Jordan Second Equitable Growth and Job Creation Programmatic Development Policy Financing (P168130)

Document of

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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US\$1.45 BILLION TO

THE HASHEMITE KINGDOM OF JORDAN FOR THE

Second Equitable Growth and Job Creation Programmatic Development Policy Financing

May 20, 2019

Macroeconomics, Trade and Investment Global Practice Finance, Competitiveness and Innovation Global Practice Jobs Group

Middle East and North Africa Region

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The Hashemite Kingdom of Jordan

GOVERNMENT FISCAL YEAR

July 1—June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of May 19, 2019) Currency Unit = Jordanian Dinars (JD) US\$1.00 = 0.709000000 JD 1 = 1.41043724

ABBREVIATIONS AND ACRONYMS

ASA CPF CBJ DFID	Advisory Services and Analytics Country Partnership Framework Central Bank of Jordan Department for International Development	JPD JLGC Mbps MOF	Joint Procurement Department Jordan Loan Guarantee Corporation Megabits per second Ministry of Finance
DPF	Development Policy Financing	MOPIC	Ministry of Planning and International Cooperation
DSA	Debt Sustainability Analysis	NAF	National Aid Fund
EBITDA	Earnings before interest, tax, depreciation, and amortization	NBN	National Broadband Network
EFF	Extended Financing Facility	NEPCO	National Electricity Power Company
EIA	Environmental Impact Assessment Energy and Minerals Regulatory	NRIP	National Registry of Investment Projects
EMRC	Commission		
FDI	Foreign direct investment	OECD	Organization for Economic Co-operation and Development
GCC	Gulf Cooperation Council	PIM	Public investment management
GDP	Gross domestic product	PFM	Public financial management
GOJ	Government of Jordan	PMT	Proxy means test
GTD	Government Tenders Department	PPP	Public-private partnership
GST	General sales tax	PSIA	Poverty and Social Impact Analysis
HIES	Household income and expenditure survey	SMEs	Small and medium enterprises
IBRD	International Bank for Reconstruction and Development	SST	Special sales tax
ICOR	Incremental capital-output ratio	TBD	To be determined
ICR	Implementation Completion and	UNHCR	United Nations High Commission for
	Results report		Refugees
IFC	International Finance Corporation	USAID	United States Agency for International Development
IMF	International Monetary Fund	WAJ	Water Authority of Jordan
JD	Jordanian Dinar	WBG	World Bank Group

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HASHEMITE KINGDOM OF JORDAN

JORDAN SECOND EQUITABLE GROWTH AND JOB CREATION PROGRAMMATIC DEVELOPMENT POLICY FINANCING

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P168130	Yes	2nd in a series of 2

Proposed Development Objective(s)

The program development objective is to support Jordan to set foundations to: (i) reduce business costs and improve market accessibility, (ii) create more flexible and integrated labor markets and provide better and more efficient social assistance, and (iii) improve fiscal sustainability and take more informed decisions regarding risk.

Organizations

Borrower: HASHEMITE KINGDOM OF JORDAN

Implementing Agency: MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

DETAILS

International Bank for Reconstruction and Development (IBRD)	1,450.00
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INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

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High

Results

	Baseline	Target				
PILLAR 1: Reducing business costs and improving market accessibility						
FDI in services as a percent of total investments facilitated by JIC	(2018): US\$10.3 million	(2021): 2.5 percent increase				
Aggregate business compliance costs index (2017=100)	(2017): 100	(2021): 80				
Guaranteed exports as a percentage of total exports	(2017): 1.09 percent	(2021): 2.40 percent				
Insolvency Framework Index of the Doing Business indicator	(2017): 5	(2021): 10				
Strength of Legal Rights Index of the Doing Business indicator	(2017): 0	(2021): 6				
Government entities prepare annual procurement plan at least one month before the end of the fiscal year	(2018): 0 percent	(2021): 100 percent				
Average monthly retail price (excluding taxes) of residential 500 Mbps broadband connection	(2019): JD 80 per month	(2021): JD 70 per month				
PILLAR 2: Creating more flexible and integrated labor markets and p	roviding better and more efficie	nt social assistance				
Female labor force participation rate	(2017): 14 percent	(2021): 17 percent				
Growth of formal, private, part-time female workers (annual average)	(2014–16): 3.2 percent	(2019–21): 3.5 percent				
Growth of formal, private, full-time employment (annual average)	(2014–16): 3.1 percent	(2019–21): 3.3 percent				
Cost of work permits for Syrian workers	(2017): JD 300–370 (without waiver)	(2018 and 2019): JD 0 (zero) (with waiver)				
Number of households covered by NAF	(2018): 93,000	(2021): 178,000				
Percent of new NAF beneficiaries receiving payments digitally	(2019): 0 percent	(2021): 80 percent				
Number of households provided with electricity support benefits	(2018): 0	(2021): 15,000				
Number of energy support benefits schemes in operation	(2018): 0	(2021): 3				
PILLAR 3: Improving fiscal sustainability and taking more informed d	lecisions regarding risk					
Cumulative impact of revenue measures in 2018–20	(2017): JD 0 (zero)	(2021): About JD 1,280 million				
NEPCO's operating balance is zero or positive.	(2018): No	(2021): Yes				
Tariff Cross Subsidy Index	(2016): 25.5 percent	(2021): Less than 21 percent				
Index of Grid-Subsidy for Self-Generation	(2016): Greater than 90 percent	(2021): 0 percent				

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Ratio of NEPCO's debt service liability to EBITDA	(2018): 5.85	(2021): 1
Number of days of total outstanding receivables (beyond the due date) for NEPCO	(2018): 148 days	(2021): 75 days
Number of sectoral and subnational climate change strategies or plans prepared	(2018): 0	(2021): 3
Use of National Registry of Investment Projects (in percent of new projects)	(2017): 0 percent	(2021): 100 percent
Number of prefeasibility studies undertaken under the new PIM–PPP governance framework	(2017): 0	(2021): 5
Inclusion of contingent liabilities and risk assessment in Debt Management Strategy	(2017): No	(2020): Yes

IBRD PROGRAM DOCUMENT FOR A PROPOSED LOAN TO THE HASHEMITE KINGDOM OF JORDAN

1. INTRODUCTION AND COUNTRY CONTEXT

- 1. The proposed Jordan Second Equitable Growth and Job Creation Development Policy Financing (DPF2), in the amount of US\$1.45 billion, is the second operation in a programmatic series of two DPF operations supporting the Government of Jordan's reform program. The proposed operation continues and deepens the policy reforms supported under the first DPF (approved by the Board of Executive Directors on June 27, 2018). Since June 2018, when the new Government was formed, the country has embarked on a reform program to stimulate growth and create jobs. During this time, the country faced major fiscal challenges in addition to a sequence of massive floods that triggered the need for the Government's emergency response in 2018 and 2019. To respond to the needs of the reform program and the fiscal challenges, the DPF series has been strengthened with the addition of macro critical reforms in support of private sector—led growth, reform of the energy sector (a source of fiscal losses in 2018), and improved debt management. The reforms are consistent with the core of the enlarged Middle East and North Africa (MENA) strategy of helping countries advance their "open for business" agenda and are strongly supported by Jordan's development partners.
- 2. DPF2 will help the government pursue its necessary macro critical reforms to lay the foundations for investment at a time of low economic growth, while supporting fiscal sustainability and containing new losses in the energy sector. The economy has been growing at 2 percent a year for the past three years. However, the Jobs Diagnostic (2019) suggests that the economy needs to grow at triple this rate if is to make a dent in the unemployment rate of 18.6 percent (2018) and in the labor force participation rate (38 percent total in 2018, 60 percent for males, 14 percent for females). At the same time, while economic growth is a concern, so is fiscal sustainability. The energy sector imbalances that materialized in 2018 could undermine fiscal sustainability and the impact of efforts to attract investment and lower private sector business costs. With DPF2 Jordan is launching a new round of Foreign Direct Investment (FDI) liberalization, overhauling public procurement, strengthening PPP legislation. It is also adopting a roadmap for electricity sector sustainability.
- 3. **Fiscal sustainability became a more prominent challenge in 2018 when Jordan fell behind in its fiscal consolidation targets.** This resulted in public debt remaining at 94 percent of GDP (as in 2017) rather than beginning a downward trajectory. The Government's efforts to tackle fiscal imbalances are supported by the IMF Extended Fund Facility, with complementary actions reflected in this series on domestic revenues. To address the fiscal sustainability concerns, the new Government worked with the Parliament to pass a critical revision to the income tax law in 2018, which aims to collect about 0.5 percent of GDP in additional revenues in 2019, rising to 1 percent of GDP from 2020 onward. Overall, the growth trajectory and the quality of growth are insufficient, warranting full implementation of the DPF2 reforms and pursuit of future reforms that reach beyond the current program.
- 4. Over the past decade, Jordan has faced a number of external shocks that directly affected economic growth, and the economy has not been able to create the large number of productive jobs required to meet the needs of the young and fast-growing population. Headwinds started with, first, the global financial crisis in 2009 leading to a dampening of economic activity, while the accompanying policy response—including lower taxes and debt accumulation— was not enough to stimulate growth. Second, the conflicts the regions disrupted trade routes to key trade partners, including Turkey and the EU. For example, exports have been adversely affected by the closure of the border with Iraq in 2014. The yet to be fully assessed costs of these disruptions in trade are large. Third, the disruption of favorably-priced natural gas supplies from Egypt (also in 2011), led the Government to cap the tariff response to spare the bulk of the population from large tariff increases and produced an accumulated energy sector debt of about 18

percent of GDP, held by the Central Government and NEPCO.¹ Fourth, the slowdown in the major Gulf economies (because of depressed oil prices in 2014) led to a drop in remittances (of about 0.4 percent of GDP a year) and lower official grants to Jordan (of about 1 percent of GDP a year). These external shocks have affected Jordan's macroeconomic stability.

- 5. In the midst of headwinds that buffeted Jordan's macroeconomic stability, the Syrian refugee crisis hit especially hard. Jordan is hosting almost 1.3 million Syrians, of which 666,217 are registered refugees with UNHCR. About 90 percent of the refugees are living in Jordan's cities, towns and villages exhausting existing social and physical infrastructure and impacting delivery of basic services. There has been a noticeable deterioration in the quality of services provided across numerous critical sectors, including health, education, municipal services, and others. The influx of these refugees has raised Jordan's overall population to 9.5 million in 2017. Overall, the Government estimates that the budgetary cost of hosting the Syrian population has been around US\$2.5 billion per annum.
- 6. These are factors that largely explain why, since the global financial crisis, Jordan has been unable to markedly reduce its external imbalances or to curb its high public sector debt. Jordan, with a young and growing labor-pool and a resource-poor country with a thin manufacturing base, has traditionally had a very low domestic savings rate. Investment depends heavily on external sources, including foreign savings, remittances, and FDI (see annex 7 for historical trends). Historical trends of the trade and current accounts reflect this imbalance. The trade deficit averaged 12.1 percent of GDP in the past ten years, and over the last five years about three quarters of that has been due to energy imports. Furthermore, the current account has had an average deficit of about 9.1 percent of GDP over the last ten years. With declining remittances and lower grant funding, Jordan needs to borrow to meet its external obligations.
- 7. On the fiscal side, low growth has meant lower domestic revenues, difficulty in meeting fiscal targets in 2018, and delays in reducing public sector debt. Reducing the public debt ratio requires additional fiscal savings of about 3 percent of GDP. On the energy side, NEPCO's 2018 deficit reached JD 90 million, and this translates to more public sector borrowing and greater indebtedness. The next five years present particular challenges both to the Central Government and to NEPCO, as each face large repayment (or rollover) needs: The Central Government needs to repay or roll over US\$3.25 billion in Eurobonds over 2019–22, while a large part of NEPCO's debt will also mature in 2020-24. In addition to the debt repayment obligations, NEPCO will likely face a rising cost structure, owing to the commissioning of contracted energy projects which diversify energy sources and bring energy security, but at a significant cost.
- 8. While macroeconomic policy has succeeded in buffering adverse shocks, Jordan did not manage to change the structure of its economy, improve its efficiency, or improve its productivity, in the past decade. The resilience shown by the economy, which grew at an average annual rate of 2.6 percent in the past decade amid the multiple regional shocks, was not turned into an opportunity. Over the past decade, the economy struggled to translate investment into growth as the incremental capital-output ratio (ICOR) worsened and labor productivity declined (see annex 7). Progress has been made in introducing some services, including tourism and IT services, but most jobs created are low skilled. Jordan's young female population is not able to turn its education into employment and higher incomes for themselves, and into productivity gains for the economy. ILO estimates that by closing the gap in labor participation rates by 25 percent, Jordan could grow its GDP by 10 percent.² The sclerotic nature of the economy is reflected in trade. Merchandise exports declined (relative to GDP) in the past decade, mostly due to commodity price fluctuations but also to a lack of innovation (the MIT Observatory's export sophistication index for Jordan is declining, suggesting little innovation in the country's merchandise exports). Exports in services have increased and generally kept up with GDP growth but have not

¹ The 2011 Public Expenditure Review indicated Jordan paid nearly four times as much for oil as Egypt was charging before the Arab Spring.

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²ILO estimates accessed via http://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/enhanced/WCMS_556526/lang-en/index.htm.

surpassed it. Indeed, recent analysis suggests that comparative advantage rests in services, given its cost structure for energy and transportation, the availability of highly skilled women, and the constraints on regional trade.³

- 9. To improve the quality of economic growth and to produce more and better jobs for Jordanians, Jordan needs to promote investment, to allow its internal markets to become more contestable, and to facilitate the access of the existing pool of highly skilled women to the labor force. On the demand side, Jordan needs to focus on investment and on export development, and the service sector is the right place to start. On the investment side, the environment for foreign investors is restrictive; the OECD Restrictiveness Index shows Jordan to be among the most restrictive countries it has reviewed. In the Middle East and North Africa Region, Jordan scores close to Tunisia, while Egypt is relatively less restrictive, and Morocco is the least restrictive, scoring on par with OECD countries. 4 On the export side, promotion and quality infrastructure can be strengthened substantially, following the progress that has been made with the expansion of credit facilities. Moreover, Jordan also has a weak business environment, especially for nonprivileged firms. This imposes costs to enterprises and affects firm entry and profitability, as well as the degrees of innovation and competition in the economy. Jordan ranks low in Doing Business, at 104 of 190 countries; its ranking in various pillars such as resolving insolvency and getting credit, among others, remains low. Finally, the inspections and licensing regimes affect the overall quality and predictability of the business environment. Both pose considerable challenges to businesses due to duplicative, archaic, and poorly managed practices, some of which are ad hoc and not founded on legislation. To this end, the proposed operation supports foundational financial and regulatory systems.
- 10. The labor market is highly segmented, across sectors, regions, nationalities, and gender. Female labor force participation is among the lowest in the world at 14 percent, even less than the Middle East average of 19 percent. In fact, international studies indicate that women only generate 18 percent of GDP in the Middle East (world average 37 percent) and by increasing female labor-force participation across sectors to the levels of men, GDP would rise to 47 percent in the region. The reasons for low female labor force participation are multiple, ranging from widespread gender biases about women's role as the primary caregiver, inadequate child care provision, and concerns around safe transportation, that would take many years to resolve. Underpinning these challenges are differences in Jordanian laws based on gender and marital status that disadvantage women and affect their ability to participate in the labor force. Legal and socioeconomic restrictions on women include laws around accessing institutions, getting a job, pursuing a trade or profession, traveling, being formally considered as head of household, or choosing where to live. The number of legal differences that disadvantage women are higher in Jordan when compared with the rest of the MENA region. The proposed DPF2 supports removal of several such restrictions from the Labor Code. In recognition of the multidimensional and complex nature of factors contributing to low female labor force participation, the Government is taking a holistic approach to improve the prospects of raising female labor force participation.
- 11. Energy and transport pose particular challenges that restrain growth, while the energy sector also poses fiscal risks for the future. These sectors impose high operating costs and contribute to poor productivity. In addition, the sectors inflict idiosyncratic challenges: energy imposes fiscal costs on an overburdened state, and urban transport acts as a deterrent to female labor force participation.

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³ Jordan: Elements of a Growth Strategy. Harvard Center for International Development Working Paper 2019. https://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers/jordan-growth-strategy; World Bank Jordan Jobs Diagnostic (2019); Development Policy Review: Policies for High and Sustained Growth for Job Creation (2012).

⁴ The legal framework for foreign investment is restrictive. Jordan's OECD FDI Restrictiveness Index (RI) was 0.243 in 2016, as the country took small steps in easing regulations to partially liberalize surface transport. The RI for OECD countries is 0.066, and for the three other MENA countries surveyed it is 0.171 for Tunisia, 0.094 for Egypt, and 0.067 for Morocco.

⁵ McKinsey Global Institute, 2015. The Power of Parity: How Advancing Women's Equality Can Add \$12 Trillion to Global Growth.

