD3444.6 million (37%), and industrial countries with JD1317.6 million (14%), as shown in the Figure below.

Figure – External Lending Sources 2015



Source: CBJ data compiled by the author

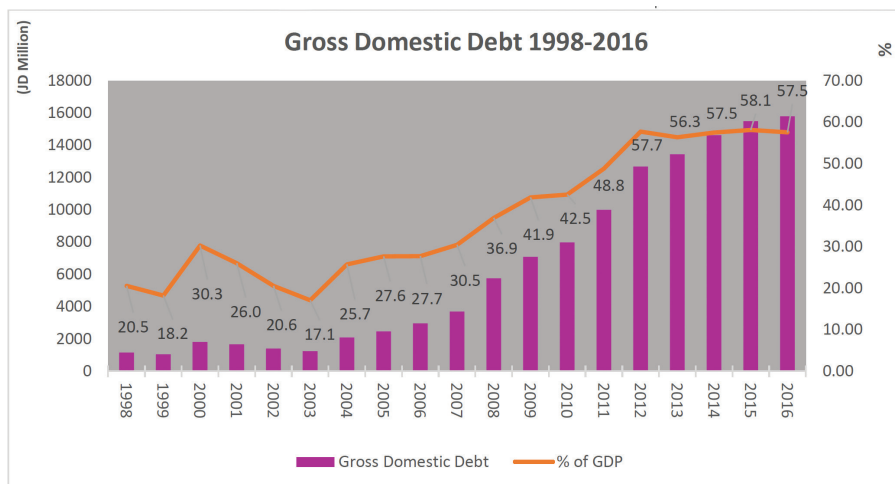
# **DOMESTIC DEBT: LEVEL OF DOMESTIC DEBT**

## Domestic Debt: Level of Domestic Debt

Domestic debt (gross and net) in Jordan had been traditionally kept at low levels, owing to the relatively great amounts of foreign aid, grants, and loans readily available to the country since the mid-1970s. When the habit of successive Jordanian governments to fund expanding public expenditures through external sources pushed Jordan's external debt levels to exorbitant heights throughout the 1980s and 1990s however, the Jordanian government, under the auspices of the IMF and WB, sought to curb foreign debt. Accordingly, Jordan concluded a series of debt-restructuring agreements with Paris and non-Paris Club members between 1989 and 2002 amounting to US\$5015.6 million in debt principle and interest charges, followed by a US\$2.4 billion debt buyback operation with Paris Club members in March 2008. Concomitantly, the Jordanian government gradually shifted to domestic lending sources for its financing needs, relatively limiting its reliance on external creditors, and barring, of course, the uninterrupted flow of foreign aid and grants to Jordan up to the present. This was seen as a way for Jordan to limit its exposure to negative regional and international externalities – considering the fact that domestic debt is issued in Jordanian Dinars – as a way to alleviate pressure on Jordan's foreign reserves.

This shift in trend, as shown in the Figure below, was reflected in the gross domestic debt-to-GDP ratio, which more than doubled in the years following the 2008 Paris Club buyback, increasing from an annual average of 25.56 percent during the 1998-2008 period, to 52.56 percent over 2009-2016.

**Figure–Gross Domestic Debt 1998-2016**



*Source: CBJ data compiled by the author*

The exponential expansion in domestic debt was, to a great degree, the result of turmoil stemming from the “Arab Spring.” In particular, it was the disruption of the flow of cheap natural gas from Egypt starting in 2011, and the influx of over 600,000 Syrian refugees in Jordan after 2011, that pushed gross domestic debt up from JD7980 million (42.5 percent of GDP) in 2010, to JD12678 million (57.7 percent of GDP) in 2012. Arguably NEPCO’s losses, which rose from just JD160 million in 2010 to over JD1 billion in 2012, due to the Jordanian government’s switch to heavy fuel oil imports to meet the domestic electricity demand, constituted the main driver of Jordan’s domestic debt growth. In turn, this growth contributed to Jordan’s total public debt increasing to 80.2 percent of GDP in 2012, up from 70.7 percent the previous year.

NEPCO’s cumulative debt had reached JD4.5 billion by November 2014 (17.6 percent of GDP). The Jordanian government’s debt policy of choice throughout the post-2008 period, while limiting the country’s exposure to external shocks, had severe consequences both for the Jordanian economy, and the government’s ability to service its debt-related obligations.

Given that banks held an average of 78.81 percent of gross domestic debt during the 2011-2014 period, coupled with the fact that between 50 and 80 percent of said debt was issued on relatively-high fixed interest rates ranging between 4 percent and 7 percent (basically commercial banking levels) and a weighted average maturity

rate of 1.9 years -i.e. falling in the short and medium terms-, Jordan's gross domestic debt was becoming increasingly unserviceable. Crucially, interest of domestic debt in 2014 had reached JD750 million, up from JD357.2 million in 2010. Furthermore, the government's practice of domestic borrowing was crowding out private sector investment and pushing interest rates upwards, thus exacerbating Jordan's already ailing economy, which was experiencing relatively-low growth rates (between 2 and 3 percent).

The slump in the global price of oil starting in 2014 served to mitigate the pressure on Jordan's public finances vis-à-vis its borrowing needs, with gross domestic debt in 2015 growing at a reduced rate of 5.9 percent compared to 8.8 percent during the previous year and reaching JD15486 million. However, due to the aforementioned refinancing and interest rate risks relating to domestic debt sources, the Jordanian government reassessed its post-2008 debt-managing policies in favor of -cheaper-external debt.

As of Q1, 2017, gross domestic debt appears to have stabilized, amounting to JD15,869 million (57.7 percent of GDP), an increase of JD75 million compared to the end of 2016. Moreover, gross domestic debt as a proportion of total public debt has declined to 60.5 percent in 2016, in contrast to 64.5 percent in 2014. It is important to note that the interest of domestic debt dropped significantly in 2016, to JD622 million (an 88 million decrease from the previous year), while the weighted average maturity rate of Jordan's domestic debt increased to 3.1 years.

# PRIVATIZATION

## PRIVATIZATION

The reason(s) for privatization in Jordan were initially framed within the need to enhance the efficiency of the whole economy through removing the government from the production of goods and services that were considered private in nature. Furthermore, the public sector in Jordan dominated various activities that could have been more effectively provided by the private sector. For instance, according to a study by Price-Waterhouse conducted on behalf of the government in 1994, it was determined that on average, the Jordanian citizen was forced to wait 90 months to obtain a fixed line; while after privatization this waiting period was reduced to 2 days. Inefficiencies led to a severe fiscal deficit, massive public debt, and a depletion of foreign reserves.