- Energy sector impact on business costs and legacy debt. Jordan imports most of its energy. When piped natural gas supplies from Egypt were disrupted in 2011, the national power company NEPCO and the Government started to accumulate debt to avoid passing the entire cost burden to the consumers. While the sector again achieved cost-recovery revenues in 2016, the legacy debt has remained unaddressed and now stands at about US\$7.46 billion or about 18 percent of GDP. Of this, around US\$3 billion is held by NEPCO, guaranteed by the central government; the remainder is held directly by the central government. Currently, the average tariff is just short of cost recovery but insufficient for debt service. Large cross-subsidies from industry and large consumers are used to keep the tariff for lower consuming households at a socially acceptable level. Electricity tariffs for the productive sectors are more than double the average tariffs in the region (and higher than the average cost for European and non-oil producing MENA countries). Going forward, energy sector costs are projected to increase further as some new high-cost generation projects come online and interest burden on legacy debt continues to rise. An increase in global crude oil prices would exacerbate this situation. To this end, the proposed DPF2 supports a roadmap for a more sustainable and efficient energy sector, which includes measures such as cost reductions, Government review of contracted power generation projects, optimization of the legacy debt using longer tenor concessional financing, and adjustments in tariff, as necessary.
- **High transport costs affect competitiveness and mobility.** Jordan faces high domestic transport costs and inefficiencies in its urban transport. The cost of moving a container from Aqaba to Amman is as high as to move one from China to Aqaba. This affects prices of merchandise imports and exports. Other sectors, such as urban transport, are also inefficient due to the fragmentation and weak enforcement of regulations, contributing to the high cost of commuting and inhibiting female labor force participation. Urban transport cost can be as high as 20 percent of a young person's salary (as estimated by the Bank). The high cost, coupled with harassment on public transport and inadequate transport infrastructure, are adversely affecting female labor force participation.
- 12. Jordan's economic transformation remains contingent on identifying opportunities to expand the economy's outward orientation and to steer it toward internal efficiencies. The Second Equitable Growth and Job Creation DPF supports the reform agenda initiated under DPF1 and adds key strategic reforms (such as FDI liberalization, procurement reform, and strengthening earlier PPP reforms). The DPF series aims to support: (1) reducing business costs and improving market accessibility, (2) creating more flexible and integrated labor markets and providing better and more efficient social assistance, and (3) improving fiscal sustainability and taking more informed decisions regarding risk.
- 13. The first pillar of the DPF series supports private sector–led growth by improving the business environment and creating opportunities for entry for large and small enterprises. Like DPF1, the pillar will continue to support licensing reform. In addition, the following policy areas have been added. First and foremost, the pillar includes a prior action on the liberalization of FDI with a focus on services. Second, it includes a full-fledged public procurement reform that is expected to increase the access of smaller firms to public spending opportunities (in addition to achieving cost savings for the public sector). Both of these reforms strengthen the pillar introduced under DPF1 by supporting firm entry. The energy sector reform has been moved from the first pillar (where the objective is cost reduction for enterprises) to the third pillar (where the objective is fiscal sustainability), given the magnitude of the fiscal challenges.
- 14. The second pillar of the DPF series supports policy and institutional mechanisms for a more flexible and inclusive labor market, including for females, provides measures to stimulate labor demand, and helps develop a more

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⁶ "Improving Transport Efficiency in the MENA Region, through More Competition in Infrastructure and Services" (World Bank, mimeo 2019).

⁷ "Study Finds 47% of Jordanian Women Have Turned Down Jobs Due to Lack of Viable Public Transport." *Jordanian Times,* February 28, 2019. http://www.jordantimes.com/news/local/study-finds-47-jordanian-women-have-turned-down-jobs-due-lack-viable-public-transport.

⁸ Other than in 2016, when Jordan partially liberalized rail services, Jordan's has not meaningfully adjusted (opened) its FDI regime since at least 2010 (the latest data point available in the OECD database of FDI restrictions).

effective social safety net system. Pillar 2 will continue to support the reform track initiated under DPF1 to reduce segmentation in the labor market and facilitate job creation. The reforms address the challenges of low female labor force participation rate and low demand for labor. Reducing labor market segmentation remains critical, and the reforms under the proposed DPF2 will focus more on reducing gender segmentation and allowing easier entry of high-skilled foreign workers to complement the demand for local labor. The Government continues implementing reforms to strengthen social safety nets to protect the poor, help with their transition out of poverty, and improve the management of the safety nets programs. These reforms under the proposed DPF2 will emphasize support to the development of a targeting mechanism, which will also be a critical component of the energy roadmap, and digitization of payments to improve the performance and efficiency of social assistance programs.

- 15. The third pillar of the DPF series supports the Government's fiscal consolidation efforts and critical actions on the energy sector. The pillar focuses on boosting efficiency in public investment, strengthening the PIM-PPP governance framework and strengthening the approach to managing public sector debt and contingent liabilities. It also now gives support to the implementation of the electricity sector financial sustainability roadmap, is a critical instrument to address reemerging electricity sector losses, which signal rising downside fiscal risks. The reform agenda under this pillar has been strengthened as the Government plans to improve the PPP process, including revising the PPP law to correct current shortcomings and strengthening associated institution-building and technical assistance arrangements with the support international partners to develop a robust PPP pipeline. Both the World Bank and IFC are working closely with the government on these capacity-building objectives. The management of debt and fiscal risks has been further strengthened by including a broader set of energy sector reforms, given the significant fiscal challenges the sector posed in 2018 (NEPCO's operational losses and additional public sector arrears to distribution companies). To put the sector on a more sustainable footing, DPF2 supports the electricity sector financial sustainability roadmap which includes a debt optimization plan for NEPCO. In addition, the pillar will support policy reforms focusing on climate resilient growth.
- 16. The proposed DPF contributes to the implementation of the enlarged World Bank Group (WBG) MENA Strategy, as it addresses the constraints identified in the Systematic Country Diagnostic and the priorities of the Country Partnership Framework. The operation supports economic growth and job creation. It focuses on reducing business costs and increasing opportunities for private domestic and foreign investment, particularly in services (including digital), reducing labor market segmentation, removing legal and regulatory barriers for women to participate in the labor force, strengthening social protection at the time of economic transformation, and maintaining fiscal sustainability. The reforms supported by the proposed DPF are closely linked to: (1) WBG's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner, (2) the strategic pillars of WBG MENA Strategy related to renewing the social contract and supporting inclusive growth, (3) the Systematic Country Diagnostic (SCD) emphasis on private sector–led job creation and economic inclusion, (4) the private sector–led job creation pillar of the Country Partnership Framework (CPF) for 2017–22, and (5) the World Bank MENA Climate Action Plan.
- 17. The proposed policy reforms support achievement of Jordan's Nationally Determined Contributions (NDCs) under the Paris Agreement of the UNFCCC and are aligned with the World Bank Climate Action Plans. This DPF includes three prior actions that support climate change action, directly and indirectly. The program enables climate change mitigation through scaling up of renewable energy in the energy generation mix and adoption of energy efficiency by public and private sector consumers, including a targeted approach to support poor and vulnerable households to adopt clean energy through social protection mechanisms. Climate change is exacerbating the extreme scarcity of natural resources in Jordan and changing consumption patterns. The new climate change bylaw engages and empowers all sectors to identify opportunities for a low-carbon and climate resilient transformation of the economy, new areas of growth and jobs and; to define new approaches to attract climate and green finance to Jordan.
- 18. The proposed DPF2 is part of a programmatic multisectoral engagement to support reforms focusing on setting Jordan on a sustainable growth path while creating jobs. In addition to the proposed DPF2, the World Bank has been

supporting the reforms focusing on *inclusive growth* through the Economic Opportunities for Jordanians and Non-Jordanians Program for Results, which addresses the regulatory environment challenges, and a planned operation that will support entrepreneurship. The *human capital program* encompasses projects on: (1) the health sector, (2) education, and (3) social protection, fostering social inclusion. *Improved governance, transparency, and service delivery* are being addressed through: (1) a cross-sectoral program on leveraging private investments across the energy, water, transport, and agriculture sectors and (2) initiate digital economy work. This DPF operation is hence a part of a large program that requires a multiyear Government commitment as well as a multiyear World Bank Group engagement.

19. Guarantees to be provided to the IBRD by the United Kingdom and the Kingdom of Saudi Arabia are important components of the proposed DPF2. The loan amount of US\$1.45 billion depends on US\$450 million in total guarantee coverage expected to be provided to the Bank as part of the overall international support for Jordan, consisting of US\$200 million in coverage from the Kingdom of Saudi Arabia as guarantor and US\$250 million in coverage from the United Kingdom as guarantor, respectively. The Kingdom of Saudi Arabia has already executed and delivered their guarantee agreement for the benefit of the Bank, while the United Kingdom has committed in principle to execute a guarantee agreement. Under each agreement, the guarantor will guarantee pro rata portions of the repayment of the loan by Jordan, such that the guarantor will make a payment to the Bank if Jordan fails to make a repayment and such failure continues for at least six months. In the event that a guarantor makes a guarantee payment to the Bank, then the guarantor will have the right to pursue recovery from Jordan bilaterally.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

- 20. **Jordan's consumption-driven economy contracted in 2018.** Rising inflation and socioeconomic events jointly suppressed consumption. On the supply side, real GDP growth was propelled by a strong services sector. Overall, no single sector exhibited enough dynamism to push growth beyond that in 2017.
- 21. **Prolonged weak economic growth is reflected in elevated unemployment indicators and a declining labor force participation rate.** The unemployment rate remained elevated at 18.6 percent during 2018, compared with 18.3 percent in 2017. Unemployment patterns consistently show high unemployment among females, youth, and university graduates in Jordan's labor market. Moreover, the weak economic performance is further reflected in a declining labor force participation rate, which reached 36.2 percent in 2018, notably lower than 39.2 percent in 2017.
- 22. Preliminary estimates indicate that the fiscal deficit rose to 3.3 percent of GDP in 2018 (including grants), 1.5 percent higher than the budget target. Despite efforts to enact the income tax legislation, a continued fiscal consolidation trajectory could not be sustained in 2018. Fiscal measures introduced in 2018, including the removal of the general sales tax (GST) exemption and a rise in special taxes, were expected to raise tax revenues by 2.1 percent of GDP—but did that not materialize given subdued economic activity, weak consumption sentiment, and difficult socioeconomic conditions. Moreover, declining imports also affected the revenues collected from trade taxes. Consequently, domestic

⁹The World Bank and DFID have finalized the above-mentioned guarantee agreement in form, subject only to parliamentary approval by the United Kingdom. Parliamentary approval is expected to be received such that the guarantee agreement can be fully executed and delivered on or about May 31, 2019. Under the loan agreement for the proposed DPF2, Jordan will not be able to withdraw the US\$250 million portion of the loan unless and until the guarantee agreement has been executed and delivered by the United Kingdom.

revenue collection underperformed, growing by 3.4 percent during 2018, compared with the budget target of about 6 percent.

- 23. Recurrent expenditure-side rigidities, rising interest costs, and cash transfers to replace bread price subsidies limited the efforts to curtail public spending. Although current expenditure rose to 25.4 percent of GDP in 2018, 0.8 percent of GDP higher than 2017 levels—it was 0.8 percent of GDP lower than the budgeted target for 2018. Efforts to curtail spending remained limited, since almost 80 percent went to a few rigid categories: wages, salaries, and pensions; interest payments; and defense. To ease some of the fiscal pressure and support consolidation, capital spending was brought down by as much as 0.5 percent of GDP.
- 24. The debt-to-GDP ratio was maintained at almost the same level due to the limited fiscal effort. The Government's efforts, with the support of the IMF Extended Fund Facility, enabled fiscal reforms and the phased adjustment to cost-reflective electricity tariffs, which slowed the rate of increase in the public debt-to-GDP ratio in the past, but the level of public debt remains high. The public debt-to-GDP ratio for 2018 stood at 94.4 percent, marginally higher than 94.3 percent of GDP in 2017. The Government's use of treasury deposits to reduce issuance of treasury bonds during the second half of 2018 helped in holding the debt-to-GDP ratio at almost the same level despite the weaker fiscal position in 2018. Over the past six years, the Government resorted less to domestic financing and more to external financing to cover its fiscal needs while freeing up domestic capital for private sector lending. But the squeeze on public investment has dampened private investment prospects.

Box 1 Trade Agreements with Iraq

On February 2, 2019, the Jordanian authorities signed energy, trade, transport, and industrial agreements with Iraq. The agreements include supplying Jordan with 10,000 barrels of Iraqi oil daily at a lower price, ¹⁰ exempting a long list of Jordanian exports to Iraq from customs duties and granting Iraqi imports through the Port of Aqaba discounted port rates up to 75 percent of the usual charges. The agreements also stipulate the inauguration of a joint Jordanian—Iraqi industrial zone, a special economic zone for manufacturing and production under which Iraqi goods with Jordanian input benefit from tariff exemptions under free trade agreements Jordan has with several countries. The two countries have also agreed to establish an oil pipeline linking Basra to Aqaba through the Haditha area, to enable Iraq to diversify its oil export hubs. Aqaba Port at the north end of the Red Sea has long been a major transit route for Iraqi imports and exports, and Amman has long relied on Iraqi crude oil to fuel its economy. Jordan is also expected to begin to export electricity to Iraq within the next two years.

25. **Despite significant narrowing of the current account in 2018, external financing continues to be a challenge.** The capital and financial account stood at 9.1 percent of GDP in 2018 compared to 7.8 percent in 2017. Due to weak inflows of foreign direct investment (FDI) and public sector inflows, an FDI contraction of around 50 percent remains worrisome, reaching \$959 million, or 2.3 percent of GDP. Meanwhile, gross usable reserves of the Central Bank of Jordan (CBJ) stood at US\$12.5 billion by end-2018, corresponding to 6.4 months of imports, compared with 7.5 months at end-2017, despite a US\$2.5 billion financial support package offered by Kuwait, Saudi Arabia, and United Arab Emirates in mid-2018. Of that package, the CBJ received US\$334 million in Quarter 3 of 2018 to shore up its declining reserves.

¹⁰ The price that Jordan will be charged is Brent crude oil price per barrel less US\$16.00.

Table 1 Jordan Selected Economic Indicators

	2016	2017	2018	2019	2020	2021	2022
Real sector	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
Real GDP	2.1	2.1	1.9	2.2	2.4	2.6	2.8
Real GDP per Capita ^{1/}	-1.2	-0.5	-0.1	0.5	1.0	1.5	2.0
Agriculture (share of GDP)	5.2	5.4	5.4	5.2	5.2	5.1	5.1
Industry (share of GDP)	27.7	27.6	27.4	27.2	27.0	26.9	26.8
Services (share of GDP)	55.8	55.9	56.1	56.2	56.6	56.8	57.1
Net taxes (share of GDP)	11.2	11.1	11.0	11.4	11.2	11.1	11.0
Money and prices	(annual ne	rcentage cha	nge unless	otherwise spe	cified)		
CPI Inflation (p.a.)	-0.8	3.3	4.5	2.0	2.5	2.5	2.5
Money (M2)	4.0	0.2	1.2	5.0	5.2	5.4	5.7
Investment & saving	(nero	ent of GDP. I	ınless other	wise specified)		
Total Investment	19.4	19.9	19.3	19.4	19.5	19.7	19.8
Gross National Savings	10.0	9.4	11.9	11.2	11.5	11.9	12.9
Government finance	(nero	ent of GDP. I	ınless other	wise specified)		
Total revenues and grants	25.4	25.7	26.1	26.9	26.7	26.1	25.7
Domestic Revenue (excluding grants and privatisation)	22.4	23.2	23.2	24.5	24.6	24.5	24.3
Foreign Grants	3.0	2.4	3.0	2.4	2.1	1.6	1.3
Total expenditure and use of cash	28.6	28.3	29.7	29.2	29.6	29.8	29.2
Current ^{2/}	24.9	24.6	25.4	25.3	25.6	25.8	25.2
Capital Expenditure	3.7	3.7	3.2	4.0	4.0	4.0	4.0
Adjustment on receivables and payables (use of cash)	0.0	0.0	1.1	0.0	0.0	0.0	0.0
Statistical discrepancy, net	0.0	0.4	0.2	0.0	0.0	0.0	0.0
Additional fiscal measures (fiscal gap) ^{3/}	0.0	0.0	0.0	0.0	0.7	1.7	2.9
Overall balance after fiscal measures							
Overall balance (deficit (-), incl. grants)	-3.2	-2.2	-3.3	-2.3	-2.3	-1.9	-0.7
Primary Balance (deficit (-), incl. grants)	-0.2	0.8	0.0	1.0	1.4	2.1	3.4
Advances to WAJ ^{4/}	0.0	0.3	1.4	2.0	1.4	1.1	1.0
External sector	(perc	ent of GDP, ເ	unless other	wise specified)		
Current Account	-9.4	-10.6	-7.0	-7.0	-6.2	-6.6	-6.1
Trade Balance	-24.5	-26.3	-24.1	-23.6	-22.7	-21.8	-21.0
Export FOB	19.3	18.5	18.4	18.4	18.7	18.9	19.1
Import FOB	43.7	44.7	42.6	42.0	41.4	40.7	40.1
Services and income (net)	2.9	4.5	5.3	5.8	6.2	5.6	5.9
Current transfers	12.1	11.2	11.7	10.8	10.3	9.6	9.0
Net Private Investments (FDI and Portfolio)	4.8	3.8	2.4	4.0	4.7	4.8	4.8
Foreign Currency Reserves ^{5/} (US\$ Millions)	14,454	14,256	12,513	14,381	15,756	17,468	18,212
Foreign Currency Reserves (Months of Prospective	7.6	7.5	6.4	7.0	7.4	7.9	8.0
Imports of Goods and Non-Factor Services)							
Total Debt				wise specified)			
Total Debt Stock ^{7/}	36,802	38,461	39,927	41,784	43,622	45,064	45,838
Debt to GDP Ratio (%)	93.8	94.3	94.4	94.6	94.1	92.4	89.2
Memorandum Items:							
Remittances (US\$ Millions)	3,337	3,345	3,308	3,375	3,478	3,574	3,673
Foreign Direct Investment (US\$ Millions) Nominal GDP (Billion JD) ^{8/}	1,552	2,026	959	1,600	2,034	2,139	2,254
Exchange Rate, Average (JD/US\$)	27.8 0.7	28.9 0.7	30.0 0.7	31.3 0.7	32.9 0.7	34.6 0.7	36.4 0.7
GDP (in million US\$)	39,253	40,766	42,291				51,376
GDP (in million US\$) Source: Government Data and World Bank Staff Calculation.	39,253	40,766	42,291	44,172	46,363	48,758	51,376

Source: Government Data and World Bank Staff Calculation.

1/ Based on World Bank population projections.

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 $^{^{\}rm 2/}$ Includes net lending, transfers to NEPCO and WAJ, and other use of cash.

^{3/} Additional fiscal measures to target deficit reduction following nomenclature of IMF-EFF program.

All Estimates from the Jordanian Government and IMF.

5/ Central Bank of Jordan's gross usable international reserves, which exclude commercial banks FX deposits, bilateral accounts and forward contracts.

^{7/}Government and guaranteed gross debt. Includes WAJ estimated borrowing for 2018-2022.

^{8/} Based on GDP data revised in September 2018.

- 26. Inflationary pressures eased after reaching a peak in July 2018 as commodity prices stabilized. Headline consumer prices rebounded in 2017 following a two-year deflation. The annual headline inflation average accelerated to 4.5 percent in 2018 from 3.3 percent in 2017. High growth in consumer prices largely reflected a pick-up in international oil and food prices and the introduction of revenue-enhancing measures. Government measures intensified inflationary trends in the first half of 2018, as the removal of food subsidies and tax hikes propelled price increases. Inflationary pressure has diminished since August 2018 due to a stabilization in oil and food prices and receding consumer price pressures driven by fiscal measures.
- 27. **Monetary policy has tightened.** In line with rising U.S. interest rates to target the exchange-rate dollar peg, maintain adequate foreign reserves, and ensure an attractive risk premium over the Federal Reserve Board rates, the CBJ increased its main interest rate by 75 basis points between January and December 2018, reaching 4.75 percent by year-end. Social unrest prior to amendment of the new Income Tax Law resulted in a 0.7 percentage point increase in deposit dollarization in June 2018 but it stabilized at around 21 percent at year-end. Domestic liquidity (M2) increased by 1.2 percent in 2018, compared to 0.2 percent in 2017, although still below its average growth in the last 10 years; growth in credit facilities slowed to 5.6 in 2018. The latest available data (end-2018) indicate that the growth in bank lending to the private sector decelerated to 5.8 percent, from 9.3 percent in the same period in 2017.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

- 28. **Progress in implementing macro critical fiscal and structural reforms is key to Jordan's outlook.** Slippages in either area would undermine prospects for a strong medium-term rebound. Growth is showing signs of early recovery despite considerable challenges. Jordan's growth and external position are likely to be positively affected through several channels, including greater investment in alternative energy sources and the import of cheaper natural gas from Mediterranean sources. Other key factors include the involvement of Jordanian businesses in the reconstruction of Syria and Iraq, the reopening of the border with Iraq and associated trade and investment agreements, the reopening of the Nassib border crossing with Syria, faster-than-expected engagement by domestic companies in the EU Association agreement, and other efforts to lower the cost of generating energy. Therefore, medium-term growth is projected to recover from 1.9 percent in 2018 to 2.8 percent by 2022 (table 1). Building on this early momentum, continuing progress on implementation of macro critical fiscal and structural reforms, particularly those addressing key constraints to growth, remains critical. The constraints include, low access to finance, weak job creation, and poor revenue mobilization constraining fiscal space.
- 29. The fiscal balance (including grants) is projected to remain in deficit—averaging around 1.5 percent of GDP over the medium term, impeding debt reduction. Domestic revenue over the medium term is projected to increase by around 1.0 percent of GDP, largely due to implementation of income tax and GST acceleration over the medium term. Taxes on income and profits are projected to benefit from key reforms such as broadening personal income and corporate tax bases and reducing arbitrage opportunities. Nontax revenues, by contrast, are expected to remain flat—averaging around 7.7 percent of GDP over the medium term—while grant inflows are projected to come down by almost one-third, from 3.0 percent of GDP in 2018 to 1.3 percent in 2022. As in previous DPFs and successive IMF programs, Jordan's fiscal framework includes an above-the-line item of additional fiscal measures needed to ensure compliance with the agreed debt-reduction trajectory. Potential sources of revenues are greater rebalancing the taxation framework, by ensuring that tax exemptions are targeted more closely to the most vulnerable segments of Jordan's population; adjusting specific excises as needed; and rolling out a stronger framework to tackle tax evasion, including through a strengthened control of domestic transfer pricing, to minimize tax planning and profit shifting in development and free economic zones.

Table 2 Key Fiscal Indicators, 2013–22

(percent of GDP, unless otherwise specified)	2016	2017	2018	2019	2020	2021	2022
	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
Total revenues and grants	25.2	25.7	26.1	26.9	26.7	26.1	25.7
Domestic revenue (excluding grants)	22.2	23.2	23.2	24.5	24.6	24.5	24.3
o/w tax revenues	16.4	15.9	15.8	16.8	16.9	16.9	16.7
o/w non-tax revenues	5.8	7.4	7.4	7.7	7.7	7.6	7.6
Grants	3.0	2.4	3.0	2.4	2.1	1.6	1.3
Total expenditure and use of cash	28.5	28.3	29.7	29.2	29.6	29.8	29.2
Current expenditures	24.9	24.6	25.4	25.3	25.6	25.8	25.2
o/w wages and salaries	4.9	4.8	4.7	5.1	5.1	5.0	4.9
o/w interest payments	3.0	3.0	3.3	3.3	3.7	4.0	4.1
o/w Transfers, of which:	6.9	7.1	7.9	7.5	7.5	7.5	6.8
Pension	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Capital expenditure	3.7	3.7	3.2	4.0	4.0	4.0	4.0
Adjustment on receivables and payables (use of cash	0.0	0.0	1.1	0.0	0.0	0.0	0.0
Statistical discrepancy, net	0.1	0.4	0.2	0	0	0	0
Additional fiscal measures (Fiscal gap) 1/	0.0	0.0	0.0	0.0	0.7	1.7	2.9
Overall balance after fiscal measures							
Overall balance (deficit (-), incl. grants)	-3.2	-2.2	-3.3	-2.3	-2.3	-1.9	-0.7
Overall balance (deficit (-), excl. grants)	-6.2	-4.6	-6.3	-4.7	-4.4	-3.5	-2.0
Primary Balance (deficit (-), incl. grants)	-0.2	0.8	0.0	1.0	1.4	2.1	3.4
Primary Balance (deficit (-), excl. grants)	-3.2	-1.6	-3.0	-1.4	-0.7	0.5	2.1
Advances to WAJ ^{2/}	0.0	0.3	1.4	2.0	1.4	1.1	1.0
Memorandum items:							
Total Debt Stock ^{7/} (USD million)	36,802	38,461	39,927	41,784	43,622	45,064	45,838
Debt to GDP Ratio (%)	93.8	94.3	94.4	94.6	94.1	92.4	89.2
GDP at market prices (JD millions) ^{3/}	27,830	28,903	29,984	31,318	32,871	34,569	36,426

Source: Jordanian Authorities, World Bank Staff Calculation.

30. On the expenditure side, total spending and net lending (as a percentages of GDP) are projected to decline marginally over the medium term. Expenditure rationalization hinges on keeping two key spending items (defense and wages and salaries) under strict check. Spending pressures are expected to ease slightly over the medium term because of an improved regional and domestic security situation. Gradually reducing the size of the public sector through natural attrition will keep the public sector salary and wage bill in check by keeping the nominal growth of the wage bill to about 1.5 percent increase in nominal terms. In addition, Government plans to (i) continue streamlining non-priority current spending; (ii) prioritizing social and capital spending; and (iii) arresting the accumulation of fuel, health, and water-sector arrears while continuing to support for Syrian refugees. These policies, together with enhanced revenue mobilization measures, are expected to lead to a cumulative consolidation of 5.0 percent of GDP in the primary balance excluding grants, moving from a deficit in 2018 to a surplus by 2021 (table 2); worse performance on implementing additional fiscal measures will result in a smaller primary balance. Capital spending, by contrast, is projected to remain muted, rising by

 $^{^{1/}}$ Additional fiscal measures to target deficit reduction following nomenclature of IMF-EFF program.

 $^{^{2/}}$ Estimates from the Jordanian Government and IMF.

^{3/} Based on GDP data revised in September 2018

just 0.8 percent of GDP over the medium term and providing some impetus to growth. To support the Government in the fiscal consolidation effort, the Bank has already initiated analytical work.

- 31. The current account deficit is expected to narrow significantly over the medium term on the back of stronger exports of goods and services, robust tourism receipts, and a lower energy import bill. The current account deficit (including grants) over the medium term (2018–22) is projected to narrow by 0.9 percent of GDP. Exports of goods grew by 3.5 percent in 2018 and expected to grow by 6.5 percent in 2022. Higher growth in exports of goods can be largely attributed to a rebound in exports to Iraq, continued strong garment exports to the United States, and fertilizer exports to India. These growth areas are expected to be offset to some extent by the sluggish exports to the Gulf Cooperation Council, which was the largest export market in the past decade, though it showed an increase of 7.0 percent in the first two months of 2019. Imports, on the other hand, after contracting by almost 1.3 percent in 2018, are projected to grow by 3.8 percent in 2022 as an increase in non-energy related imports will offset the declining energy-related imports and higher domestic energy production over the medium term. Consequently, the trade balance is projected to narrow by about 3 percent of GDP over the medium term. Net private investments—FDI, remittances, and portfolio—over the medium term are projected to rise by 40 percent to around US\$6 billion. External financing needs over the medium term are expected to remain large and a challenge to finance despite higher multilateral inflows, particularly due to the US\$3.25 billion (guaranteed and nonguaranteed) Eurobond repayments coming due.
- 32. Financing gap. Gross financing requirements for the balance of payments are expected to be about 13.4 percent of GDP at end-2019 and are projected to gradually narrow over the medium term to 10.7 percent of GDP by 2022. IMF repurchases and official creditors' amortization are projected to decline from 2.4 percent of GDP in 2018 to 0.8 percent of GDP by 2022. However, Eurobond repayments amounting to US\$3.25 billion over the short and medium term are likely to remain a challenge, including US\$1 billion full repayment due in June 2019. Multilateral and bilateral debt-creating flows and grants are expected to be the main financing sources (see annex 6). The Government will need to continue to access international markets, partly to maintain its presence in these markets and diversify funding sources, and partly to facilitate repayment of Eurobonds in 2019-22.
- 33. Additional fiscal efforts, including measures not yet identified, deliver only modest debt reduction, and the debt trajectory is very fragile. Gradual resumption of GDP growth combined with an improving primary balance (reflecting additional fiscal measures) is expected to gradually improve public debt dynamics over the medium term as the public debt-to-GDP ratio declines from 94.4 percent of GDP in 2018 to 89.2 percent by 2022 (figure 1). This decline over the medium-term hinges on a gradual and steady fiscal consolidation and policies to restore NEPCO's operational balance and stabilize the Water Authority of Jordan's overall deficit. The debt sustainability analysis shows that the debt path is particularly sensitive to a combined macro fiscal shock. Under this shock, the public debt-to-GDP ratio is projected to continue increasing throughout the medium term, reaching as much as 100.9 percent by 2022 (almost 12 percentage points higher than in the baseline scenario). And as long as total interest payments continue to absorb a large share of fiscal revenues, public debt dynamics will remain a source of fiscal vulnerability in the medium term. (Table 4 provides sources and details of donor support. The debt sustainability analysis is discussed further in Annex 6).
- 34. There are significant downside risks to the projected outlook. Jordan remains vulnerable to domestic and external shocks (the reversal of oil prices and the regional security situation). Moreover, the macroeconomic situation is closely tied to that of other countries in the Middle East. So, further deterioration in the fiscal situation of oil-exporting countries can have a significant impact on the flow of remittances, FDI, foreign aid, and exports. Delays in a much-needed structural reforms may set the IMF program off track, weaken growth prospects, and discourage private investment. Moreover, protracted global economic weakness, especially in India, the Middle East, and the United States, could negatively affect exports and remittances.

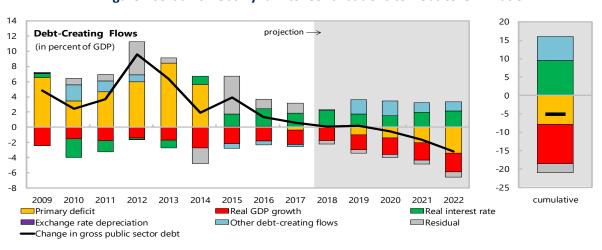


Figure 1 Jordan's Debt Dynamics: Contributions to Debt-to-GDP Ratio

- 35. Mitigation ultimately depends on delivering medium-term structural reforms so that the economy is better able to absorb shocks without triggering fiscal pressures. The Government's fiscal consolidation effort in the past has been a factor for slowing down the rate of increase in debt-to-GDP ratio, but has not been sufficient to put the debt-to-GDP ratio on a downward trajectory as growth has been slowing down in parallel. Moreover, NEPCO imposed an additional debt of 0.7 percent of GDP in 2018. At the policy level, it is critical to set a reform agenda and, in this regard, the Renaissance Plan 2019-20, the enactment of the income tax law, and the 2019 budget law are steps in the right direction. Further and timely policy measures are needed. Over the longer term, implementation of the Government's reform agenda—underpinned by the Five-Year Reform Matrix (see Box 2 on Turning the Corner: Jordan's Path to Growth, February 2019) and Vision 2025 supported by the donor community—remain critical.¹¹
- 36. There are three large sources of risk to the fiscal framework during 2019–20. Further fiscal drain from the energy sector, underperformance on revenue administration, and shortfalls in the prospective financing indicated in the tables. In the financial sustainability plan for the power sector linked to this operation and the IMF program, the Government has committed to avoid NEPCO losses for 2019. The government has suggested measures that can be used to shore up NEPCO finances if losses are materializing. These measures will need regular monitoring to assess their implementation and efficacy, and especially their impact on the overall fiscal framework—for example, if the measures were shifting losses within the framework as opposed to containing overall losses. A rise in the Brent oil price represents a key quantifiable risk in this respect, and an increase in the 2019 price of Brent to US\$75 per barrel would imply that Jordan would need additional revenues and/or cost savings of JD 67 million during 2019. Regarding revenue administration, the government has committed to take revenue measures as needed during the year to meet targets. The challenge with these measures is that they may be incremental and of low quality, meaning one-off actions or actions that over time erode the tax base—for example, amnesties and temporary taxes. The Bank will be engaged in parallel advisory and analytic work in support of public finance, which can inform more sustainable high-quality measures over time. Finally, while Jordan has been the recipient of sizable pledges under the Jordan Compact and the London Initiative, delivery under the Compact has been less than the indicated needs of the Government under the Jordan Response Plan. Intensive efforts continue with development partners to confirm the financing needs calculated for the London Initiative (see annex 8). The primary source of mitigation of this risk under the control of the Government is a "down payment" on reforms that would enhance the credibility of the overall reform effort. The power sector offers the best potential for a high-quality reform signal linked to financing interest of development partners.

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¹¹ https://jordankmportal.com/resources/turning-the-corner-jordans-path-to-growth-london-2019

Table 3 External Financing Requirements and Sources

(In millions of U.S. dollars, unless otherwise indicated)

,	2017	2018	2019	2020	2021	2022
	Act.	Act.	Proj.	Proj.	Proj.	Proj.
Gross Financing Requirements	6,382	5,390	6,331	5,850	4,605	5,526
Current account deficit (excl. grants)	5,404	4,377	4,369	4,011	4,234	4,127
Of which: Energy imports	3,029	3,754	3,527	3,538	3,576	3,644
Amortization of public loans 1/	492	520	545	389	352	374
Amortization of sovereign bonds ^{2/}	0	0	1,000	1,250	0	1,000
IMF repurchases	486	493	417	200	18	24
Gross Financing Sources	4,491	4,916	5,293	6,626	5,976	6,201
FDI, net	2,026	959	1,600	2,034	2,139	2,254
Public grants	1,097	1,404	1,265	1,135	1,024	998
Public sector borrowing	211	105	663	1,733	2,405	1,390
of which: Unidentified prospective financing ^{3/}	0	-101	0	0	1,429	837
Issuance of sovereign bonds ^{2/}	1,500	0	1000	1250	0	1000
GCC deposits at CBJ	0	1,166	0	0	0	0
Non-resident purchases of local debt	-55	-116	0	0	0	0
CBJ other financing (net) ^{4/}	-127	-175	0	0	0	0
Private capital flows, net ^{5/}	-160	1,573	766	474	408	558
Errors and omissions	626	-1283	0	0	0	0
Change in reserves (+ = increase)	-130	-954	1,863	1,046	1,398	702
TOTAL FINANCING NEEDS	1,135	804	2,900	270	26	26
TOTAL PROSPECTIVE FINANCING SOURCES	1,135	804	2,900	270	26	26
Official Financing	1,135	804	2,900	270	26	26
Identified official budget support	664	568	2,378	0	0	0
Jordan Compact off-budget grants	399	236	186	29	26	26
IMF purchases	72	0	336	241	0	0
Memorandum items						
Gross Usable Reserves	14,256	12,513	14,381	15,756	17,468	18,212
In months of prospective imports GNFS ^{6/}	7.5	6.4	7.0	7.4	7.9	8.0

Source: IMF, Jordan's Ministry of Finance and World Bank staff estimates.

^{1/} Includes project loans and Arab Monetary Fund, and excludes IMF repurchases

^{2/} Includes guaranteed and non-guaranteed bonds.

^{3/} Expected to be met with market borrowing and continued external donor support, as per commitments made at the London Initiative.

^{4/} Includes CBJ other accounts receivable/payable (net) minus deposit flows (net) excluding GCC deposits.

^{5/} Includes changes in commercial banks' NFA

^{6/} GNFS: Goods and Non-Factor Services.

Table 4 Official External Financing Sources: Committed and Prospective

(In millions of U.S. dollars, unless otherwise indicated)

	2019	2020	2021	2022
	Proj.	Proj.	Proj.	Proj.
Total Identified External Financing Sources	4,305	2,899	1,846	1,489
Grants ^{1/}	1,265	1,164	968	937
European Union	94	31	22	15
Saudi Arabia (2018 financing package)	50	50	50	50
United Arab Emirates (2018 financing package)	50	50	50	50
United Kingdom	0	65	0	0
United States	765	715	715	715
Canada	20	15	10	4
France	15	15	15	15
Japan	20	20	20	20
EIB	17	17	0	0
Other 2/	234	186	86	68
Loans ^{2/}	3,040	1,735	878	552
Multilateral	1,964	900	165	39
Arab Monetary Fund	100	100	100	0
Islamic Development Bank	26	27	0	0
World Bank, of which:	1,539	539	5	5
Saudi Arabia and UAE loan guarantees	200	200	0	0
UK loan guarantees	250	0	0	0
Arab Fund for Economic and Social Developmer	44	0	0	0
EBRD	141	118	60	34
EIB	114	116	0	0
Bilateral	1,076	835	713	513
European Union	114	116	117	0
France	251	253	253	253
Germany	269	143	143	60
Italy	92	73	0	0
Japan	200	100	100	100
Kuwait	100	100	100	100
Saudi Arabia	25	25	0	0
United Arab Emirates	25	25	0	0
Direct support for Syrian refugees	82	82	76	77

Source: IMF, Ministry of Finance and World Bank staff estimates.