Under the economic restructuring and reform programs of the IMF and World Bank, a chief component was to assist the Jordanian economy in achieving the following goals through privatization among other measures:

- Raise productivity and efficiency levels to improve competitiveness on an international sphere.
- Attract new investments and stimulate savings to achieve higher investment rates.
- Reduce the Treasury burden by eliminating the unnecessary expenditure that depletes funds.
- Overcome the problems of bureaucratic involvement in the production sector.
- Provide greater access to technological advancements to enhance competitiveness.

The thrust of the privatization drive commenced in the mid-1990s and spanned over six IMF reform programs that eventually concluded in 2004. However, privatization efforts did continue past 2004; at times with no specific reason given other than as a means to support the budget through one shot cash injections. In some instances, the formal institutions that were established to regulate privatization and its application (such as Executive Privatization Commission) were bypassed. In other instances, the decisions made to sell shares in companies were made strictly to meet operational expenditures and to manage the government cash flow and budgetary problems.



---

Furthermore, while Jordan had announced its commitment to privatization, and in the last decade embarked on public private partnership programs, the government seemed to renege on this. For example, the army established the National Resources Investment & Development Corporation, “MAWARED,” a state-owned company that became the largest real estate company in Jordan according to its own affirmation . MAWARED went into several large-scale ventures such as the King Abdullah City in Zarqa and the Abdali Urban Regeneration project, which aimed to become the new central business district of Amman covering over 1.81 million sqm of prime development land. MAWARED was also to lead the ‘Decent Housing for a Decent Living.’ Its affiliates included the Development and Investments Project (DIP) Fund, which is the investment arm of the military—the latter owns a fund that has also come to operate as a bank. In recent years, MAWARED fell into financial trouble and its director was charged with corruption. It is currently undergoing a liquidation process.

Several other new government-owned companies emerged that seemed to reverse the privatization trend such as the National Food Supplies Company (NFSC), which was established in 2009. The majority of it was owned by the army with a small share owned by the Ministry of Industry and Trade, and an extremely small stake was owned by an army retiree—the company was a bad example of implementing the model of a public private partnership that the king had addressed a few days before its establishment. Its purpose was to import live sheep to combat a natural monopoly in the imported live meat market segment whereby one company, the Hijazi and Ghousheh Company, had virtual control of the market by having the whole supply chain for importing live sheep. The Hijazi and Ghousheh Company had its own ships, feed factory, quarantine yard, and distribution channels. Somehow, the government was convinced that establishing its own company through the army was the best way to break the monopoly.

In order to guarantee that the army company would succeed, it was given certain privileges that could be viewed as anti-competition. The army company had access to army funds and resources (distribution through the military stores and warehousing facilities). Moreover, it could use the government supply funds (around JD25 million) available at the Ministry of Finance as a guarantee for the purchase of wheat from international suppliers. It could also use government silos at no cost.

The NFSC immediately went on to import all types of food and was thus competing with all food importers. In addition, it failed to break the monopoly on live sheep imports, which had been the declared reason for its establishment. After several sheep import attempts, the NFSC became unprofitable in 2012. In 2013, public outcries emerged in the press requesting that the NFSC be investigated. It is believed to have been liquidated by the army itself as it became another source of embarrassment. The NFSC, like MAWARED, went into financial trouble and was eventually liquidated in 2017.

Another example of new government-owned companies that bucked the privatization

trend is the National Training Company that was established in 2006 and is also owned by the army. It benefits from a generous agreement of receiving JD70 from every worker permit that is issued by the Ministry of Labor. With over 600,000 registered foreign workers in Jordan, the company makes close to JD40 million per year.

The following section details the story of the privatization of the Aqaba Port. It is provided here as an example of how privatization efforts were conducted after 2004, the era of no IMF/World Bank supervision.

# **THE STORY OF THE AQABA PORT PRIVATIZATION**

## The Story of the Aqaba Port Privatization:

The Jordanian Government decided in 2007 to recompense some of the debt it had collected from the Paris Club. The Government had previously collected US\$1.7 billion in privatization proceeds, yet still required an additional US\$500 million to satisfy the debt.

The Government considered selling more of its shares in the Arab Potash Company (APC) and the Jordan Phosphate Mines (JPM) as a means to generate the required amount. This was met with much opposition from those who argued that the stock prices would potentially rise, and the Government would therefore lose a considerable sum of money. Additionally, the stocks from the APC could not easily be sold due to the fact that the Canadian Potash Corporation of Saskatchewan, the majority shareholder in the company, possessed the right of refusal on any potential sale.

The Government then pursued the option of privatizing the Port of Aqaba as a quick and viable method for raising cash. The government required US\$500 million and hence asked that sum of money for the Port to satisfy the debt buy-back agreement that the king had agreed upon with the Paris Club during a short visit to Europe.

The Government, in a hurry to raise the required funding, approached several would-be interested investors; the first of which was the Horizon Group, the owned property development group of Bahaa Hariri (son of the deceased Saudi-Lebanese billionaire and former Prime Minister of Lebanon, Rafiq Hariri). It placed a purchase offer of US\$125 million to be paid in five installments; US\$ 25 million upon delivery, and the same amount each year thereafter. The offer was repudiated because it was not sufficient.

The Kuwait Investment Authority (KIA), Kuwait's sovereign wealth fund that manages its local and foreign investments also showed interest in purchasing the port. It requested that the Jordanian government relocates port activities to a far location from the original port.

Al-Maabar, an investment company based in Abu Dhabi and the eventual purchaser of the port, was the prime candidate for the project. The investment company was initially unwilling to pay the required US\$500 million to complete the funding required for buying back the Paris Club debt; however, it finally agreed, and a deal was struck.

Al-Maabar was to pay US\$500 million for the port, which was to become to its control after five years. During those five years, the Jordanian government was to have built a second port further south, and hand over the existing one to Al-Maabar so that the latter can begin the construction of the Marsa Zayed Tourism Project.

The agreed upon land area of the port was the 120 hectares of the port itself along with 200 hectares located in the surrounding hills. The agreement further stated that

---

Al-Maabar would pay to the Government annually 3 percent of its gross revenue, equal to approximately 15 percent of profits.

It must be noted that the process of selling the port was done without the involvement of the EPC, and therefore thought to have been done through the involvement and guidance of the Royal Court. There was little opposition at the time, especially since the Arab Spring had not started.

On the 26th of March 2008, the Government signed the agreement with Al-Maabar, and the money was paid the following day by Al-Maabar to the Central Bank of Jordan. On March 30th, three days later, the Jordanian Government used the money to buy back its debt from the Paris Club. This was in spite of the fact that the Government had used the funds to reduce its debt. Four months later, it faced corruption accusations from various parties with regards to the selling of the port and the method in which it was conducted. However, those charges were somewhat muted and were directed at the technocrats involved.

In addition, at the end of May of that year, the Treasury did not have enough money to pay the salaries of employees. It therefore contacted Al-Maabar in order to sell them two additional pieces of land in West Amman, which after some hesitation, Al-Maabar purchased for approximately JD30 million. The first piece of land was 1.7 hectares in Abdoun (in West Amman) which became the St. Regis project (expected to open in November 2018); while the second piece of land was 4.4 hectares and located in Khalda (also in West Amman,) and is yet to be developed.

In the middle of 2009, Al-Maabar was supposed to have received the empty lands in Aqaba as well as the port employee residences. The port employee residences proved difficult to claim as there were non-port employees and Government officials residing in them. In some cases, those living in the residences were the children or relatives of former employees rather than current employees. They were difficult to evacuate, but their welfare and the whole issue seemed not to have been considered at the time by the Government.

During the same time period, the entire deal and the parties involved came under heavy attack from politicians, public figures, and unofficial media outlets. These attacks included the labeling of the company as a "Strategic Criminal" and entailed personal attacks on the CEO, Emad Al-Kilani. A great number of these attacks stemmed from public figures attempting to forward their own personal agendas.

Unofficial media outlets also criticized the deal incessantly and the company even received statements from these websites to cease the attacks in return for compensation. Government silence throughout this period further exacerbated the problem. The attacks severely affected the work of Al-Maabar beyond just the port. For instance, work on the St. Regis Hotel project was supposed to have begun in 2009 but did not until approximately a year and a half ago because Abu Dhabi was

upset from what it considered to be an unfair onslaught. Furthermore, court cases were brought against the company, but many of these were dropped later and apologies were issued to the company.

Almost ten years after the initial contract for the port was signed, the Government is still to hand over the sold port to Al-Maabar as promised; leaving the company with only the surrounding 200 hectares, which was land deemed unsuitable for development. The 200 hectares constitute two-thirds of the total land purchased but only constitute 20% of the total value.

The deal was completely outside the purview of the EPC, which was neither consulted nor commissioned during any stage of the whole process. The paper trail remains very thin and public documentation remains scarce. Since the transaction is yet to conclude, there is little that can be said about its impact.

# **SUMMARY OF SOME MAJOR PRIVATIZATION PROCESSES**

## Summary of Some Major Privatization Processes

It has been suggested in the literature that the speed of privatization is negatively correlated with growth, and that countries that have been most successful at privatization are countries whose infrastructure was completely developed prior to privatization. In the case of Jordan, privatization went through three distinct phases where the speed and nature of decision-making as well as products changed.

In the first phase, Jordan was in competition with neighboring countries, particularly Egypt, in terms of reform (including privatization). Decisions, albeit made at a somewhat fast pace, nevertheless benefited from international consultations, advice and vetting by the World Bank and the IMF as Jordan was undergoing agreed reform programs.

The second privatization wave came after Jordan “graduated” from six of the IMF and World Bank reform programs in 2004. During this phase, one can easily assert that decisions were fast, less institutional, and with little external control. By then, Jordan had graduated from the IMF reform programs and in fact its decision-making could be described as an almost military type, top down, and with no delay or deviation. Criticism was considered as anti-reform and was neither tolerated nor accepted. A decision would be taken at the top. A cautionary note or alarm sound by some or one individual would have meant the end of political careers and, consequently, the loss of some form of rent.

The third phase was the “do-nothing” phase: accusing others and criticizing past behaviors and actions, which best describes the current phase. This phase also included the dismantling of the EPC, which lost prestige, and its entire technical staff was disbanded.

It should be further mentioned that the regulatory agencies created by the privatization process are not well-equipped to conduct post-privatization monitoring. The JIC’s role in post privatization monitoring seems limited to sitting on the boards of directors of companies when the size of equity stake grants a seat, collecting dividends on few profitable enterprises, and passing them on to the MOF.

There is no proper fiscal monitoring of remaining state-owned enterprises. In this respect, the EPC was not entrusted with the fiscal monitoring of the GOJ’s remaining shareholding in enterprises, and there is no entity at the MOF to do this either. The GOJ has not disclosed publicly the direct and indirect subsidies to its state-owned infrastructure and non-infrastructure enterprises. Even the current subsidies to the electricity sector have not been transparent or properly disclosed.

The following are four privatization stories that emerged from the quick-decision era. They tell of mistakes, somewhat non-transparent processes, and later negative impacts. These stories are documented as much as possible, while name mentioning is kept to a minimum for obvious reasons.



**JORDAN  
PHOSPHATE  
MINING COMPANY  
(JPMC)**

## Jordan Phosphate Mining Company (JPMC)

At the beginning of 2006, as part of the Jordanian Government's privatization initiative, 37% of the Jordanian Investment Corporation's shares of the Jordan Phosphate Mines Company (JPMC) were sold for US\$110 million to Kamil Holdings Limited, a company owned by the Brunei Investment Agency (BIA) of the Sultanate of Brunei.

Before the deal was concluded, it was met with public and parliamentary disapproval. However, government officials indicated that the strategic decision to pursue a deal with BIA was made in 2004 at the highest levels. The Cabinet of Ministers approved the sale on March 14, 2006.

The controversy at the time arose from two factors: the deal had not followed the usual steps of tendering and bidding, and the second factor was in relation to the sale price. Politically, it was viewed as a successful first step by King Abdullah to court the Sultan of Brunei and pave the way for future investments from the BIA in Jordan.

The deal had many facets: The purchase price was US\$4 per share, above the US\$3.80 per share valuation by HSBC (the government banking advisor on the sale), but less than the US\$6 per the JPMC shares were trading at the Amman Stock Exchange (ASE) when the deal was made. In addition, the government was to retain a veto power on all management decisions, and BIA could not reduce the workforce, of which 25-33% was overstaffed, for the next three years.

The government's financial rationale for the sale of the JPMC relied heavily on the logic that it would continue to collect a majority of its current revenue from the JPMC without owning a majority of the company. In 2004, JPMC had turned profit for the first time in years. With a 66% stake in JPMC, the US\$6.1 million profit generated US\$4 million for the government. In addition, there was US\$11.2 million generated in mining fees, plus US\$5.7 million in taxes for the government. With the 37% share sale, the GoJ would continue to collect mining fees and taxes but will forego 37% of the company's profit. In a meeting with the Economic Office on March 16, the then Chairman of the Executive Privatization Commission (EPC) underscored that the future profits of the company were not guaranteed, «things not in favor for the company long-term.» He also stated that the price paid by BIA was above the fair market price of US\$3.80/share that HSBC determined for JPMC, and that only 3% of the company stock was traded on the Amman stock exchange; thus, to float 37% of the company stock would lead to a fall in the share price. This would mean that the market was in a bubble at the time and would not therefore provide a fair per share price. He also stated that he had received a letter basically requesting that he was to forego a process of inviting international bids that he had started in 2005, and to "fast track" by carrying out negotiations only with BIA and conclude the sale by the end

---

of 2005. Interestingly, the Indian Ambassador in Jordan at the time had expressed to the Economic Office at the US Embassy his disenchantment with the deal and that Indian companies would have been interested in the purchase.