37. The macroeconomic policy framework is assessed to be adequate for the proposed operation given the sizable concessional external financing, the longstanding structural reforms, and implementation of additional measures as described above. Stabilizing and reducing the public debt requires the donor community to unlock much-needed budget grants and concessional financing to support the reforms and Jordan's large financing needs, while reform implementation credibility is in turn needed to unlock grants. The general parameters of adjustment thus require a benign external environment, timely policy actions and their implementation, strong revenue mobilization efforts, containment of NEPCO and WAJ debt, and a revival of exports and private sector confidence.

^{1/} Budget support and off-budget grants

^{2/} Including project loans (off-budget)

38. The proposed operation is part of a broader international effort by the development community to provide concessional and grant financing linked to progress on the Five-Year Reform Matrix. The international community's strong support for the reform program was expressed during the London Initiative held in February 2019. Development partners, including the World Bank and the IMF, and key bilateral partners, UK, EU, among others indicated their willingness to continue to support Jordan based on a solid cooperation mechanism to render the necessary technical and financial resources readily available to enable the reform agenda to materialize. Such cooperation, which is based on burdensharing, is expected to ensure delivery and timely implementation of the reform agenda and coordination of economic development efforts, to put the debt track firmly back on a sustainable trajectory. Annex 8 provides an indication of how the cooperation mechanism is developing.

2.3. IMF RELATIONS

- 39. In August 2016, the IMF's Executive Board approved an arrangement under the Extended Fund Facility (EFF) program for Jordan in the amount of US\$723 million. The three-year EFF program was launched to support the country's economic and financial reform program through advancing fiscal consolidation aimed at reducing the public debt to safer levels and expanding structural reforms that will lead to more inclusive growth. The program was designed to ensure that Jordan receives the necessary resources to cut back the debt-to-GDP ratio toward a target of 77 percent by 2022. The program's main pillars include broadening the tax base; addressing tax incentives, income taxation, and tax administration; and monitoring growth in spending. Of the total program amount of US\$723 million at the time of approval, the EFF has made available about US\$140 million following the completion of the first review (2017).
- 40. The IMF concluded the second review of the EFF on May 6, 2019. During the IMF review mission in January 2019, IMF staff and the Government reached agreement on policies to conclude the second review. The London Conference on February 28, 2019, provided considerable support, but external financing needs remained. The IMF and development partners worked subsequently to reduce the external financing needs. The power sector financial sustainability plan supported by the proposed DPF2 and discussed further below, is assessed to provide the remaining assurances.

3. GOVERNMENT PROGRAM

41. The new Government headed by Prime Minister Omar Razzaz was sworn in on June 14, 2018, with a mandate to stimulate inclusive growth, create jobs, increase investment, develop an efficient government, and bring the country together around a fair and just tax system. Over the past twelve months, the new Government demonstrated its commitment to undertake private sector enabling and labor market reforms—especially enabling female participation in the labor force—as well as fiscal consolidation with due consideration to social impacts. In close collaboration with the World Bank and the international donor community, the Government strengthened and deepened the Five-Year Reform Matrix which started in early 2018 and which prioritizes reforms critical to transforming the course of the economy toward inclusive and sustainable growth (Box 2).

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¹² Table 4 gives committed and prospective sources of finance.

Box 2 Turning the Corner: Jordan's Path to Growth (a.k.a. Five-Year Reform Matrix)

Over the past 12 months, the Government of Jordan, in collaboration with the World Bank and other development partners, developed a five-year reform matrix that prioritizes policy and institutional reforms considered critical to transforming the course of the economy toward inclusive and sustainable growth. This reform agenda was formally launched in London in February 2019 at a conference co-hosted by the Government of Jordan and the UK Government aimed at galvanizing support for Jordan under its "Open for Business" agenda. The conference was attended by all the major donors, including the World Bank, IMF, and major bilateral partners—the United States, United Kingdom, and Saudi Arabia—and had strong representation from private sector company leaders. The King of Jordan inaugurated the conference.

The reform agenda presented by the Government of Jordan in London, broadly known as the Five-Year Reform Matrix, includes a set of cross-cutting (horizontal) reforms and sectoral (vertical) policy reforms prioritized and sequenced over the next five years to deliver on the Government's, jobs, youth, and growth agenda. These medium-term reforms aim to make the economy more efficient and reorient it toward export-led growth by creating a better business and investment environment. The agenda is to send a strong message to the private sector that "Jordan is open for business." Vertical (or sectoral) reforms include macroeconomic adjustment, reduction in business costs, increased competition, flexibility in labor markets, development of exports, and deeper access to finance, accompanied by expanding and targeting social safety nets. Key growth-enabling reforms include investment climate reforms and reforms to strengthen the business environment, which focus on reducing the cost of starting and operating a business, increasing the predictability of regulations, supporting the digital economy, and further liberalizing the foreign investment regime. Cross-cutting (or horizontal) reforms to improve critical enablers include comprehensive reforms in the energy, transportation, and water sectors.

The Government has been eager to embark on this reform agenda and to deliver early to show a strong implementation effort and ownership. Consequently, some of the key reform initiatives have already been completed, including the removal of equity restrictions on FDI in 22 additional activities (mainly in services) out of 51 listed in the negative list; enactment of a new Customs Law and Bylaws permitting the establishment of a single window procedures; enactment of a consolidated legal framework for public procurement through a new public procurement bylaw; a new income tax law, insolvency law (and bylaw), and secured transaction law (to improve small and medium enterprises' access to finance); establishment of a national export promotion agency 'Enterprise Jordan' following a partnership model between the public and private sectors; authorization to lease out the National Broadband Network (NBN) through a PPP setup; development of National Financial Inclusion Strategy (2018–20); and issuance of a regulatory predictability framework to improve the process of issuing businesses regulations. Moreover, to address labor market gender segmentation, laws, bylaws, and instructions that eliminate references to gender and bans on women working in certain occupations have been put in place. Steps have also been taken to improve the social safety net to protect the poor, including expanding National Aid Fund (NAF) coverage.

- 42. The Government has also identified a two-year work plan, Renaissance Plan (2019–20), launched in November 2018, complementing the 2019–20 economic reforms of the Five-Year Reform Matrix with governance and social reforms. The Renaissance Plan was developed in response to the county's urgent need for economic revival. The plan complements the economic reforms of the Five-Year Reform Matrix with reforms to strengthen the state of the law and social coherence. It includes enhanced focus on anti-corruption and transparency, with specific cases being pursued. The Renaissance Plan is in line with the country's ten-year vision—Jordan 2025: A National Vision and Strategy—which was developed in 2014.
- 43. In light of the challenges posed by the energy sector, the Government has recently approved a Roadmap for Financial Sustainability of the Electricity Sector. The roadmap is launched with the DPF and implemented will be

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¹³ https://www.londonjordan.co.uk/londonjordan/contenttabs/?ctid=2782

supported with subsequent technical and financial support from the World Bank and other development partners. An overarching goal of the roadmap, in the short term, will be to ensure the financial sustainability of NEPCO. Additional goals are to reduce costs, optimize NEPCO debt (find ways to lengthen maturity by drawing in concessional financing) to ensure debt service is covered by tariffs, and strengthen regulatory governance.

44. The Government has been coordinating closely with development partners on the reform priorities with a view to strengthening implementation. Accordingly, a new multi-donor trust fund with seed funding of about US\$18.5 million over five years from the United Kingdom was established to support the reforms. Furthermore, development partners continue to support Jordan toward stimulating economic growth and accomplishing its development efforts—through several agreements (e.g. with USAID) to address vital sectors such as education, water security, transport, public financial management, and market competitiveness, as well as grant contributions from the EU for public financial management and the transport sector, Germany for water, transport and agriculture sectors, Canada for gender-related initiatives, France for transport and urban development, Japan for policy reforms supported by the DPF series, as well as other development initiatives funded by Sweden and the Netherlands.

4. PROPOSED OPERATION

- 45. The proposed operation directly supports the Government's goals of stimulating inclusive growth and creating jobs. As part of its mandate to maintain macroeconomic stability, the Government is also putting energy sector sustainability as a key goal. The following sections provide a detailed description of the reform implementation progress since the approval of DPF1, identify the prior actions, and outline the rationale and expected results of the policy actions supported by the proposed DPF2.
- 46. The proposed operation is designed in two tranches to support the Government's reform efforts with completion of an initial set of prior actions, and to allow adequate time for completion of necessary additional reforms that are central to the achievement of the program results. For the first tranche release, prior actions including FDI, licensing, public procurement, digital economy, social protection, labor and gender, fiscal revenues and climate change, are expected to boost confidence and to serve Jordan well when it chooses to seek market financing. The additional reforms under the second tranche release conditions (investor grievance redress mechanism, energy, social assistance targeting to support energy reforms and PPPs) are an integral part of the reform program, as they have the Government's full commitment with upfront actions (Cabinet Decisions about the exact nature and purpose of each second tranche release condition) but overall, need about six more months to completion. The energy reforms have been identified especially for maintaining macroeconomic stability, given the need to achieve a zero operating balance for NEPCO for the full 2019, which means tight monitoring will be needed over Q2 and Q3 of 2019.

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION

- 47. The DPF program is closely linked to the Government's priorities as reflected in the Five-Year Reform Matrix. The years 2019 and 2020 of the Five-Year Reform Matrix set out priorities on which DPF2 is designed. Government's key cross-cutting objectives under the matrix are to (1) maintain macroeconomic stability and to manage fiscal risks, (2) reduce business costs, improve regulatory quality, and increase competition (3) create investment and export opportunities, (4) deepen access to finance, (5) create more flexible labor markets and increase female labor force participation, and (6) strengthen social protection.
- 48. **On the first objective**, while a top priority was working with Parliament to pass the new income tax law, the new Government is also seeking to limit fiscal risks by eliminating the exemptions to the PPP law (as part of DPF2) and passed a new debt management strategy (a DPF2 trigger that has been fully met). In addition, the Government adopted the

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energy roadmap (presented in pillar III), which sets it as a first priority to attain a zero operating balance for NEPCO in 2019.

Jordan Second Equitable Growth and Job Creation Programmatic Development Policy Financing (P168130)

- 49. On the second objective, the Five-Year Reform Matrix also assigns high priority to reducing business costs, improving regulatory quality, and increasing competition. For 2019 and 2020, the Government is building ownership of licensing reform based on technical assistance provided by the International Finance Corporation and taking the important initial act of abolishing the Crafts and Industries Law (1953), which permits municipalities to issue duplicative health licenses for all establishments. A critical part of the Government's licensing program is to amend sectoral legislation and regulations so reduced licensing requirements are translated into lower direct and indirect costs for businesses.
- 50. On the third objective, the new Government has set forth a package of reforms that includes liberalizing FDI to bring in new private investment and overhauling public procurement to ensure across the board access to bid on public projects as well as efficiencies in public spending. To develop exports, the Government is moving to put the private sector in the lead by establishing "Enterprise Jordan" as the lead agency to promote exports and support exporters. Jordan Customs is overhauling legislation to implement a national single window, whose implementation is being tested. Jordan is also undertaking a new project with the European Union to improve national infrastructure.
- 51. On the fourth objective, the Government is focusing mainly on the implementation of the bylaws for insolvency and secured transactions.
- 52. On the fifth objective, the Government has taken steps to improve opportunities for young people and women, introduce more flexibility into the labor market, and improve the social safety net. New legislation was approved to promote and regulate flexible work (part-time work) with hourly minimum wage rates to encourage employment of women and youth. Reforms are providing childcare and facilitating licensing for establishing childcare establishments. The new Labor Law makes it mandatory for all establishments with more than 20 parents (not just mothers) to have childcare on their premises or to provide vouchers for private childcare. The Ministry of Labor has conducted a thorough assessment of its laws, bylaws, and instructions and eliminated references to gender, including instructions related to banning women from working in certain occupations and on night shifts. In addition, the Ministries of Transport and Labor have respectively adopted codes of conduct to address harassment in the public transport system and workplace.
- On the sixth objective, to promote more inclusive growth and reduce the impact of certain fiscal reforms, the Government expanded and improved the social safety net to better protect the less privileged and to facilitate their transition out of poverty. The reform accomplishes efficiency through digital payment systems and through better targeting of households that may be affected by possible changes to energy tariffs.
- Lessons on operational links with the Government have emerged. The most relevant lessons come from the first Equitable Growth and Job Creation DPF and the 2017 Implementation Completion and Results Report (ICR) 14 for the previous DPF series (2012-2015 for a total of \$500 million), as well as from consultations with stakeholders and development partners. The project preparation also benefitted from the lessons in the 2018 ICR¹⁵ for the Programmatic Energy and Water DPF series (2015-17 for a total of \$500 million). A recently completed internal review also directly informed the design of the second operation. Key lessons include:
- Maintaining close engagement and coordination with various Government constituents. These include the Prime Minister, the Minister of Planning and International Cooperation, the Secretaries General of the key line ministries, and other key determinants of ownership of the program.

¹⁴ Report No: ICR00004058, ICR for (IBRD-81270), April 28, 2017.

¹⁵ Report No: ICR00004657, ICR for (IBRD-85300), December 31, 2018.

- Strengthening inter-ministerial and interagency coordination for reform implementation. Operations must build the capacity and core functions of the center of the Government to enforce policy decisions and track reform implementation down the delivery chain. Further, operations must improve the quality of the legal framework—its vertical and horizontal policy consistency and stability over time.
- Fostering stakeholder cooperation with the Government and stakeholder support for its reform agenda. Operations must leverage existing accountability and transparency institutions and mechanisms to build popular trust in Government and broaden popular support for its reform agenda. They must also increase Government capacity for strategic communication and public consultation to build reform coalitions and sustain endogenous reform momentum. Operations design should factor in the social and geographical distributional impact and effectiveness of implementing reform and promote problem-driven and iterative adaptation.
- Sustaining collaboration between the World Bank, International Finance Corporation, and Multilateral Investment Guarantee Agency. Operations must maintain the flexibility to adjust triggers (and results) to best achieve the program development objective, supervising the response rigorously, and identifying a clear implementation strategy have also been incorporated in the design of this second operation.
- The proposed DPF2 builds on a wealth of analytical work by the World Bank Group and development partners. The analytical basis includes "Jordan Systematic Country Diagnostic: Promoting Poverty Reduction and Shared Prosperity" (2016) and "Jordan Development Policy Review: Policies for High and Sustained Growth and Job Creation" (2012), which remain highly relevant today. Country team knowledge is fundamental. Three 2019 analyses—"Jordan Jobs Diagnostic," "Jordan: Elements of a Growth Strategy" (Center for International Development—Harvard), and a review of implementation challenges of past reform efforts—have also proved valuable. For the Government to achieve its development objective—for a more diversified and resilient economy—it needs to achieve productivity gains by introducing cost reductions across the board and by reducing inefficiencies, according to the World Bank assessment. Critical areas identified in "Jordan Vision 2025," but perhaps not emphasized enough, are: (1) the quality of fiscal adjustment and reform management; (2) poor predictability and implementation of business environment reforms, including support for developing exports; (3) access to finance, especially for smaller and medium-size companies; (4) greater flexibility in the labor market; and (5) a more efficient social assistance mechanism.

4.2. PRIOR ACTIONS, RESULTS, AND ANALYTICAL UNDERPINNINGS

- The proposed DPF2 is structured around three pillars or objectives aimed at setting the foundations for higher growth: (1) reducing business costs and improving market accessibility, (2) creating more flexible and integrated labor markets and providing better and more efficient social assistance, and (3) improving fiscal sustainability and taking more informed decisions regarding risk. DPF2 includes 14 policy actions (7 prior actions for the first tranche and 7 second tranche release conditions). The following sections provide a detailed description of the reform implementation progress since the approval of the DPF1 and outline the rationale and expected results of the policy actions supported by the proposed DPF2.
- 57. In the lead up, the Government enacted reforms in several areas, and progress has been made beyond the DPF2 prior actions.

Progress on reforms related to Pillar I (outside of the policy matrix) includes:

- Cabinet approval of bylaws for the monitoring and inspections law.
- Cabinet approval of bylaw for insolvency law.
- Cabinet approval of bylaws for a secured transactions law.

- Cabinet approval to eliminate duplicative sectoral licenses not required by law.
- A revised customs law approved by Parliament (establishing key elements of National Single Window).
- Establishment of a public-private export promotion company, Enterprise Jordan.
- Decisions to digitize Government payments for the bread subsidy, healthcare, and transportation.
- Adoption and implementation of the e-procurement system.

Progress on reforms related to Pillar II (outside of the policy matrix) includes:

- Adoption of an anti-harassment code of conduct for public transportation as part of an effort to remove one of the critical challenges facing women who work or want to work.
- Adoption of an anti-harassment code of conduct for the workplace.
- Cabinet approval of bylaws to ease registration and licensing for investment in and operation of nurseries.
- Parliamentary approval of an amendment to the labor law facilitating the opening of childcare services.
- A cabinet decision permitting Syrian refugees to open home-based businesses.
- Steady progress toward completion of National Aid Fund (NAF) graduation policy and implementation.
- A National Unified Registry for social assistance.