Regardless of the process, it is worth noting that the privatization of the Jordan Phosphate Mining Company (JPMC) also brought positive results until 2012. Replacement of the management appointed by Kamil Holdings and a downturn in phosphate market prices may have been behind the downturn from profitability to losses. At the time of writing this book, the JPMC continues to be a losing entity. The profit, sales, and profit to sales ratio of the JPMC are presented in the table below to enable comparison.

### **JPMC Profits, Sales, and Profit to Sales Ratio (2002-2012)**

| <b>Year</b> | <b>Profit</b> | <b>Sales</b> | <b>Profit/Sales Ratio</b> |
|-------------|---------------|--------------|---------------------------|
| 2002        | 5519000       | 210975000    | 2.62                      |
| 2003        | 5064000       | 205274000    | 2.47                      |
| 2004        | 4339000       | 272562000    | 1.59                      |
| 2005        | 10369000      | 281046000    | 3.69                      |
| 2006        | 16071000      | 289824000    | 5.55                      |
| 2007        | 46110000      | 354828000    | 13.00                     |
| 2008        | 238622000     | 846892000    | 28.18                     |
| 2009        | 92878000      | 458246000    | 20.27                     |
| 2010        | 80232000      | 563890000    | 14.23                     |
| 2011        | 145255000     | 812415000    | 17.88                     |
| 2012        | 137400000     | 759439000    | 18.09                     |

Profitability at JPMC increased right after the sale of a share (27,750,000 shares) of the government stock in the company to Kamil Holdings and the consequent change in management. In 2013, net profits for the first half of the year were JD6.7 million, one tenth of their level for the same period in 2012.

Based on the profit and sales figures of the JPMC and all the data related to the JPMC, this would demonstrate that, like in the case of the APC, the government and economy have benefited from the privatization of the two largest mining companies in Jordan. The vast improvement has been apparently in the management of the two companies.

Traditionally, the government in Jordan (which is in constant flux whereby ministers are changed with approximately a ten-month turnover) appoints ex-ministers and ex-officials at the helm of the mining companies among others, seemingly as if such appointments are rewards for their services. The appointments are part of an opaque reward system for things such as: services rendered, loyalty, regional distribution of favors/economic rent, filial/kinship or tribal relations, and security. In fact, both the Potash and Phosphate sectors, when managed by the government, had their fair share of leaderships which were, for the most part, clearly unqualified.

Many may claim that improvements in profitability occurred because of changes in the international markets and the demand for these commodities. However, the fact remains that the rise in profitability coincided with the change in management, and basically has had non-government appointed managers at the helm of JPMC.

# **PRIVATIZING THE ELECTRICITY SECTOR**

## Privatizing the Electricity Sector

The Jordan Electricity Power Company (JEPCO), the first electricity company in Jordan, was created in 1937. JEPCO has been operating under a fifty-year concession contract since 1962. It has been distributing electricity to four governorates including Amman, which represents about two-thirds of total electricity consumers in Jordan. The Jordan Electricity Authority was established in 1967 to distribute electricity in selected areas.

The GOJ decided to restructure its electric power sector by developing a sector strategy of separating generation, transmission, and distribution while bringing private participation (attracting investments) into generation and distribution, and eventually competition into generation alone. As an initial step, it corporatized the former Jordan Electric Authority (JEA) into the National Electric Power Company (NEPCO) and passed the General Electricity Law in 1996 for transforming the JEA into NEPCO, allowing private sector to invest in the sector, and creating the Electricity Regulatory Commission (ERC). NEPCO's generation, transmission and distribution businesses were first ring-fenced and subsequently un-bundled in 1999.

The state-owned Central Electric Power Generation Company (CEGCO) was given a long-term license to sell bulk supply to NEPCO which in turn sells electricity into three distribution companies—the un-bundled Electric Distribution Company (EDCO) serving the rest of Jordan, besides IDECO (partially private distribution company) serving only Irbid, and the fully privately-owned Jordan Electric Power Company (JEPCO) serving only Greater Amman (Amman, Zarqa, Salt and Madaba). JEPCO was traded on the Amman Stock Exchange (ASE) and was one of the most profitable companies in the sector compared to its fully or partially state-owned counterparts, EDCO and IDECO.

The intention for extensive restructuring and un-bundling was to prepare for private sector participation in generation and distribution activities by privatizing the existing generation and two distribution companies (one fully and one partially state-owned), as well as introducing Independent Power Producers (IPPs).

Even though the sector was regarded efficient and profitable compared to other state-owned and operated infrastructure enterprises, the GOJ was eager to attract private capital to support the expansion of the electric power generation in response to the rapid growth in demand. The state budget, encumbered with rising operational expenditures, was already too stretched and could not, or its managers at the time did not want to, muster the capital required. Furthermore, the international financial institutions had already declared that they would stop lending to state-owned electric power sectors.

---

Consequently, in 2001, a universal consulting consortium led by N.M. Rothschild & Sons of the UK was selected to help the GOJ privatize CEGGO (together with EDCO and IDECO). The early marketing conducted by the consulting consortium recommended for CEGCO to reduce its percentage of shares offered to investors to 51% from the originally contemplated 60%. As such, it would be changing its capital structure by raising the debt-to-equity ratio to the highest sustainable level of 70:30 through the transfer of existing GOJ debt ahead of privatization.

The consortium had maintained that additional benefits of capital restructuring to GOJ would include the following: (i) delayed proceeds while generating a debt repayment cash flow over the life of the debt; (ii) the investors would be also required to upfront lower equity investment and therefore more inclined to fund capital and network projects; and (iii) consequently the reduced need for third party financing would allow the investors to move ahead with the transaction more quickly.

It assured the GOJ that having high debt-to-equity ratios was not unusual for electric power generation companies with Power Purchase Agreements (PPAs) guaranteeing stable and predictable long-term revenues. In other words, the government, to generate the required capital, was to raise electricity prices for the consumers and maintain the rates so that would-be investors are enticed into the sector. It was as if the government at the time was trading the long-term for the present.

The Table below summarizes the operations that were taken in the privatization of the electricity sector.