Progress on reforms related to Pillar III (outside of the policy matrix) includes:

- Income tax law of 2018.
- Completion of the Debt Management Strategy 2019-23.
- Although several of the DPF2 indicative triggers (identified at the time of DPF1 approval) have been achieved, some will need more time due to delays in making decisions across ministries and agencies or due to capacity needs. Delays have affected a broad licensing reform, national quality infrastructure (NQI), freight transport, and the relaxation of quotas for foreign labor. The multi-donor trust fund, launched with initial support from the UK Department of International Development (DFID), is now in place to finance technical assistance to the Government in the areas where delays have been experienced, and EU funding is in place to support the NQI agenda. At the same time, as discussed below, preparation of the DPF2 created the opportunity to advance other macro critical reforms.
- The proposed DPF2 builds on and deepens the policy reforms supported under the first DPF, while focusing on actions critical for macroeconomic reforms. The reforms should help support private sector—led growth, reform Jordan's energy sector, which is a source of significant fiscal risks, and improve debt management. The Government has set it as a priority to maintain gradual fiscal consolidation with the support of the IMF. With the World Bank support through the DPF2 the Government is seeking to: (1) improve the business environment, (2) initiate energy sector reforms to stem the fiscal leakages that emerged in 2018, and (3) improve debt management and contain fiscal risks. To this end, fiscal policies for 2019 have been agreed with the IMF, a reform agenda is being prioritized with a view to attracting foreign direct investment (FDI), a critical trade and investment agreement has been reached with Iraq, and a public procurement reform program has been advanced. The prior actions and second tranche release conditions of the proposed DPF2 were selected based on their critical importance for achieving the objectives set forth by the Government (table 5). The second tranche release conditions serve to support the fulfillment of macro reforms in FDI, energy, social assistance targeting to support energy reforms and PPPs, that are an integral part of the reform program, and to which Government is committing with upfront Cabinet Decisions about the exact nature and purpose of each second tranche release condition,

but where the actions themselves need more time to be delivered. Annex 8 presents implementation arrangements for the reform program and for tranche 2 release conditions. These reforms are expected to support the results agreed to in the DPF policy matrix.

Table 5 Status of DPF2 Triggers and Proposed Changes

Trigger for DPF2 at Board approval of DPF1	Changes in trigger, if any	Prior actions and tranche release conditions for DPF2		
PILLAR 1: Reducing business costs and improving market accessibility				
		markets and licensing: With the view to (a) open sectors important in Jordan's key value chains, the COM has amended, through Investment Bylaw No. 80, published in the Official Gazette No. 5573 on May 16, 2019, Non-Jordanian Investments Bylaw No. 77-2016 to: (i) fully liberalize (100 percent foreign ownership allowed) 22 of 51 activities and services; and (ii) provide that foreign ownership in any activity or sector not on the negative list (as published in the Non-		
Trigger 1a: The Ministry of Industry, Trade, and Supply implemented reforms to the business inspection and monitoring framework by Council of Ministers approval of the Bylaws of the Monitoring and Inspection Law.	Trigger 1a achieved: The Council of Ministers approved the Four Bylaws of the Monitoring and Inspection Law in October 2018. Although achieved, the trigger is removed from the DPF2 matrix to create space for new macro critical priorities.	Jordanian Investments Bylaw) is permitted without restriction; and (b) modernize and simplify the licensing requirements for businesses, the COM has submitted to the Parliament a law abolishing Crafts and Industries Law (1953). DPF2 Tranche 2 Release Condition 1–FDI Retaining and expanding investments:		
Trigger 1b: The Borrower reduced the burden on businesses by implementing business regulatory reform measures such as streamlining key sectoral license(s).	Trigger 1b reformulated to reflect more accurately the reform focus: A considerable amount of technical work was completed to prepare the licensing reform. As a next step, the Government is removing duplicative health licenses stipulated in the Crafts and Industries Law.	The COM has approved an investor grievance mechanism that enables the Jordan Investment Commission to		
Trigger 2: The Borrower's Council of Ministers approved a Plan and implemented actions to reform and improve Jordan's National Quality Infrastructure (NQI) institutions to eliminate internal conflicts of interest, increase transparency and predictability	Trigger and associated results 2 dropped from the DPF2 matrix to create space for new macro critical priorities. The Government continues to be fully committed to the reform, funding has been secured, and project design has			

Trigger for DPF2 at Board approval of DPF1	Changes in trigger, if any	Prior actions and tranche release conditions for DPF2
of the process for adopting mandatory requirements, and to provide a full range of NQI services to Jordanian customers—conformity assessment, metrology, and surveillance.	started.	
Trigger 3: The Borrower implemented actions that reduce market distortion and define an incentive mechanism to reduce, renew, or consolidate the truck fleet to enhance the efficiency of cargo transport for containers on the Aqaba–Amman corridor.	Trigger 3 dropped. More technical work and consultations need to be undertaken by the Government in preparing the reform.	
Trigger 4a: The Borrower adopted the Bylaws for Insolvency, approved by the Council of Ministers. Trigger 4b: The Borrower adopted the Bylaws, approved by the Council of Ministers, for the Secured Transaction Law.	Trigger 4a achieved. The Council of Ministers adopted the Bylaw No. 8 for the Insolvency Law, published in the Official Gazette No. 5561 on February 17, 2019. Although achieved, the trigger is removed from the DPF2 matrix to create space for new macro critical priorities.	
	Trigger 4b achieved: The Council of Ministers adopted the Bylaws No. 125 for the Secured Transaction Law, published in the official Gazette No. 5544 on November 1, 2018. Although achieved, the trigger is removed from the DPF2 matrix to create space for new macro critical priorities.	
	New priority area	DPF2 Prior action 2—Procurement: The COM has enacted a consolidated legal framework for public procurement (applicable also to SOEs) through the issuance of a new Bylaw No. 28 as published in the Official Gazette on May 1, 2019, (containing provisions for framework agreements, e-Government procurement, independent review of bidder complaints, and establishment of an oversight and policy unit) consistent with international good practices.
	New priority area	DPF2 Prior action 3-Broadband: The COM has adopted a decision No. 11/3/1/127 dated January 1, 2019, authorizing the Ministry of Information

Trigger for DPF2 at Board approval of DPF1	Changes in trigger, if any	Prior actions and tranche release conditions for DPF2
		and Communications Technology to enter into agreements with private sector to lease excess capacity of the national broadband network, based on a PPP model.
Trigger 5: The Borrower rebalanced electricity tariffs to address grid subsidy for self-generation and to reduce the cross-subsidy burden, consistent with the targeted values of the indices for grid subsidy for self-generation and tariff cross-subsidy in the roadmap.	This reform area has been moved to pillar 3, given the recent developments in the sector and impact of the supported reforms on fiscal sustainability and the management of fiscal risks.	
Pillar 2: Creating more flexible and integra	ated labor markets and providing bett	er and more efficient social assistance
Trigger 6a: The Borrower's Ministry of Labor reduced the number of sectors with quotas that limit foreign employment.	Trigger 6a dropped. More technical work and consultations need to be undertaken by the Government in preparation for the reform.	
Trigger 6b: Based on the results of the review of the legal framework, amendments to the legal framework were adopted to reduce labor segmentation.	Trigger 6b reformulated to reflect more accurately the reform focus on gender segmentation: Ministry of Labor finalized the review to identify regulations in the Labor Code and the Social Security Corporation Law that promote gender segmentation. As a next step, the Government is amending regulations to remove gender restrictions.	DPF2 Prior action 4—Gender and high skilled labor: The MoL has through its decisions (a) No. 2/2018 dated December 30, 2018, amended the 2010 Decision for Article 69 of the Labor Code by removing all restrictions on the types of jobs and hours women are allowed to work; and (b) No. 3/2018 dated December 30,
Trigger 7: The Borrower amended the Social Security Law of 2014 for compulsory employer and part-time employee contributions to Social Security.	Trigger 7 dropped: The Government has identified the possible need for legal changes to the Social Security Corporation Law to address gender differences and prefers to do this through omnibus legislation that address several changes to the law at once.	
Trigger 8a: The Borrower's Ministry of Labor issued a decree introducing flexible work permits for Syrians to work in the manufacturing and the services sectors in occupations that are already open to Syrians.	Trigger 8a dropped from the DPF2 matrix to create space for new macro critical priorities. Government support for Syrian refugees continued and expanded as illustrated below under Pillar 2.	

Trigger for DPF2 at Board approval of DPF1	Changes in trigger, if any	Prior actions and tranche release conditions for DPF2
Trigger 8b: The Borrower issued a waiver to fees for work permits for Syrian workers for 2019.	Trigger 8b achieved: The Government issued a waiver to fees for work permits for Syrian workers for 2019. Although achieved, the trigger is removed from the DPF2 matrix to create space for new macro critical priorities.	
Trigger 9: The NAF Board approved the graduation strategy for NAF beneficiaries.	Trigger 9 dropped: The NAF Board is expected to approve the graduation strategy for NAF beneficiaries by end of 2019.	payments: The Borrower's Council of Ministers has approved—through Decision No. 56/10/6/1440, dated January 16, 2019—the digitization of payments to new NAF beneficiaries through e-wallet and bank accounts.
	New priority area on better targeting of electricity support benefits.	DPF2 Tranche 2 release condition 2— targeting: The Borrower's Council of Ministers has approved a targeting mechanism for delivering electricity support benefits that will help in providing social protection to the poor.
Pillar 3: Improving fiscal sustainability and	d taking more informed decisions rego	arding risk
Trigger 10: The Borrower raised domestic tax revenues in the 2019 Budget Law through implementing income tax reform following national consultation and further reducing tax exemptions and preferential rates in the general sales tax and special sales taxes.	Trigger 6b reformulated to reflect more accurately the 2019 revenues efforts.	DPF2 Prior action 6 -Revenue mobilization: The Borrower raised domestic revenues in the 2019 Budget Law through (a) implementation of income tax reform; (b) revisions to the general sales tax and its administration; and (c) increases in customs revenues and nontax revenue.
Trigger 11: The Borrower issued a debt management strategy that includes policies related to monitoring and managing contingent liabilities, including those related to the electricity and water sectors, and to public–private partnerships.	Triggers revised to reflect the recent reforms with a strengthened focus on managing fiscal risks and contingent liabilities in the electricity and water sectors. The debt management strategy was prepared by the Borrower.	DPF2 Tranche 2 Release Condition 3: The COM has approved the "Roadmap for Financial Sustainability of the Electricity Sector," and EMRC has conducted Quarterly Tariff Reviews at the end of Quarter-2 and Quarter-3 of 2019 consistent with the financial model adopted by the EMRC.
Trigger 5: The Borrower rebalanced electricity tariffs to address grid subsidy for self-generation and to reduce the cross-subsidy burden, consistent with the targeted values of the indices for grid	The Government has now embarked on a multiyear financial sustainability roadmap for the electricity sector, which will be supported across both tranches of	DPF2 Tranche 2 Release Condition 4: The COM has adopted the "Electricity Bill Recovery Mechanism" to achieve reduction in distribution companies'

Trigger for DPF2 at Board approval of DPF1	Changes in trigger, if any	Prior actions and tranche release conditions for DPF2
subsidy for self-generation and tariff cross-subsidy in the roadmap.	the proposed DPF2. The Government has also approved the revisions to the public–private partnership law in April 2019 that include a commitment to discontinue exemptions related to the electricity and water sectors. The DPF2 will support the submission of the revised PPP law to the Parliament.	receivables from electricity bills of the public sector. DPF2 Tranche 2 Release Condition 5: The COM has approved the NEPCO debt optimization implementation plan. DPF2 Tranche 2 Release Condition 6: MEMR submitted to the Council of Ministers the results of a review of the power purchase agreements and other related agreements for significant power generation projects.
		DPF2 Tranche 2 Release Condition 7: The COM has submitted a revised PPP Law to the Parliament, (a) reflecting modifications provided by Cabinet Decision No. 56/10/6/17135 dated April 18, 2019; and (b) reinforcing provisions on government controls of fiscal risks and contingent liabilities as contained in PPP Law No. 31 (2014).
	New priority area	Borrower's Council of Ministers approved the Climate Change Bylaw No. 79, published in the Official Gazette No. 5573 on May 16, 2019, to continue low-carbon transition and climate-resilient growth of the economy.

Pillar 1 Reducing business costs and improving market accessibility

- 60. **Pillar 1 supports a set of reforms that position Jordan as Open for Business.** The reforms are expected to contribute to private sector investment, growth, and job creation by cutting down regulatory complexity, reducing business costs, reducing barriers to entry and investment, improving access to finance, and promoting exports. The reforms are expected to send positive signals to domestic and foreign investors and aim to encourage investment and create an environment conducive to business growth.
- 61. The proposed operation strengthens Pillar 1 and builds further actions onto this reform platform. Consistent with the goal of reducing business costs and increasing market accessibility, the proposed operation strengthens sectoral licensing reforms, introduces an FDI liberalization reform, launches a fundamental energy reform, and introduces a digital reform agenda to open opportunities for investment in the digital economy.

Promoting foreign direct Investment and reducing unnecessary license and inspections costs

Foreign direct investment

- 62. Jordan has been selectively open to foreign direct investment (FDI), in sectors such as mining, manufacturing, energy, tourism and ICT, and has policies and institutions that support entry of foreign investors. Peak FDI inflows reached 24 percent of GDP in 2007; much of that investment went to real estate. In 2018, FDI counted for about 3 percent of GDP; it covers mining (phosphates and potash), garments, construction, manufacturing and energy sectors. Jordan can attract FDI in the services sectors, which would improve their efficiency, increase jobs and wages, and spur growth, but it restricts foreign investment.
- Although in 2016 an amendment to the Investment Law's Regulation for Non-Jordanian Investors (Regulation No. 77-2016)¹⁶ removed some of the existing restrictions on non-Jordanians fully owning companies in certain sectors, many service sectors remain partly off limits to foreign investors, restraining potential economy-wide productivity gains. Despite some reforms implemented in 2016, Jordan remains among the most restrictive countries covered by the OECD FDI Regulatory Restrictiveness Index. The current negative list covers a seemingly random mix of service activities, mainly security-related, business services and transportation and transport services (air, maritime, and road). Some of these service activities are typically small and medium enterprise activities. Some are attractive for FDI, others are not. Comparatively, restrictions in Jordan are greater in the transport, media, and real-estate sectors, which are often deemed strategic. Jordan also maintains restrictions in other sectors such as construction and business services. It has also maintained FDI restrictions in wholesale, retail, and distribution activities, which elsewhere is typically open to FDI. These restrictions may have increased service input costs for economic activities and reduced their productivity.
- A new opening for FDI should strategically target the services sectors, the best opportunity for turning Jordan's economy toward stronger growth and creating high-paying jobs for skilled Jordanians. Jordan Vision 2025 focuses on services clusters such as engineering, construction, tourism, information technology, health and wellness tourism, and professional services. The services sector offers substantial export potential, since there is room to increase exports of high value-added services where Jordan can capitalize on its skilled workforce. A recent study of growth potential underscores the key opportunities that can be exploited in the services sector.¹⁷ On top of that, services are important as inputs for all domestic sectors—Jordan's services sector contributes about 66 percent of the total domestic value added in the economy. To maximize the role of the services sector in transforming the Jordanian economy, it is necessary to review and liberalize the entry regime for FDI in key services sectors and activities.
- 65. Under DPF2, the Government seeks to further amend the Investment Law's Regulation for Non-Jordanian Investors (Regulation No. 77-2016) to remove equity restrictions on FDI in additional sectors (mainly in services) to unlock growth, create jobs, and support export diversification. Of the 51 items under Regulation No. 77-2016 that permit up to but not equal to 50 percent foreign equity ownership, 22 activities and services will be fully liberalized (100 percent foreign ownership allowed). They encompass renting and leasing activities, business services (such as tourism-related services), some transport auxiliary services in maritime, road, and air transport, and warehousing and storage services. The Government also streamlined the restricted list to only one category (up to but not equal to 50 percent) to

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¹⁶ On 16 June 2016, Regulation No. 77 of 2016 governing non-Jordanian Investments was published in the *Official Gazette*, replacing the previous regulation No. 47 of 2000. The new regulation changed foreign ownership restrictions sectors. In several industries, the non-Jordanian investor's participation limit was reduced from 50 percent to 49 percent (for example, road maintenance). Other industries, in which full ownership by a non-Jordanian investor had previously been prohibited, were removed from the restriction list (for example, railway services). The new regulation also identified certain industries that non-Jordanians are prohibited from participating in (such as security services). In addition, it removed the requirement of a minimum capital contribution of JD 50,000 for non-Jordanian investors.

¹⁷ Hausmann, R., et al., 2019. Jordan: The Elements of a Growth Strategy. Copy at http://www.tinyurl.com/y6orqf8n

Jordan Second Equitable Growth and Job Creation Programmatic Development Policy Financing (P168130)

eliminate any confusion to investors. ¹⁸ The reform partly opens the economy for FDIs that have strong potential impact on the economy by spurring growth and creating high-paying jobs for skilled Jordanians. The liberalization will transfer new technologies to the local market, increase the quality of Jordanian goods and services, and strengthen linkages with local businesses.

- 66. In a gradual liberalization, Jordan is leaving several sectors restricted to less than 50 percent foreign ownership of new investments. Since liberalization brings overall economic benefits but may disadvantage specific groups or individuals, it is important to mitigate potential impacts through gradual liberalization, strengthening competent authorities to ensure a level playing field. Even with the liberalization under DPF2, there remains a list of:
 - Nine activities and services prohibited to foreign investors, mostly related to security services and activities reserved to citizens.
 - Twenty activities and services that will continue to be restricted to up to but not equal to 50 percent foreign equity ownership.¹⁹
- 67. The gradual approach seeks to protect Jordanian-owned small and medium enterprises from rapid changes in the competitive environment, taking into consideration the geopolitical context, which resulted in economic and social challenges for Jordan. To attract strategic investment opportunities in economic activities that are not fully liberalized yet, the amended Bylaw specifies the conditions in which 100 percent foreign ownership is allowed: acquisition of existing Jordanian businesses, investments outside the capital, and projects determined to be of economic importance to Jordan following specific criteria.
- 68. The Government seeks to develop an investor grievance mechanism to provide a minimum institutional infrastructure that would enable the Jordan Investment Commission to identify, track, manage, and solve grievances arising between investors and public agencies as early as possible. To address inconsistent implementation of laws and regulations and arbitrary or sudden regulatory changes and actions, a grievance mechanism would help ensure that the Government responds to investor grievances in line with the country's international investment agreements and domestic laws and regulations.²⁰

Licensing

69. Licensing, permitting, and inspection regimes increase costs and complexity for doing business. Businesses are subject to a complex system of vocational and sectoral licensing and a duplicative and inefficient inspection regime. The licensing regime is an excessive regulatory burden for business startup, operations, and expansion and has been identified as a priority area for improving the investment climate and the overall competitiveness. Once a business is established, the inspection regime continues to increase business costs and uncertainty. The Government is committed to making progress on this agenda, as evidenced by its actions in DPF1 and policy actions under this operation, as well as its adoption of a broader reform agenda around the Investor's Journey (a program that seeks to prioritize the multitude of business environment reforms from the perspective of the investor), the adoption of a sectoral licenses reform policy in December 2018 that suggests a multiyear reform plan, a recent initiative of the Ministry of Industry, Trade, and Supply

¹⁸ The current Regulation No. 77 of 2016 has two categories for restricted activities (foreign equity restriction): no more than 49 percent and no more than 50 percent.

¹⁹ There are nine prohibited or closed activities and services and 38 restricted activities and services in the current negative list (Regulation No. 77 of 2016), with a total of 47 activities and services. With the reform, the total number is slightly different (at 51 activities and services) because of more specific definition in four activities and services.

²⁰ A study by the WBG of lost investors in 2017 identified discriminatory and less favorable treatment of foreign investors, excessive bureaucracy and unclear regulation and lack of regulatory predictability as among key issues cited by lost investors surveyed.

to digitize business registration, and the efforts of the Greater Amman Municipality to simplify vocational licensing, among others.

- 70. **Jordan made progress after approval of the DPF1**. Following enactment of the Monitoring and Inspection Law (September 2017)—the DPF1 prior action, it was envisioned that the bylaws of the inspections law would be approved by the Council of Ministers and that a regulatory reform would take place, including streamlining sectoral licenses. To date, on the inspections side, the bylaw was approved by the Council of Ministers (October 2018), the Secretariat for the Higher Committee for Inspection Reform at the Ministry of Industry, Trade, and Supplies (MoITS) was established (March 2019), and tools for private sector complaints and appeals and feedback loops are operational. On the regulatory and licensing side, the Council of Ministers adopted the Code of Governance Practices of Policies and Legislative Instruments in Government Departments (April 2018) and the Licensing Reform Policy (December 2018).
- 71. A comprehensive assessment has been completed for the next phase of licensing reform. Reforming the sectoral licensing regime is complex and heavily dependent on strong political will in the Government, which is manifested in the Council of Ministers' decision to adopt a Policy Paper on the reform of business licenses in accordance with good practices (January 2019), buy-in and commitment of the sectoral agencies involved, and sound collaboration and coordination among stakeholders and the private sector. The WBG, through the Jordan Economic Legislations Review (JELR), provided a comprehensive legal and institutional assessment for the licensing regime in Jordan, which included vocational/municipal, environmental, and sectoral licensing, and developed a roadmap for initiating the sectoral licensing reform.
- The proposed DPF2 operation supports further improvements in the business environment by tackling the business licensing regime. Challenges in the business licensing regime include a tendency toward overregulation through multiple layers of formalities to regulate businesses, a lack of coordination among regulators, an absence of integrated systems, and a complexity of procedures. The Crafts and Industries Law of 1953, which has broad applicability across firms, conflates the roles and mandates of the municipalities, the Ministry of Health, and the Ministry of Interior by giving all of them the authority to regulate and inspect businesses, which overlaps further with the mandates of more recently established specialized entities such as ministries of environment and labor, the Jordan Food and Drug Administration, and others. This operation supports an early step in business licensing reform through abolishing the Crafts and Industries Law, which allowed the municipalities to issue health licenses (over and above those required by the Ministry of Health) for all establishments, thus imposing unnecessary fees and administrative costs on establishments.
- 73. The Government is revising its policies to establishing a simpler, less bureaucratic, and more user-friendly approach to the entire investor experience. Recent reforms and advances in certain domains (such as inspection management) introduced a more transparent regulatory environment and streamlined risk-based regulatory processes, allowing businesses easier compliance and improvement of occupational health and safety management. These advances are followed with automating processes and introducing online services. The increase in the capability and maturity of the e-government enabling services, such as cloud hosting, e-payment, and key public infrastructure, creates an opportunity for digital transformation mapping for more streamlined and integrated regulatory processes. Following an evolutionary approach toward a consolidated and integrated business registry and online integrated business registration remains key to mainstreaming service delivery and thus to rendering the investor's journey simpler and more convenient.
- 74. The Government is seeking to bring reforms together under an integrated investor journey. The MoITS has launched an integrated service delivery reform program, which identified current challenges and gaps and defined a shared vision for a future integrated service delivery system for investors. The vision involves a introducing a single online point of access to investors to provide an online window for all services related to investor's business journey, including business entry, operation, and exit. The roadmap will prioritize reform activities and introduce better coordination of Government and international organization initiatives and program management in matters related to government to business services.

Promoting foreign direct investment and reducing regulatory complexity in licensing

DPF2 Prior Action 1: With the view to (a) open sectors important in Jordan's key value chains, the Council of Ministers has amended, through Investment Bylaw No. 80, published in the Official Gazette No. 5573, on May 16, 2019, Non-Jordanian Investments Bylaw No. 77-2016 to: (i) fully liberalize (100 percent foreign ownership allowed) 22 of 51 activities and services; and (ii) provide that foreign ownership in any activity or sector not on the negative list (as published in the Non-Jordanian Investments Bylaw) is permitted without restriction; and (b) modernize and simplify the licensing requirements for businesses, the Council of Ministers has submitted to the Parliament a law abolishing Crafts and Industries Law (1953).

DPF2 Tranche 2 Release Condition 1: The Council of Ministers approved an investor grievance mechanism that enables the Jordan Investment Commission to identify, track, manage, and solve grievances arising between investors and public agencies within specified time periods.

- 75. **Expected results for FDI.** The DPF2-supported reforms open economic activities for FDI, except the ones explicitly mentioned in the negative list. The change is projected to result in a 2.5 percent increase in US dollar amounts of FDI in the 22 liberalized sectors in 2021 compared with 2018. The additional foreign investment is expected to bring new technology, raise the level of competition, and improve productivity. The shorter negative list will further liberalize sectoral equity restrictions on foreign investment, except security-related activities or activities reserved to citizens in specific professions. The new list will provide clarity to investors on restricted and prohibited activities and eliminate any ambiguity, uncertainty, or discrimination in FDI entry.
- 76. **Future reforms for FDI.** The Council of Ministers will institutionalize a strengthened investor grievance management mechanism that enables the Jordan Investment Commission to identify, track, manage, and solve grievances arising between investors and public agencies within specified time periods. This would require adopting a policy, designing the investor grievance management implementation arrangements and adopting appropriate regulatory instruments (regulation/bylaw, instruction) that would strengthen at least three critical elements of the investor grievance management mechanism, namely (i) empowerment of the Jordan Investment Commission as the lead agency to establish and exercise an investor grievance management mechanism (including scope, escalation stages, etc.); (ii) details on the applicable procedural rules (requirements, eligibility, timelines, tracking device, portal, details on escalation, etc.); and (iii) the scope, functions, and obligations of the Jordan Investment Commission as the lead agency vis-à-vis other authorities and other review mechanisms, to institutionalize the filtering, referral, and problem-solving approach of grievance cases. The Jordan Investment Commission will continue to strengthen governance and sharpen focus upon its investment promotion and investor-servicing mandate. Finally, as part of an inter-agency effort the Government will continue to work on revising the incentives framework to achieve cost-effectiveness, improve transparency and administration, and better targeting to increase positive public spillovers and impact.
- 77. **Expected results for licensing**. Further rationalizing and streamlining Jordan's inspections and licensing regimes will lessen the time and cost burden on businesses resulting from unnecessary inspections and improve the transparency and predictability of the licenses and inspections that are necessary. A more efficient and effective approach to inspections will also improve awareness and compliance of the private sector with underlying technical requirements.

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²¹ Based on preliminary WB review, only the actions under point (ii) could be done by JIC internal instructions. Points (i) and (iii) need a published, binding legal basis such as a Law or Regulations (Bylaw) because they establish fundamental enforceable rights and obligations of JIC and other institutions. The Investment Law No. 30 of 2014 is silent on any grievances or complaints and the provision on investment disputes (Art. 43) is weak.

The measures outlined above are expected to result in a 20 percent reduction in aggregate business compliance costs for both sector licensing and inspections from 2017 to 2021, measured in US\$.

78. **Future reforms for licensing**. Over the next 12–24 months, the Government will streamline and launch an online portal for business registration at the Companies Control Department, applies to all companies (except those publicly traded) and sole proprietorships registered at the Ministry of Industry, Trade and Supply (Central Registrar Department). Building on the approved policy for licensing reform, the Government will abolish unnecessary or excessive licensing, streamline remaining licenses that are necessary and extend license durations, and put in place a moratorium on issuing new types of licenses that are not aligned with the principles of the Policy Paper. The Government of Jordan will implement the Crafts and Industries Law abolishment within six months. This entails exploring the possibility of adding it to the agenda of the extraordinary Parliament cycle in the summer of 2019 and mapping the secondary regulations that are affected by abolishing this law in order to establish a more realistic timeline for abolishing or re-issuing these regulations.

Public procurement

- 79. **Jordan's public procurement system reflects several weaknesses and irregularities that impede its ability to advance economic development.** These include a fragmented legal system with 56 bylaws governing various public procurement activities and procuring entities, the lack of an independent complaints-handling mechanism and a policy and regulatory oversight body, and an electronic procurement (e-GP) platform with limited functionality that lacks reporting features to enable effective monitoring, measurement, and evaluation of the procurement system's performance. The implications are substantial, given that procurement spending is estimated to account for nearly 40 percent of the state budget.²² Given the large scope of public procurement, increasing the strategic value and efficiency of the procurement system is expected to have a large impact.
- 80. The proposed reforms include updating and consolidating the legal framework for public procurement through replacement of the 56 current bylaws with a single bylaw, including supporting implementation instruments, to be applied by all procuring entities. The new bylaw contains provisions for framework agreements, electronic government procurement (e-GP), and independent review of bidder complaints. It and will apply to state-owned enterprise procurement practices.²³ The new legal framework also provides for an independent complaints-handling mechanism and a central policy and oversight unit, both key features of the institutional framework of a modern procurement system. Following the enactment of the new bylaw, the Government will operationalize the central policy and oversight unit and the complaints handling unit and will issue implementing regulations and standard bidding documents to support implementation of the bylaw.

Public procurement

DPF2 Prior action 2: The Borrower's Council of Ministers has enacted a consolidated legal framework for public procurement (applicable also to state-owned enterprises) through the issuance of a new Bylaw No. 28, as published in the Official Gazette on May 1, 2019 (containing provisions for framework agreements, e-Government procurement, independent review of bidder complaints, and establishment of an oversight and policy unit) consistent with international good practices.

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²² See http://jordantimes.com/news/local/report-warns-graft-risks-public-procurement-process.

²³ State-owned enterprises refers to fully owned government entities/enterprises.

- 81. Jordan has also made progress by rolling out its e-GP system, JONEPS, by the General Supplies Department and Joint Procurement Department (JPD), and adopted by GTD. An action plan for operationalizing enhancements of JONEPS has been developed and approved. Based on the above the Government will: (1) carry out the enhancement of JONEPS' institutional set-up and functionalities; (2) phase in the adoption of new types of e-GP methods using JONEPS and new functionalities, including performance indicators for measurement of procurement; (3) make standard reports on public procurement available to the public on the portal with data on contract awards, complaints, contract values, procurement by ministries, and so on; (4) develop and have all public procuring entities adopt the e-GP indicators; and (5) expand JONEPS to other public institutions at the ministerial level.
- 82. Expected results. Because of this reform, by 2021, an annual procurement plan will be prepared by the Government and its units at least one month before the end of the fiscal year. The proposed reforms will result in increased transparency, cost-savings, and efficiency, greater competition in the public procurement market, and the advancement of broader policy objectives, including empowering small and medium enterprises, women, and youth. The consolidated bylaw will update procurement practices and eliminate loopholes and irregularities stemming from the current fragmentation of the legal framework. The existence of an independent complaints-handling unit²⁴ and a policy and regulatory unit will improve the objectivity and fairness of the public procurement system. The policy and regulatory body will monitor and guide the development of the procurement system, help to increase the strategic impact of procurement in empowering small and medium enterprises, women, and youth to access opportunity in the procurement market, and promote other sustainable development goals. Furthermore, the enhancement of JONEPS will facilitate wider and more equitable access to the procurement market for the private sector while facilitating access to information and inclusion of stakeholders, including civil society, in synergy with Jordan's commitments and action plans pursuant to the United Nations Convention Against Corruption and the Open Government Partnership. The reforms will promote savings and efficiency for the Government, contribute to national economic development, and facilitate a more attractive landscape for private sector investors.
- 83. **Future reforms.** To match the regulatory changes and the improvements in the e-GP system, the Government plans to undertake regular training of procurement professionals and to engage in broad data collection, monitoring, and performance measurement. This will ensure successful implementation of procurement reforms through (1) the development of the certified public procurement capacity building training strategy (including training of trainers) for JONEPS users and other stakeholders; (2) the development and updating of training material based on the results of the needs assessment and commencement of the certified training program delivered through a partnership with public or private training institutions; and (3) implementation of an ongoing certified training for public procurement practitioners, as well as user training on JONEPS through the Help Desk and other platforms.

The digital economy and the national broadband network public-private partnership opportunity

84. Over the past decade, the digital economy has transcended the boundaries of physical borders, and it now provides a transformative opportunity for the world's economies to optimize growth and create platforms for the youth of today. These youth can deploy their technological talents, connect to the world, and thrive through the products and services they are apt to provide as global citizens. The potential of technology-enabled services is still largely untapped in Jordan and may contribute to increasing export revenues. Political stability, proximity to the Gulf Cooperation Council (GCC) market, the presence of bilingual university graduates, good infrastructure, tax exemptions on sales, and custom exemptions on imports are competitive advantages for the Jordanian market. Private companies

²⁴ Unit can be either an existing or a newly established one.

specialized in information technology and business process outsourcing have expanded their operations in Jordan over the past decade to serve regional and international clients.

- 85. Jordanian mobile and fixed broadband connections are adequate, compared with elsewhere in the Arab region, but must still improve to catch up with developed economies in Europe and the United States. While the usage of internet by individuals (66.79 percent) is above the global average (48.56 percent) in 2017, the average mobile download speed was 15.8 megabits per second (Mbps), compared with the global average of 26.12 Mbps in April 2019. Jordan also has a fixed broadband download speed of 33.56 Mbps, lower than the global average of 57.91 Mbps (April 2019). Meanwhile, more than 84.5 percent of the population has access to mobile broadband (Quarter 4 of 2017). Internet penetration reached 88.8 percent, which is far above the Middle East average of 64.5 percent. Jordan is classified as a fast grower market by Global Scheduling Multiple Access.
- 86. The Government has set a goal of broadening the base of digital economy in its action plan (Reach 2025). Implementation of the plan will transform Jordan into a digital economy that empowers people, sectors, and businesses to raise productivity and ensure growth and prosperity, creating a highly attractive business destination for investments and international partnerships. The Government has started key steps in implementing the digital economy action plan by working on: (1) developing national broadband infrastructure through a public—private partnership (PPP) model; (2) negotiating with mobile operators a new revenue-sharing model and spectrum lifetime extension to allow for better services, higher competitiveness, and solutions for the operators profitability challenges: (3) enacting the Data Privacy Law to regulate access to unclassified data for businesses; (4) championing digital payment by transforming all national aid and bread subsidies payments into digital modes by end-2019; (5) launching a new initiative to train 500 Jordanian youth in digital skills during 2019; (6) leading a participatory approach to identify and tackle legal and regulatory constrains facing entrepreneurs; and (7) coordinating with relevant entities to enable digital identification (ID) and electronic "know your customer" (e-KYC) features.
- 87. Jordan started developing the national broadband network in 2003, connecting public schools across the country. The project was extended to include public health facilities and government centers. As of 2017, 968 sites have been completed, the Government projects to connect a total of more than 3,200 sites via over than 7,000 km of fiber. Work in the southern, northern, and central regions of the country, adding a total of 2,233 new connected sites, is in progress. The NBN was developed in a cost-effective manner, leveraging on the low and medium voltage electricity infrastructure of other utilities.
- 88. The Government is finalizing the rollout of a nationwide fiber-optic high-speed network, originally designed to connect all public education entities, Governmental entities, and public healthcare entities for introducing and enhancing e-learning, e-health, and Governmental e-services. NBN rollout is expected by end of 2021. In its final stage, it will feature 3,268 connected entities, 2,840 kilometers of ring fiber cable, 4,200 kilometers of access fiber cable, and 130 aggregation sites. Since the NBN holds significant excess capacity, the Government has decided to commercialize the spare capacity through a PPP model. The envisaged PPP setup will continue to provide connectivity and security services to the Government. Through the PPP setup, the NBN will obtain an important commercial value, increase the national penetration rates of broadband internet, reduce connectivity costs, and enhance the competitiveness of local businesses, and provide high-speed internet access in second tier cities.
- 89. The World Bank has supported the Government in identifying PPP models for leasing out the existing public-sector NBN. The World Bank (a) identified the main technical and financial parameters of the potential PPP transaction, (b) drafted relevant terms of reference for transaction advisors and other technical support, and (c) assessed the implications in terms of service delivery of government services using this broadband network. The World Bank support will continue through the implementation phases.

The digital economy and the national broadband network public-private partnership opportunity

DPF2 Prior action 3: The Borrower's Council of Ministers has adopted a decision No. 11/3/1/127 dated January 1, 2019 authorizing the Ministry of Information and Communications Technology to enter into agreements with private sector to lease excess capacity of the national broadband network, based on a PPP model.