## Restructuring and Privatization of Electric Power Sector and Enterprises (1994-2008)

| Corporatization   | Restructuring   | Privatization of generation and distribution  | Regulatory Commission   | Pre-privatization Capital Structure  | Capital structure at privatization in 2007 and 2008  |
|---|---|---|---|--|--|
| Jordan Electric Authority (JEA) was corporatized in 1996 and it became National Power Company (NEPCO) | NEPCO was unbundled into generation (CEGCO), transmission (retained by NEDCO) and distribution; (EDCO) distributing electricity for the rest of the country besides partially GOJ owned IDECO (serving IRBID) and private Jordan Electric Power Company (JEPKO) serving Greater Amman | CEGCO's first privatization attempt in 2005; CEGCO's second attempt in 2007; EDCO and IDECO in 2008 | Passing the new Electricity Law 1999; establishing Electricity Regulatory Commission (ERC) in 2001; New electricity law in PPPs in electricity-related projects in 2002 | CEGCO 100% GOJ; EDCO 100% GOJ; IDECO 54.5% GOJ; NEPCO remains fully state-owned transmission company, transmission system operator, single buyer and market operator | CEGCO: 51% ENARA (65% Dubai Energy and Infrastructure [Jordan], 25% Malakaoff [Malaysia] and 10% Consolidated Contractors Co. [Greece]); 40%GOJ; 9% SSCIU<br>EDCO: 100% kingdom Electricity (30% Privatization Holding Company of Kuwait, 40% Jordan Dubai Energy and Infrastructure; 30% United Arab Investors); IDECO 55.4% Kingdom Electricity; 25% Northern municipalities; 5% University of Yarmouk; 4.5% SSCIU; 10.1% free float |

Source: Gökgür, Nilgün and Christen Roger. *Restructuring and Privatizing State-Owned Infrastructure and Non-Infrastructure Enterprises in Jordan*, 2009.



---

The GOJ agreed to divest 51% of its full stake in CEGCO and to increase the company's leverage from some 40:60 to about 60:40 debt-to-equity ratio (in lieu of the proposed 70:30 by the consultant) by borrowing JD100 million from the local banks.

The attempt to privatize CEGCO in 2004 attracted 22 expressions of interest; 11 were pre-qualified, 6 initiated, whereas only 3 completed due diligences but only 1 bidder (Reliance Corporation of India) submitted a bid in 2005. The offer that started at US\$60 million was later raised to US\$83 million in exchange for selling 51% of equity. The investor declined to meet this price.

In 2007, a second attempt to divest CEGCO attracted four expressions of interest (Enera Energy Investments of Jordan – subsidiary of Energy Arabia, Abraj Capital of United Arab Emirates, Malakoff Corporation of Malaysia, and Al-Khurafi Corporation of Kuwait), which led to three separate due diligences (as Enera Energy Investments and Malakoff Corporation merged). At the end, there were two technical and financial offers—one from Enera (together with Malakoff Corporation) and one from Abraj Capital. Abraj Capital withdrew its offer in the last minute, foregoing the financial guarantee of US\$1 million bid-bond, and the GOJ was left with one single bidder; Enera.

In 2007, Enera Energy Investments (with a capital structure composed of 65% by Jordan Dubai Energy and Infrastructure; 25% by Malakoff Corporation of Malaysia; and 10% by Consolidated Contractors of Greece), was declared the winner. The sale of 51% stake in CEGCO together with 9% stake to SSCIU generated a total of JD112.6 million for the Privatization Proceeds Account. No questions were asked as to whether there was bid rigging by the various members of the consortia. The era of quick decision-making was at full play and the deal had to be made.

The provisions of the transaction reassured the GOJ of the repayment of CEGCO's total of debt—valued at the time as JD240 million (US\$336 million) through a mechanism of withholding payments from NEPCO in the event of non-payment of CEGCO's debt. The agreements between the GOJ and Enera limit the installed generation capacity to the existing five CEGCO units. One of the units, Al Hussein, would cease to operate when it would be decommissioned around 2013.

In 2006, the EPC received 16 expressions of interest: 14 signed confidentiality agreements, 3 purchased the Request for Proposal, and 1 bid was received for EDCO and 3 bids for IDECO. Consequently, in 2008 the GOJ decided to sell its 100% stake in the Electricity Distribution Company (EDCO) and 55.4% in the Irbid Electricity Distribution Company (IDECO).

A competitive tender process brought 14 potential investors for both companies. Kingdom Electricity Company (owned 40% by Jordan Dubai Energy and Infrastructure – an investment arm of Jordan Dubai Capital, 30% Privatization Holding Company of

Kuwait, and 30% by Jordanian Arab Investors) was among the bidders for not one but for the two of the distribution companies that were offered simultaneously. IDECO received three separate bids; one from a consortium (JEPCO together with SSCIU), one from Hatahet Group, and one from Kingdom Electricity Company (a company established by Jordan Dubai Energy and Infrastructure). Notice the recurrence of bidders; the sector was moving from one government monopoly to a private sector monopoly, and the possible tacit collusion among winners of previous bids and current bidders never arose. Would it not have been healthier for Jordan to seek an alternative group of bidders? Time would tell, yet the writings were on the wall!

EDCO received one single bid from Kingdom Electricity Company which included an additional offer of US\$10 million if it could purchase both companies simultaneously. Note that rationality would have dictated not to do this, but the US\$10 million were too enticing. Kingdom Electricity Company's offer alone for IDECO was the highest. At the same time, Kingdom's combined offer for IDECO and EDCO met the GOJ's overall required price based on the valuation of both distribution companies. Negotiations led to the investor's purchase of a 100% stake in EDCO together with 55.4% stake in IDECO for a total of JD 73.7 million.

Jordan Dubai Capital sold its 51% stake in Kingdom Electricity Company in July 2011 for JD50.0 million (approximately US\$71m), which entailed 100% of the EDCO and 55.4% of IDECO to the Social Security Investment Fund of Jordan ('SSIF') who along with Dubai International Capital were the largest shareholders in Jordan Dubai Capital.

Currently, there are four major private (or almost private) companies and one public transmission company:

- NEPCO – Public transmission company
- JEPCO – Private
- IDECO – Private
- EDCO – Private
- CEGCO – Private

The process is such that NEPCO, a publicly owned public shareholding company, purchases all energy from the producers, which are private companies, and resells it to the distributors. The sale price from the production companies to NEPCO is established by bilateral contracts between NEPCO and the producers.

The contracts specify that NEPCO is responsible for the purchase and supply of the fuel necessary for the functioning of the power stations, provided that the producers supply it with electricity at a fixed price (US\$0.12) which in turn it would sell to the final consumer. The sale price from NEPCO to the distribution companies and

---

the tariffs for consumers are established by the government Electricity Regulatory Commission. The tariffs were to be revised every two years on January unless exceptional circumstances occur, which became frequent since the cutoff of the supply of Egyptian gas to Jordan.