- 90. **Expected results.** Entering into agreements with the private sector to lease the excess capacity of the NBN, based on a PPP model, will extend the broadband fiber access to additional households as a direct result of NBN expansion. It will also reduce the monthly average cost of fiber access. Furthermore, the lease out of excess broadband will: (1) reduce or completely eliminate current operating costs of the NBN (JD 3 million a year) by transferring it to the new PPP setup, (2) improve the availability of connectivity services to all Government entities, and (3) provide a regular revenue stream for the Government through a revenue sharing agreement with the NBN PPP (estimated at JD 10 million a year). The PPP will provide the following benefits for the private partners: (1) immediate access to a nationwide fiber network (a US\$200 million investment already made by the Government), (2) access to spare capacity, which can be commercialized immediately, (3) a limited investment requirement to expand the service portfolio, and (4) a huge up-side from currently underserved markets. Most important, the expected result of the above prior action is that the average monthly retail price (excluding taxes) of residential 500 Mbps broadband connections will decrease from JD 80 per month in 2019 to JD 70 per month in 2021.
- 91. **Future reforms**. The Government plans to finalize the project study and submit it to the PPP council (per the current PPP Law) for authorization to tender in the coming months, prepare tender documents and run official tendering process during Fall 2019, and contract selected bidder by March 2020. As complementary measures to support Digital Economy development, the Government (Ministry of Industry and Trade with support from MoICT) will establish procedures mandating the use of digital signatures (e-signatures) by businesses. MoICT will negotiate current agreements with mobile operators to incentivize additional investments in the sector, including extending the duration of current spectrum licenses, creating a fund for digital skills development, and reviewing the revenue-sharing model. To support digital entrepreneurship, the Government will support the development of a policy matrix for reforming the entrepreneurship ecosystem by suggesting appropriate policy interventions linked to a timeline and responsibilities.

Pillar 2: Creating more flexible and integrated labor markets and providing better and more efficient social assistance

- 92. The second pillar of DPF2 supports the Government's efforts to foster a more flexible and inclusive labor market and develop a more effective social safety net. Two jobs-related reforms comprise the first set of Pillar 2 actions: those addressing institutional discrimination against women in the labor market and those allowing easier entry of high-skilled foreign workers to complement demand for local labor. The reforms address pressing issues that affect job performance of the Jordanian economy: a drastically low female labor force participation rate and weak demand for labor. A third set of reforms is designed to enhance the cost–effectiveness of social safety net programs through the digitization of NAF payments and the improved targeting of energy support benefits.
- 93. The Government continued to make progress toward supporting Syrian refugees in Jordan. Decisions in December 2018 relax the rules that restricted the economic activities of Syrian refugees. These decisions included the extension of the waiver to fees for work permits for Syrian workers in 2019. The Government also continued issuing flexible work permits for the construction and agriculture sectors. Furthermore, Jordan introduced Comprehensive Instructions for Syrian workers which were published in the Official Gazette No. 5547 on December 2, 2018, to consolidate all decisions that were made to facilitate the access of Syrian refugees to the labor market. The instructions granted Syrian refugees the flexibility to move between employers and sectors; allowed Syrians to use their security ID

to obtain work permits; authorized the Minister of Labor to decide on exceptional quotas for Syrian refugees in different sectors; and authorized the Minister of Labor to open some closed occupations for Syrian refugees as deemed possible. In addition, the Prime Minister decided in November 2018 to allow the formalization of Syrian home-based businesses, opening closed sectors to Syrian SMEs and HBBs (food, handicraft and tailoring) and introducing service standards on the Ministry of Interior to deliver security clearance to Syrian businesses (10 business days maximum).

- 94. **Pillar 2 reforms also build on those completed in DPF1.** As in this DPF, DPF1 focused on reducing labor segmentation and integrating labor markets, supported efforts to stimulate job growth for youth and women, and improved the reach and effectiveness of social safety nets to mitigate the downside effects of fiscal consolidation. DPF1 additionally focused on integrating Syrian refugees into the Jordanian labor market—that is not part of this DPF. In DPF2, while efforts to reduce segmentation between women and men in the labor market have been made, the operation also supports efforts to fill a gap in labor demand for high-skilled workers by allowing easier entry of highly specialized foreign workers. Also, DPF1 supported the plan to enhance NAF income support over 2019—21. Finally, DPF2 is supporting the introduction of digital payments to NAF beneficiaries and the adoption of a robust methodology to target energy support benefits.
- 95. The previous DPF supported Government action to make work more flexible with a view to attracting women and young workers into the labor force. The reform formalized part-time and temporary work contracts. Before the reform, existing regulations did not prohibit part-time employment but made the transaction costs of negotiating a part-time job more difficult. Women and young workers, who are most likely to seek part-time employment, disproportionately bore the burden of these difficulties. This measure was meant to improve the labor force participation rate of women and young workers by providing them opportunities in part-time and temporary employment.
- 96. To continue addressing the distressingly low female labor force participation rate, this DPF supports legal and regulatory reforms likely to improve it. As a prior action included in DPF1 (prior action 5), the Ministry of Labor carried out a review of the legal framework to identify causes of gender segmentation in the labor market. The review confirmed that Jordan is one of the countries with the large number of differences in laws by gender (Women, Business, and the Law, World Bank 2019). These differences imply that under the law, women cannot perform some actions in the same way as men. Wider legal differences by gender are strongly linked to poorer labor market outcomes for women. This DPF supports reforms to the Labor Code to eliminate these gender differences.
- 97. As a continuation of the previous DPF's efforts to stimulate labor demand and increase job opportunities, this DPF supports reforms to liberalize visa requirements for high-skilled foreign workers. By allowing high-skilled foreign labor to enter, this reform fills labor shortages for this segment of the labor market and keeps it working efficiently. This visa reform is a job creation measure because high-skilled immigrants contribute to technological adaptation that has been shown to result in jobs for less-skilled native workers (Constant 2014).²⁵ In other words, high-skilled foreign workers are likely to complement less-skilled workers—not replace them. High-skilled foreign workers add value to the work of others and improve productivity and growth overall (Ottaviano, Peri, and Wright 2010).²⁶

Eliminating regulatory restrictions to improve female labor force participation and expanding access to high-skilled foreign labor

Female labor force participation

98. This DPF supports the removal of regulatory barriers that negatively affect female labor force participation. The existence of gender-based differences in rules governing women's and men's ability to access certain jobs

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²⁵ Constant (2014). https://wol.iza.org/uploads/articles/10/pdfs/do-migrants-take-the-jobs-of-native-workers.pdf.

²⁶ Ottaviano, Peri, and Wright (2010). https://www.nber.org/papers/w16439.

exacerbates gender segmentation and likely discourages women entering the labor force. Restrictions on types of jobs and hours where women can work are referenced in Labor Code Article 69, with the specifics detailed in a separate Ministerial Decision linked to it. While such restrictions were originally put in place to protect women in industries deemed too dangerous for them, this ultimately stands in the way of their ability to choose when and where to work. Instead, strong enforcement of Occupational Safety and Health Standards is needed to protect *all* workers.

99. The Government has committed to increasing female labor force participation (FLFP) to 24 percent by 2025, as highlighted in the Renaissance Plan (2019-20). By conducting a comprehensive review of labor related legislation in collaboration with the private sector and civil society, the Government has identified a number of areas for improvement that would result in women's economic empowerment. Through the support of the first DPF, the Government issued new regulation aimed to make work more flexible by encouraging contracts other than full-time work and providing workers flexibility to work part-time or remotely - arrangements often preferred by women. More recently, the Government has carried out a series of additional reforms related to supporting greater FLFP. On December 30, 2018, the Ministry of Labor issued Decision No. 12/2018, pursuant to Article 69 of the Labor Law (No. 8) of 1996, eliminating gender-based job restrictions and allowing women to work in the professions and during times they choose to work, subject to international conventions and criteria. In response to recent data showing the high rate of women (47 percent) who have reportedly turned down job opportunities due to concerns around harassment in the transport sector, the Ministry of Transport has recently adopted for the first time a Code of Ethics and Professional Conduct (CoC) to be introduced in the service agreements with transport operators with the aim to regulate behaviors of passengers, drivers and operators' conduct in public transport. This CoC is now under implementation, as it has been publicly disclosed and training of drivers has started. Along similar lines, the Ministry of Labor has also recently introduced a Code of Conduct for Employers and Employees in the Workplace to be adopted by companies as part of their annual registration process. Both CoCs make explicit references to harassment and gender-based discrimination and specify grievance redress mechanisms in the instructions. Moreover, the Ministry of Social Development issued new instructions for Registration of Nurseries (2019) pursuant to Article 25 of the Nursery System Law (No.77) of 2019, which simplifies and streamlines registration processes for nurseries to spur investment and expand the provision of child care given high demand while also adopting quality standards to improve the impact of childcare on early childhood development. The establishment of new nurseries also creates new jobs, particularly benefiting women.²⁷

High skilled labor

100. **To address Jordan's relatively poor jobs creation performance,** the Government has undertaken a reform aimed to liberalize the visa system. To attract FDI, which will in turn grow the economy and create jobs, this DPF supports the liberalization of visas for high-skilled labor, allowing foreign companies to bring in needed expertise only when it cannot be found in Jordan.

Improving female labor force participation and expanding access to high skilled labor

DPF2 Prior action 4: The MoL has through its decisions (a) No. 2/2018 dated December 30, 2018, amended the 2010 Decision for Article 69 of the Labor Code by removing all restrictions on the types of jobs and hours women are allowed to work; and (b) No. 3/2018 dated December 30, 2018, issued instructions allowing high-skilled foreigners to work in occupations and sectors previously restricted to them.

²⁷ Gender in Public Transportation: A perspective of women users of public transportation - Sadaqa, October 2018; Harassment in the Workplace - World of Letters and Tadamun, 2018; Hashemite Kingdom of Jordan – Understanding How Gender Norms in MNA Impact Female Employment Outcomes – World Bank Group, 2018.

- 101. **Expected results.** The labor force participation rate is difficult to affect substantially with a single action or reform, since many variables impinge on this statistic. The most recent evidence of this in Jordan was an evaluation designed to see what would make women participate in the labor force. The results indicate the challenge of improving female labor force participation. That said, the proposed prior action combined with the other reform initiatives described above is expected to expand women's jobs options and improve their participation in the labor market. According to Women, Business, and the Law (2019), restricting types of jobs and hours for women prevents them from getting the jobs they want and stands in the way of maximizing their earning potential. For example, enabling women to work at night in a garment factory could increase productivity and provide flexibility for women to balance household responsibilities. The DPF-supported reforms are expected to increase the female labor force participation rate from 14 percent in 2017 to 17 percent in 2021. In addition, the annual average growth of formal, private, part-time female employment will increase from 3.2 percent (2014–16) to 3.5 percent (2019–21). The reforms supported by the DPF series allow investors, foreign and domestic, the flexibility to manage and run their investments with the skilled labor that they need; these reforms would contribute to the increase in annual average growth of formal, private, full-time employment from 3.1 percent (2014–16) to 3.3 percent (2019–21).
- 102. **Future reforms.** The Government will identify possible reforms to the Social Security Law, which was also identified as treating men and women differently. Changes to the law may matter because, as it stands now, the public pension system provides different incentives for men and women when it comes to withdrawing from the labor force in retirement. These incentives may be one factor contributing to the persistently low female labor force participation rates. The Government is undertaking a study to investigate this and other aspects of the public pension system and requests the Bank's help to carry it out. Finally, to support young and female workers, who are largely expected to benefit from the growth in part-time and temporary jobs, the Social Security Corporation is investigating options on how to incorporate these jobs into the public pension system. At present, neither employers nor employees must pay social security contributions for part-time or temporary employment (less than 16 days a month). The gap provides employers an arbitrage opportunity to split full-time jobs into several part-time ones. This gap also leaves part-time employees without the opportunity to accumulate a public pension during their tenure as part-time workers.
- 103. It will be important to support the Government in identifying possible reforms to the Social Security Law that could stimulate demand for new entrants to the labor market and address the growing rate of informality. Promoting job creation for young and informal sector workers who want to enter the formal sector may require reducing the cost of hiring these groups. Reducing labor taxes, such as social security contributions, will have an effect on employment of worker groups for whom labor demand is most elastic. These include low-skilled workers, youth, older workers, and women. The negative employment effect will be amplified if the elasticity of labor supply of those groups is high. Payroll tax reductions targeted at low-skilled new entrants to the labor market who are most hit by unemployment might improve employment chances. Such targeted reductions may also be efficient in terms of how much fiscal cost is required to achieve a desired increase in employment. Because both the elasticity of labor demand²⁹ and the elasticity of labor supply³⁰ are higher for less-skilled, young workers than for more skilled ones, a change in the after-tax wage will elicit a stronger demand or supply response (depending on whether the employer or the employee benefits from the tax rate reduction). Evidence suggests that low-skilled workers are less likely to capture the tax cut through higher wages,³¹

²⁸ See http://documents.worldbank.org/curated/en/654491468271825136/Soft-skills-or-hard-cash-the-impact-of-training-and-wage-subsidy-programs-on-female-youth-employment-in-Jordan.

²⁹ Hamermesh, D.S. (1993) Labor Demand and the Source of Adjustment Costs, National Bureau of Economic Research, Working Paper 4394. http://www.nber.org/papers/w4394

³⁰ Davis, S.J., and M. Henrekson. (2004) Tax Effects in Work Activity, Industry Mix and Shadow Economy Size: Evidence from Rich-Country Comparisons. NBER Working Paper No. 10509. http://www.nber.org/papers/w10509 https://doi.org/10.3386/w10509

³¹ Betcherman, G., N. Daysal, N. Meltem, and C. Pagés. (2010). "Do employment subsidies work? Evidence from regionally targeted subsidies in Turkey," Labour Economics, Elsevier, vol. 17(4), 710–722, August.

implying that the primary impact is likely to be through greater labor demand. Looking into such reforms as a temporary and targeted cut in social security contributions will likely benefit the young the most. The Government's ongoing efforts to reduce informality will also help promote demand for young Jordanian workers. Government efforts to better manage the number of permits provided to foreign workers through the Ministry of Labor's work permit reforms would help stem the flow of these workers entering the informal sector. Informality attenuates incentives for the economy to produce better quality low-skilled jobs, disadvantaging youth. Young workers, given their relatively lean experience and comparatively low skills, compete for work that is most likely to be the type informal workers do. Because of their informal status, these workers are likely less expensive and more flexible than young workers protected by the law and expecting that worker–employer relationship will not be abusive.

Improving the efficiency and impact of social safety nets

104. **DPF2** supports the digitization of payments to NAF beneficiaries. This DPF continues to support reforms to strengthen social safety nets in response to increased poverty and vulnerability (Box 3). The DPF supports the digitization of payments to new NAF beneficiaries (and gradually to all beneficiaries) through e-wallets and bank accounts. The digitization of NAF payments is being enabled by regulatory reforms that will increase the financial inclusion of low-income households more generally. For the payment through ATM cards, the Central Bank of Jordan (CBJ) has recently approved regulation to require banks to introduce basic bank accounts—a minimal service account for financially excluded low-income populations. The e-wallet payment option is being supported by CBJ reforms to increase competition in the mobile payment sector. Digital payment arrangements have been recently tested in Jerash among existing NAF beneficiaries. The first digital payment to new NAF beneficiaries is expected to take place in August/September 2019. The digitization of NAF could be used by the Government as the model to digitize the payment of other services in 2021.

105. There is a need to address the high level of energy cross-subsidies while protecting poor and vulnerable consumers. The introduction of tariff cross-subsidies after 2011 was intended as a social protection measure. Large consumers, including enterprises, pay higher electricity prices to subsidize poor households. This cross-subsidy was intended to be small and to be geared to helping the poor. Today, almost all of Jordan's households benefit from subsidized electricity. These subsidies encourage higher electricity consumption among households and discourage their adoption of energy efficiency and conservation measures. At the same time, large consumers are leaving the grid. The low prices of rooftop solar energy self-generation systems and the low prices of connecting to the grid to buy or sell additional electricity or unwanted self-generated electricity acts as an additional incentive for large consumers to leave the grid. As a result, the already thin base of 'subsidizing' large consumers gets thinner while the cost of grid supply rises further as the need for subsidizing households increases, threatening the financial and operational sustainability of the sector. Addressing the high level of cross-subsidies necessitates targeting of electricity subsidies to poor and vulnerable households in the future. It also requires more efficient utilization of subsidized electricity by the poor, and a cap on the amount of subsidized electricity through on-bill payment assistance.³²

106. **DFF2** embeds the electricity sector roadmap which includes improved targeting of electricity support benefits to help protect poor consumers, while reducing the overall cross-subsidy burden. As part of the roadmap implementation, the Government will work on multi-year strategy for targeted energy support benefits to households. This strategy will define the potential electricity support benefits, as well as the associated targeting and delivery

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³² On-bill payment assistance is a pre-determined direct credit to the monthly bills of poor and vulnerable consumers to help lower cost of electricity. The on-bill payment assistance would be in a form of a monetary discount to the bill (e.g., an amount of JDs reduction for households that meet the welfare and technical criteria to be developed).

mechanisms. DPF2 supports the development of the targeting mechanism for such benefits. The mechanism will utilize technical and welfare-based criteria to identify households that would be eligible or ineligible for such benefits. It will initially be used to target energy efficiency and renewable energy solutions for the poor and vulnerable households. These benefits are aimed to reduce the overall cross-subsidy burden. Building on lessons learned from initial experience, the electricity support benefits will be expanded to include targeted tariff subsidies (based on inclusion of poor and exclusion of rich) and on-bill payment assistance among others that may be envisioned by the Government. The Ministry of Energy and the National Aid Fund will work together on the targeting mechanism for these electricity support benefits.

Improving the efficiency and impact of social safety nets

DPF2 Prior action 5: The Borrower's Council of Ministers has approved through Decision No. 56/10/6/1440, dated January 16, 2019, the digitization of payments to new NAF beneficiaries through e-wallet and bank accounts.

DPF2 Tranche 2 Release Condition 2: The Borrower's Council of Ministers has approved a targeting mechanism for delivering electricity support benefits that will help in providing social protection to the poor.