The existing structure of the electricity system entails that all financial risks are borne by NEPCO. The four private production companies are insulated from the risks associated to changes in fuel prices as the cost of fuel is paid for by NEPCO as stipulated in the NEPCO-production companies agreements. The three private distribution companies are insulated from price increases by the tariff system in place, which guarantees a positive return to distribution companies.

The final consumers may or may not be subsidized depending on whether the electricity system as a whole has positive or negative returns. As a result of this particular structure, both the private production and the private distribution companies are normally financially viable while the public NEPCO can experience negative balances if fuel prices increase.

Between 2008 and 2009, NEPCO managed to maintain positive balances, but at the end of 2010 the company reported a debt of over JD200 million. In 2011 and following the Egyptian revolution, the pipeline that transports gas from Egypt to Jordan was subject to several bomb attacks. This forced the Jordanian production companies to substitute gas with oil as the main source of energy and has resulted in NEPCO paying for an energy bill several folds higher than during the preceding years.

The electricity sector is currently causing a major financial crisis to the government. The cost of producing electricity in Jordan increased several folds due to disruptions of gas supply from Egypt since 2011. Consequently, NEPCO, the electricity transmission company that bears all the costs of increases in fuel prices, has been running a deficit whose size varies depending upon the cost of fuel that is used to replace the Egyptian gas—estimated at JD100 million per month in 2011; NEPCO's debt reached JD1.2 billion by the end of 2011. Currently, the ensued debt level is close to JD2 billion, almost 10% of the GDP.

One of the evident measures to be taken by the government to face the financial crisis was to increase electricity tariffs, which it did in 2012 and 2013, and continued to do so until 2018. Almost in the two Stand-By Arrangements with the IMF that followed, Jordan committed to increase tariffs further. It was as if the government had no concern regarding the impact of such commitments, dictated as a consequent of the somewhat unclear privatization agreements, on the economy. Recently in July 2018, the government added a "Fuel Prices Difference" to the electricity bills, with a significant increase; the official justification is that it is attempting to stop the losses of NEPCO.

Never mind the privatization process and its fine yet unmistakable malaise. Other questions/queries lingered: Did the overseers of the privatization and economy not know that the supply of gas from Egypt was not going to be assured forever? Did they not see that the oil prices, which had increased considerably since the start of the Iraq Invasion in 2003, would continue to rise, and that therefore committing to supply the producers with oil instead of gas would have disastrous consequences on the budget?

# **SUMMARY OF INTERVIEWS**

## SUMMARY OF INTERVIEWS

Six interviews were conducted for this research. The interviews included political parties across the ideological spectrum, unions, and MPs. A similar set of semi-structured questions were asked for all of them, and each provided answers according to their point of view and understanding of the issue. Below are the questions asked and their analysis and summary.

### **1- What is your view of the Jordanian economy?**

Most of the participants described the Jordanian economy as a rentier economy that is heavily reliant on foreign aid and grants. Some also described it as a distorted economy that combines rentier and capitalist features, while others were extreme and called it a subordinate economy that is subject to the West's will. Regardless of the different descriptions, none of them called the Jordanian economy a self-reliant economy or attached it to a certain ideology like capitalism, suggesting that it does not have a clear path, hence lack of a clearly defined economic policy.

### **2- What is the Jordanian economy's main problem/s? In your opinion, and how to solve it?**

The answers for this question varied from lack of a strategic approach of the government, to the usual economic issues such as budget deficit and public debt, mismanagement of resources, low productivity, and lack of institutionalism. The answers suggest, again, that there is no clear economic policy in place to lead the decision-making process, which is dependent on individuals and short-term plans/goals rather than a long-term vision.

### **3- What do you think of the international organizations' involvement (IMF, World Bank) in the Jordanian economy? Do you think it helps?**

There was almost a unanimous agreement amongst the interviewees that the IMF had a negative impact on the Jordanian economy, and that it does not help in overcoming the crisis. Some even went on to describe that the IMF and other international organizations have a hidden agenda that serves the interests of the West by forcing Jordan to commit to political concessions. Regardless of the reasons, what is evident is that the government is dealing with an institution that is not publicly accepted, suggesting that the government's approach stands against the public's well.

### **4- Do you think that privatization improved access to public goods (Health, education, transportation)? How?**

Some interviewees thought that it improved the status of some sectors, while it left other sectors worse off. Nevertheless, none of them agreed that the process was done

---

properly, and some even called it organized and legalized theft. While the concept of privatization was rejected by many of them, they suggested that the government could have privatized the management of those institutions instead of privatizing the assets. They expressed that this could have achieved much better results for the state's budget, as well as preserved the rights of labor in those enterprises.

**5- What do you think of the distribution of taxes and income in Jordan? Is it fair? Clarify your response if you think it's fair or not, and define "fairness" in your opinion?**

The answer to this question was unanimous. None of them thought that the distribution of income and tax is fair. They all called to revert back to the constitution which says that the tax should be progressive and depending on the person's or family income. They all agreed that the General Sales Tax should be lowered. It is worth noting here that this is the complete opposite of what the government has been, and is still, doing.

**6- What role do you think as a political party can/should assume in the economic decision- making process?**

Some parties referred back to their programs and noted that it is through these programs that they try to engage and have a role in the process. Meanwhile, there were others who did not think that they have a role at all, due to the lack of an enabling environment for political parties, specifically political laws in the country. MP Khaled Ramadan mentioned that the parliament has only a cosmetic role in the process and no real authority over anything.

**7- Do you have an economic program in your party? If yes, have you presented it to the government (can you provide us with a copy)? If not, how do you think you can be an active stakeholder in the decision-making process?**

All parties provided us with their programs, and they mentioned that they are available online for the public. Some also mentioned that they tried to communicate their programs to the government, yet did not receive any response at all. They all asserted that the government never asked them for their programs, not did it discuss any policies with them.

**Overview of the Party's Economic Program:**

The programs of the political parties are based on their respective ideologies, including communist, socialist, or Islamic. Nevertheless, all parties call for actions and policies that are completely against what the government has been and is still doing. This includes developing the industrial sector, refraining from getting loans and

foreign aid dependence, providing adequate transportation, imposing progressive income tax law, and minimizing the dependency on general sales tax and fees.

**8- Do you think the government's plans to improve the economy are serious? Why and how?**

Almost all interviewees agreed that the government's plans on paper are good and that they could yield good results if implemented. However, those plans are too ambitious and do not have a clear implementing mechanism, which is why none of them is implemented. The interviewees also agreed that the main reasons for not implementing those plans are lack of accountability, lack of institutionalism, repeated changes in the cabinet, lack of political will, and lack of long-term oversight.

**9- Do you think that there are stakeholders (government and others) that hinders your involvement in the decision-making process?**

All political parties agreed that there are forces that work against them, whether societal forces, which are backed by tribalism and bad political heritage from the past, or from inside the governmental entities. The main factor remains the political laws such as the election law, decentralization law, and political parties' law. According to them, if these laws change, then the societal perception on political parties will change.

**10- What do you think of the recent uprising against the government's economic policies, and what was your role?**

All parties stated that they supported the protests, whether by engaging on the ground, or through issuing media statements and press releases. What was interesting is the JEA's comment on the topic, where they stated that they took the leading role in the protests due to the weakness of political parties and lack of people's trust in them, and that if the circumstances favored political parties, then they would have stood behind them.

## **SUMMARY OF FOCUS GROUP DISCUSSIONS**

**Is the Jordanian economy going to improve during the next five years?**

The participants in focus group discussions tended to believe that the Jordanian economy will not improve in the coming five years due to increasing poverty, high unemployment rates, the slow progress of economic growth and inflation. The expectations of the IMF about the Jordanian economy are not encouraging either. Participants agreed that even with a clear plan and taking right steps, the economy will need at least 10–15 years to recover. The political situation is quite a relevant factor too, because it directly influences the economic situation of the country. Economic reform and political reform should therefore go side by side, and otherwise, Jordan



---

will provide more and more political and economic compromises.

**Is the Jordanian economy's main problem in not having a written economic policy, bad management of resources, or corruption?**

Corruption and bad management were noted as the main problems facing Jordanian economy. Furthermore, the short life of Jordanian governments significantly affects the economy in a negative way due to the absence of a clear economic method for the state, which has its additional effects. The absence of a clear economic policy to be followed by the different governments leads to hindering the economic cycle, and that directly and negatively reflects on citizens. Dependency on foreign aid is also problem by itself, and in addition to that, debt servicing puts enormous pressures on the state's budget and citizens who end up paying this cost. Participants also discussed the regional context and how, due to the Syrian crisis, Jordan was unable to take a leading role in the region anymore, which highly affected its economic situation, not mentioning the economic effects of stopping the economic exchange with Syria.

**Is the state is obliged to subsidize main consumer goods and local industries?**

Most participants agreed that the government should subsidize basic goods and create a social protection umbrella to protect the poor and vulnerable. The biggest focus, they demonstrated, should be on healthcare and education. As for local industries, participants suggested supporting these industries through providing production inputs with reasonable prices through conducting a total revision of taxes and lowering direct and indirect taxes on the inputs in order to improve the situation of local industries, which will in turn lead to creating more jobs in the labor market. Most participants suggested the agricultural sector as an example.

**Is the economic legislative regime in Jordan unstable and does it need overhaul?**

The answers showcased that the domestic policy in Jordan is not clear anymore, and that the choices governments make are based on short-term planning, leading to economic hardships on the medium and long-term. It was further noted that nearly each economic legislation in Jordan is drafted by a different government, which might be due to the nonexistence of a written economic policy. The economic legislative regime needs a lot of work, but it should start with political reform at the same time.

**Can public debt be lowered through public investments?**

Participants agreed that public debt cannot be lowered through public investments, and that the government should support industries and businesses, especially in underprivileged areas. This would be done through boosting local economic

development, and the only way to achieve this is by lowering taxes on industries and businesses, especially in rural areas, which would encourage investors to go there and build the needed infrastructure. Participants mentioned that there are also political reasons and hidden political agendas for people in power, resulted by their economic drivers, which make their personal interests more important than public interests, and that leads to even more distortions in the economy. This issue is well-known now even among the international community, which hesitates when it comes to establishing any economic interests in Jordan.

### **Is the government responsible for creating jobs and reducing unemployment?**

When it comes to unemployment, the government is responsible for supporting the private sector and increasing investments through providing a suitable investment environment. This is what leads to creating a lot of work opportunities in the market, but what is happening is the opposite. An example of this is that if the new tax law is passed, it will lead to losing the investments of big companies in the local market. As for creating jobs in the public sector, the public sector in Jordan is always the government's resort, and this increased so much to the point that the government barely pays the salaries, so this should not be an option anymore.

### **Does Jordan have good economic strategies?**

There are some good economic strategies in the country, but this is not the issue. The main issue is bad management and corruption in the high levels of the state. The administration should itself be reformed before thinking about any economic solutions. Adding to that, bad planning and the difficult regional situation makes this task even harder. However, it is still a necessity before any potential economic reform.

### **Does the IMF-related reforms have hidden political agenda behind them?**

The IMF, in its nature, has a liberal economic agenda rather than a political one. The IMF tries to annex Jordan to the global economy without paying any attention to the internal and regional factors, and that significantly weakens the Jordanian economy and leads to more complications.

### **Has privatization weakened the state and the Jordanian economy?**

Privatization has weakened the state because of the way it happened. Essentially, the system has many flaws, the biggest examples of which are privatizations of Phosphate, Potash, electricity and water companies, in addition to the Aqaba Port. Privatization led to establishing many independent commissions, which put more stress on the general budget. In addition to that, privatization led to increasing the size and level of corruption through facilitating business deals by senior officials.

---

### **Is the biggest problem of taxes in Jordan tax administration and collection?**

Tax is one of the biggest problems in Jordan on all levels. The numbers of direct and indirect taxes are overwhelming; indirect taxes such as the Value Added Tax should be significantly lowered before even considering increasing income tax. Taxes administration and collection is even a bigger problem: it involves corruption that is encouraging tax evasion. It is as if governments in Jordan believe that the more corruption there is, the more economic growth there will be.

### **Is the Jordanian government overspending?**

Yes, the government is overspending in salaries, fuel, and bad investments. This has kept Jordan as a rentier state, and it even nurtured political corruption to facilitate politicians' personal economic benefits. The state should transform from being rentier to being productive in order to achieve stable economic growth that will take the country out of the current situation.

### **Will Jordan be debt free if the government fought corruption?**

Although corruption is one of the biggest issues in the country, yet eliminating it will not free Jordan from debt. All countries in the world have corruption and a lot are debt free. The reasons for debt are more complicated and multilayered, corruption is just one of them.

# RECOMMENDATIONS

---

## RECOMMENDATIONS

### **A Written Economic Policy**

Jordan lacks a written economic policy to guide all aspects of policy design and strategies that emerge from such policies. Currently, there is no such policy, which means that the country feels in general that it is without direction. Such a policy statement would guide the decision makers, and if done properly would harness a cohesive agreement on the future of the economy.

The design should involve the public and private sectors and civil society. Agreement of all stakeholders is a must for the policy to succeed and become a mantra or guiding principle.

From the policy statement, which should provide direction to all the aspects of the economy, there needs to emerge fiscal, monetary, labor and production policies. These are followed by strategies and plans of action.

The process would require months, yet the payback will manifest in a clear direction, consistency of decision-making and decisions by the stakeholders, and long-term economic stability. The policy, as in the case of national policies, is revised every five or ten years, depending upon achievements and circumstance.

### **A Transparent Taxation System**

Currently Jordanian authorities rely on indirect taxation (the majority of which comes from the sales tax) and fees; the latter type of tax is collected without parliamentary approval. Income tax suffers from several maladies, including the fact that it is not collected from able and wealthy segments of society such as the medical physicians.

Typically, the government has moved toward increasing tax rates through new legislation pieces that have brought upon it the ire of the populace at large. Public anger over raising taxes is understood, given the long state of economic depression the economy has suffered since 2010 when the per capita income was falling in real terms; a situation that continued to worsen since.

The problem lies mainly in the collection of debt, not in the current tax rates (albeit considered high by many when taken together as a whole); hence, the tax administration requires restructuring. Several donors had requested linking the tax department database with private banks, Customs Department, Land and Survey Department, among others, to determine actual incomes and address tax evasion. Further, emphasis should be shifted toward tax collections instead of the review and investigation of over 30% of tax file submissions.

## **Public Debt**

The public debt of the country nears 96% of the GDP, and most borrowing goes to the payment of salaries, pensions of government retirees (which reached JD1330 million in 2017), and debt servicing. Practically none of the government domestic revenues go to capital expenditures. Donor grants, some of which were relegated to capital expenditures, started to decrease. The GDP growth rate has fallen to 1.9% in real terms in 2017. Furthermore, there is no clear plan on how to deal with the rising debt.

The government needs to reduce its current expenditures. One area that is not politically sensitive is to reduce the number of independent organizations. The staff members of these organizations are paid at a higher scale than the civil service executives employed by the central government, are fewer in numbers, and are better qualified—hence can easily find jobs in the private sector. A plan to do that has to be well studied and formulated.

## **Privatization**

Privatization has been used as a means of increasing government to make up for budget shortfalls through the sale of assets. While government revenue streams have increased from some due to partial privatization, fees and taxes from the restructured and privatized bodies, the windfall has been the primary goal of privatization.

Furthermore, while the government announced in its strategy that it intended to reduce government size and enable a greater role and space for the private sector, it seems to be reverting to the pre-privatization practice of establishing new companies that are owned by the government and armed forces.

A tighter privatization strategy and law need to be formulated banning the misuse of privatization proceeds and preventing the growth of a new set of companies from public funds. Also, proper care must be placed upon regulations preventing monopolistic practices and the diversion of government businesses and contracts to the newly established state-run firms.

## **The Labor Market**

Unemployment rate in Jordan reached 18.7% in 2017, which is the highest unemployment rate in almost three decades. The employment/work strategy, which contains comprehensive solutions, in place is only at 30% in terms of implementation as declared at a recent meeting of its implementation stakeholders with the king. An evaluation of this strategy is warranted and from this evaluation several interventions can emerge.

---

## **The Monetary Policy**

The monetary policy in Jordan is dormant and is not involved at all in the development drive of the country. It is simply focused on the maintenance of the exchange rate peg (JD1=US\$1.41) through a high margin between the lending rate of the Jordanian Dinar and the US dollar. Interest rates on loans to the resident private sector are high, and banks maintain a conservative stance toward lending. There are very sources for formal credit outside the banking sector. A revision of the role of the monetary policy is required, especially given the inflexibility (high level of commitments to current expenditures) of the fiscal policy.

## **Think Tanks**

Jordan has two “think tanks” which are not independent. The first is the Center for Strategic Studies, which is owned and run by the University of Jordan, a government university, and can hardly be viewed as independent. The second is Jordan Strategy Forum, which is established by the private sector to serve its engagement in economic issues and local development; it is also not viewed as an independent think tank. Supporting new alternative think tanks that enjoy a high level of independency and more engagement with the public is one of necessities of creating a multi-layer dialogue regarding economic issues in the country.

## **Increasing Foreign Direct Investment and Domestic Direct Investment**

Investments, whether foreign or domestic, are a crucial factor in supporting the economy of any country. Looking into the situation of investments in the country and proposing methods and solutions to increase and facilitate it would have a direct positive impact on the economy. Revisiting legislations and procedures related to investment and providing alternatives is a very important issue at this stage.

One direction for the country to go is to emphasize investment in alternative energy (wind and solar), public transportation (Jordan is a country of 10 million, including refugees, has over 1.5 million vehicles, makes no vehicles, has one of the highest fuel prices worldwide and the highest in the world, and yet no public transportation system that is provided by the state); and water (Jordan is among the poorest countries in the world in terms of water supply per capita – its water network has not been overhauled over the past 50 years).

The three areas invite large infrastructure investment by sovereign state funds and large value investors looking into stable, low return investment returns. The government lacks capacity in formulating projects and needs assistance. Such projects if formulated, presented to potential investment, and speedily tendered and implemented can take the country out of the present state of the eight-year

depression.

## **Supporting Small Businesses**

Close to 99.8% of Jordanian businesses are MSMEs. The main obstacle that small firms face is financing; hence, access to finance is their primary challenge. This is also why most of them remain within the informal sector, and since they are informal, they are unable to obtain financing. Further, policy is not small-business friendly; there is not one piece of legislation similar to the Small Businesses Act of the US or the EU to help safeguard their interests and address their constraints. Introducing such a piece of legislation would be a timely and favorable addition to the policy framework of Jordan.

## **Women in Labor Market**

Women participation in the labor market is very low in Jordan, it is the lowest in the Arab world. Designing programs that focuses on increasing women participation in the labor market is necessary for minimizing the lost opportunities from garnering their input into the economy. Furthermore, discrimination is high within the private sector. There are no time-saving technologies that enable them to go to and from gainful work. Programs are needed to promote decent transportation solutions and services.

## **Supporting Civil Society to have Economic Programs**

As in most rentier or semi rentier states, civil society in Jordan is weak and fragmented. Civil society organizations (CSOs), including political parties, have no solid alternative and achievable economic programs to create an equitable dialogue with the public sector. If CSOs have such programs, they can work on gathering the public support and creating a positive momentum that would serve as a basis for dialogue.

## **Technical and Vocational Education and Training (TVET)**

TVET is a major factor in creating work opportunities in any country. In order to work on minimizing unemployment rates, effective and modern TVET should be in place. This needs interventions on two levels: the first is modernizing TVET and improving the quality of its programs, and the second is working with local communities on promoting the benefits of TVET and convincing people that the public sector is not their only resort.



---

## **Local Economic Development**

Local governance structures such as local councils, municipalities, and governorate councils should become drivers for local investments. In order to achieve this, these structures need their capacities to be fully built in order to be able to develop local development plans and attract both FDI and DDI to the governorates. Engaging with local governance structures (especially governorates councils) and engaging them in economic development issues will have a large impact on the local economies in the country.