- 107. **Expected results**. The digitization of payments to NAF beneficiaries will increase efficiency in public spending by reducing payment errors and fraud. It will also improve beneficiary satisfaction and trust in government services by ensuring that the right people are paid the right amount at the right time in a transparent and accountable fashion, and by eliminating the current long waiting lines to cash NAF benefits. And it will open the door to the financial inclusion for the poor in Jordan. The share of new NAF beneficiaries that will receive their payments digitally is expected to reach at least 80 percent in 2021. The targeting methodology is expected to improve the cost–effectiveness of electricity support benefits by reducing errors of exclusion (households that should receive benefits but do not) and inclusion (households that should not receive benefits but do). The number of households provided with electricity support benefits, certified by the developed targeting methodology for energy saving schemes, will be at least 15,000 HH by 2021. In addition, it is expected that further to the launch of a first energy saving scheme in 2019, at least two more energy saving schemes will be made operational by 2021.
- 108. **Future reforms.** Following DPF2, the Government will continue to implement the Social Safety Net reform agenda, focusing on the development and implementation of a graduation strategy for NAF beneficiaries. The strategy will include employment support to employable NAF beneficiaries (focusing on youth) and tie NAF benefits/eligibility to enrolling in support programs/accepting job offers. NAF will select beneficiaries for employment support and refer them to the Ministry of Labor (MOL), who will use an upgraded National Electronic Employment System (NEES) to do the job-profiling of beneficiaries and refer them to suitable job vacancies and supporting services. The implementation of the strategy is expected to increase the employability and employment of target beneficiaries, which is expected to reduce poverty is a sustainable way, boost inclusive growth, and generate fiscal savings (by reducing the NAF case load. The strategy will also improve the efficiency and impact of the system for delivering support to job seekers more generally through the upgraded NEES.

Box 3 The Government's social safety net reform agenda and how the DPF series supports it

As part of the 5-year reform program, the Government has put forward a social safety net reform agenda to enhance the protection of the poor and to facilitate their transition out of poverty.

As a first step, and supported by DPF1, the Government is expanding the coverage of NAF's cash transfers to 178,000 households over the period 2019–21. The first phase, covering 25,000 new households, starting in May 2019, will be accompanied by improvements in NAF's delivery system, including the digitization of payments to beneficiaries (supported by DPF2) and the introduction of a strong grievances and redress mechanism. These reforms will

enhance income support to the poor, make the program more transparent, and improve the citizens' experience with and trust in it.

Recognizing that poverty is multidimensional, the Government will also, starting in 2019, complement income support with social services, such as health insurance. To make social safety nets more responsive to shocks, the Government is also envisaging the introduction of energy support benefits to help protect poor consumers. A targeting mechanism will be developed for these benefits (supported by DPF2). The government will also work on improving a targeting methodology for social assistance programs, building on the findings of the evaluation of NAF's current methodology.

Starting in 2020, the Government is also planning to start providing employment support to employable NAF beneficiaries, focusing on youth. This reform will reduce poverty in a sustainable way, boost inclusive growth, and reduce the burden on the budget.

This enhanced support to the poor and vulnerable will be eventually delivered through two interrelated platforms currently under development: The National Unified Registry (for income support and social services) and the National Electronic Employment System (for employment support). These platforms will provide a unified gateway for Jordanians seeking assistance and are expected to (1) increase coverage of support programs, by making it easier for Jordanians to seek support; (2) increase poverty impact of these programs, by providing eligible households/individuals with packages of benefits and services that meet their needs; (3) reduce administrative costs, by consolidating the registration and selection of potential beneficiaries of programs into a single, unified process; (2) increase savings by addressing errors, double dipping, and fraud in social programs; (3) improve transparency and beneficiary satisfaction with and trust in government support.

Given the limited fiscal space, as income support and key services are expanded, a review of social assistance programs will need to be undertaken in order to identify low-cost effectiveness programs that will need to be reformed.

Pillar 3 Improving fiscal sustainability and taking more informed decisions regarding risk

- 109. The third pillar of the DPF supports fiscal sustainability through revenue mobilization, more efficient public investments, and better management of fiscal risks. Jordan requires a high degree of fiscal consolidation in the medium term, which will require curtailment of spending and revenue increases. The track record on fiscal consolidation is that cuts affect public investment rather than recurrent spending. While reversing the trend should be a matter for public policy, it is not likely that public investment will be able to increase substantially any time soon (it would need to double to reach pre-2013 rates). Yet, Jordan needs significant amounts of investment to boost growth and to improve the efficiency of the economy, and it needs to increase the quality of its public spending. Jordan is keen to bring in the private sector through its new approach to investment planning. Jordan also needs to manage the emerging contingent liabilities and fiscal risks (especially as pertaining to the energy sector and the scale-up of PPPs) as part of a strengthened approach to managing debt.
- 110. Under DPF1, the DPF series set out to ensure adequate revenue mobilization and to establish the foundations for efficient public investment decisions. While the IMF Extended Fund Facility sets the course for revenue adjustment, the DPF series sought to ensure that an adequate level of revenues was maintained to meet deficit reduction targets needed to make headway on debt stabilization. The series also saw the establishment of a public investment management/public-private partnership governance framework and sought to enhance debt management practices by including assessment of contingent liabilities and guarantees in decision making.

- 111. The pillar has been strengthened to include a revision of the PPP Law. The revision eliminates exemptions to the PPP Law for energy and water and, perhaps most important, provides for a full procurement reform. With the positive conclusion of the IMF mission in February 2019 and the agreement on revenue policies for 2019 and 2020, the DPF has turned attention to the PPP Law, because it is effectively a bottleneck to further investment in public infrastructure and a source of fiscal risks with the rolling exemptions for energy and water projects since its inception. A functional PPP Law with adequate implementation arrangements is critical for investors. But a good framework law and implementation guidelines for PPPs should be complemented by modern public procurement processes to ensure that the nearly 40 percent of public spending is undertaken in the most efficient manner. A successful procurement reform will bring public savings and open access to public funds to all private sector companies.
- 112. The pillar has been strengthened on the side of fiscal sustainability and the management of fiscal risks by including upfront actions on a roadmap for financial sustainability of the energy sector and a revision of the PPP Law. In 2018, NEPCO, the energy holding company, posted a JD 90 million deficit in its operating balance (0.3 percent of GDP), and suffered JD 209 million in payment arrears from public sector clients to its distribution companies. At the same time, NEPCO is facing rising costs and a slow economy. DPF2 has supported Government in developing a multidimensional program that aims for NEPCO to achieve zero operating balance in 2019, with the objective of reducing risks to Jordan's efforts for fiscal consolidation. In the same vein, DPF2 supports the revised PPP Law. A key feature of the revision is eliminating the exemptions of the energy and water sectors from the PPP Law.

Enhanced domestic revenue mobilization

- 113. The Government's strategy for raising revenues in recent years has relied to a large extent on indirect taxes and nontax revenues, but the revised income tax law (2018) is expected to play a greater role in future revenue generation. With tax revenues at 15.8 percent of GDP, Jordan is lagging middle-income peers in mobilizing domestic tax revenues to finance service delivery and social protection programs. Taxation is particularly tilted toward consumption tax revenues, with little revenue generation from income tax areas, including personal income taxes. A diversified tax mix, with a strong proportion in personal income taxes, correlates positive with high and increasing GDP per capita, implying a need for a country to utilize income tax sources as the economy grows. Furthermore, personal income tax is generally seen as a core instrument in seeking inclusive growth, with increased income in middle- and higher-income segments of taxpayers leading to enhanced revenues through a progressive schedule, as well as through adequate taxation of capital and wealth income, since these sources also tend to grow as the economy grows.
- 114. DPF1 identified two areas for enhanced revenue mobilization in 2019: (1) further reduction of tax exemptions and preferential rates in the general sales tax (GST) and special sales taxes (SST), and (2) implementation of income tax reform by revising the existing Income Tax Act. Regarding GST and SST rationalization, the authorities were facing a series of administrative issues and shortcomings during 2018. Efforts in 2019 will focus on capacity strengthening in tax administration to ensure compliance and thus the revenue impact of the 2018 adjustments. Measures include amendments to the customs law to tighten financial penalties and imprisonment time and limit imports of cigarette production machinery to established and licensed factories. The authorities also intend to issue a regulation to accelerate the payment of GST from the existing two-month period to a one-month period. Additional reduction in the exemptions and reduced rates in GST and SST are now scheduled to be undertaken beginning in 2020.
- 115. Parliament approved an overhaul of the income tax law in December 2018. First, the revised Income Tax Act provides for an expanded tax base on personal and corporate income tax. Thresholds were lowered for individuals and households, and a lump sum tax on professionals was introduced in the personal income tax, though other exemptions were added to the tax base, including for persons with disabilities. On the corporate income tax, the base was expanded for dividends and interest income in service sector, improved capture of e-commerce, and suppression of certain exemptions, including exemptions for large agricultural companies and investment-related incentives in the special zones

and economic zones. New tax expenditures included "protection of some specific sectors severely affected by adverse regional conditions"—among them, income deduction schemes for the pharmaceutical, textile, and other manufacturing sectors. These exemptions will be phased out by 2024.

116. Second, the new income tax law introduced a series of tax rate improvements, which include higher tax rates on higher-income brackets and reduced rate for the lowest-income earners. In addition, a flat 30 percent tax rate was introduced for incomes above JD 1 million, and a 1 percent solidarity surtax for incomes exceeding JD 200,000. On the corporate income side, a statutory rate of 20 percent for manufacturing and commercial activities was created, while the existing statutory rate structure on nonmanufacturing sectors was retained, and 1–7 percent surtaxes on corporate profits were introduced, depending on the specific service sector.

Table 6 Government estimates of revenue impact of 2019 Budget measures

Estimated revenue impact in 2019 (JD millions)	
Impact of 2019 Budget Law measures	1, 089
Income tax, of which:	245
Revision of Income tax law	180
Tax administration measures	20
General sales tax, of which:	460
Consolidation of fees on oil derivatives	80
Hybrid cars half-year impact	74
Hybrid cars 5%	20
Tax amnesty	30
Tax evasion measures, including introduction of e-invoicing systems	35
Customs, of which:	72
Revisiting of bilateral agreements	40
Nontax revenues, of which:	312
Revisiting mining revenues	10
Telecommunications fees	100

Source: Ministry of Finance.

117. The revenue impact of the income tax law is estimated at 0.5 percent of GDP in 2019 and 0.8 percent over the medium term. While the proportion of individuals liable to pay personal income taxes is expanding from 2.9 percent to 5.3 percent, the new law closes only a tiny part of the gap in personal income tax revenues compared with Jordan's peers. Taxpayers are concentrated in the highest deciles of income, and the reduction in threshold was weakened by various exemptions. Similarly, for corporate income taxes, although the taxation of dividends and interests and the abolishment of some exemptions broadened the tax base, new exemptions were introduced, and the system remains very complex, with a dual framework for manufacturing versus service sectors and the phasing out of various exemptions over five years.

Enhanced domestic revenue mobilization

DPF2 Prior action 6: The Borrower raised domestic revenues in the 2019 Budget Law through (a) implementation of income tax reform; (b) revisions to the general sales tax and its administration; and (c) increases in customs revenues and nontax revenue.

118. For the 2019, the Government plans to raise domestic tax revenues in the 2019 Budget Law equivalent to JD 1.09 billion though implementation of income tax reform and specific initiatives on GST and customs duties. The new Income Tax Law and measures to strengthening the tax administration will have an estimated impact of JD 180 million in 2019. Further, the Government estimated that the expiration of the tax exemption on electric cars, consolidation of fees on oil derivatives, and other measures will raise GST revenues by JD 460 million in 2019. The revenue impact of the recent

cancellation of the free trade agreement with Turkey will raise customs revenues by estimated JD 40 million. Among nontax revenues, the sale of licenses to mobile operators is anticipated to increase revenue by as much as JD 100 million (table 6).

- 119. **Expected results.** As foreseen in DPF1, over 2018–20, the Government is expected to raise additional domestic revenues of at least JD 1,280 million from the GST, SST, and the implementation of the new Income Tax Law. The revenue gains would specifically be made through implementation of income tax reform following national consultations and further reduction of tax exemptions and preferential rates in the GST and SST.
- vith reforms. Several administrative improvements are being prepared to ensure revenue mobilization aligned with reform steps in new income tax law. Initiatives relate to both the personal and corporate income tax areas. They include (1) strengthening the Pay As You Earn (PAYE) compliance system for large taxpayers, by enhanced reporting requirements and with access to third party information; (2) improving taxpayer registration by linking the issuance of a business license to the issuance of a taxpayer identification number (TIN); and (3) increasing compliance among self-employed persons by matching in an online system the Government records of licensed professionals and businesses against the tax authorities registrations. The Government this time is pursuing diverse ways of increasing revenues, and not only focusing on the gains of the income tax law. For example, revenues are also anticipated to come from: (1) acceleration of GST payments from bi-monthly to monthly basis, (2) Expiration of tax exemption on electric vehicle, (3) conversion of GST to SST on mobile phones, (4) enhanced customs duties on foreign trade agreements, (5) consolidation of taxes and fees on oil derivatives, and (6) sale of licenses to mobile operatives. Furthermore, penalties for delays in compliance and tax evasion are being strengthened. The implementation of these measures, which are in line with international good standards, has been included as prior action for the DPF2, in support of achieving the revenue targets in the new Income Tax Law.
- 121. The Government will also need to address the issue of tax expenditures. The level of tax expenditure is very high compared with OECD and middle-income countries, and excessive exemptions in the tax base and preferential rates are applied on all major taxes. The private sector accounts for two-thirds of the revenue loss, with the remaining subsidy going to private and public final consumption. In the recent budget, the Government provided an overview of revenue loss by source of tax expenditures indicating an increase in revenue loss from 2015 to 2016. The relatively detailed format indicates that the authorities seem to have a robust overview of the amount of revenue forgone, which so far seems to support managing the revenue leakages rather than closing them or seeking efficiency and equity in the tax expenditure awards. Improvements in managing tax expenditures are necessary in the next 12–14 months, focusing on clear and transparent criteria for awarding them to the private sector and on improved visibility and granularity in reporting revenue loss in the annual budget.
- 122. **Finally, structural improvements in the taxation system are needed on income taxes and GST/SST.** The revenue impact of the Income Tax Law appears inadequate. For the personal income tax, a much broader part of middle- and high-income taxpayers should be captured, and the corporate income tax needs simplification, including further rationalization of tax exemptions. The Government has postponed further rationalization of GST/SST expenditures to 2020, focusing its efforts in 2019 on the administrative systems for these consumption taxes. Additional revenue generation through improvements in tax policy in both areas is expected in the medium term.

Energy sector reforms and a low-carbon economy

- 123. The electricity grid experienced declining cost recovery and a 2 percent fall in demand in 2018. As a result, NEPCO closed the year with an operating loss of JD 90 million (about 5 percent). Liquified natural gas (LNG) provides 85 percent of Jordan's primary energy input for electricity generation, but its share is expected to decline rapidly over the next two years as increased imports of piped gas and additional renewable energy projects come online. The cost of LNG imports, which is indexed to petroleum market pricing (Brent), was increased by a spike in Brent crude prices from about US\$50 per barrel in January 2018 to nearly US\$85 per barrel in September 2018. An automatic tariff adjustment mechanism (AETAM) instituted in 2017 allowed the sector to partially address this burden with an additional JD 237 million in revenues under the Fuel Adjustment Clause during 2018. In January 2019, the new Government abandoned automatic adjustments based solely on indexation to Brent Crude, and shifted to an adjustment mechanism that reflects a more diversified set of factors affecting the overall cost structure of the sector. Tariff increases during previous years and automatic adjustments in 2018 put the bulk of the burden on larger consumers, leading to a high cross-subsidy in consumer tariffs. Many industrial, commercial, and institutional consumers have invested in solar-photovoltaic—based self-generation to capitalize on Jordan's generous feed-in net metering regulation. The switch to self-generation by large consumers reduces cross-subsidizing revenues and affects the grid's financial sustainability due to below-cost grid charges for services drawn from the grid such as energy banking, capacity support, and wheeling arrangements.
- 124. Jordan is endowed with large renewable energy (RE) potential that has underpinned three rounds of highly competitive bidding for private sector development of solar photovoltaic (PV) and wind plants, establishing Jordan as a leader in the region. Jordan's RE program has been one of the region's most successful, including early projects such as the Tafila Wind project (117 megawatts) and the first round of RE bidding under the Feed-In Tariff scheme (200 megawatts PV and 335 megawatts wind). These early rounds were successful in terms of project execution and establishing the reputation of the RE Program. The subsequent rounds of more competitive bidding fully leveraged the decline in international RE pricing and cemented Jordan's reputation for RE investment. In the third round, it led to a low price of 2.3 US cents per kilowatt-hour for solar photovoltaic energy. However, with a growing share of intermittent supply from renewables, Jordan will have difficulty seizing future opportunities in RE development without a strong natural gas complement, energy storage, dispatchable renewable energy (concentrated solar power), modern control systems, and, in the medium term, increased interconnections with neighboring countries. Thus, the availability of cheap and stably priced piped natural gas offers a strong complement for unfettered growth of intermittent RE in Jordan.
- 125. Reintroduction of piped natural gas since September 2018 is expected to reduce fuel costs and mitigate the impact of indexation to the Brent Oil price. Despite this, the sector is expected to face increasing costs going forward. Electricity generation cost rose sharply due to generation from liquid fuels during 2011–15, when the supply of piped natural gas from Egypt was disrupted. In 2015, the impact was partially mitigated with the commencement of LNG supplies from the floating storage and regassification unit at Aqaba. However, the indexation of the price of LNG to the Brent Oil price exposes the sector to major fluctuation in the cost of electricity generation. Consistent with the "Jordan Energy Strategy 2015–25" adopted in 2015, the Government accelerated development of domestic renewable energy resources and entered into contractual arrangements for increased imports of piped natural gas to reduce fuel costs and exposure to Brent oil prices. Unfortunately, the benefit of reducing fuel costs with piped gas and increased use of lower cost renewable energy is projected to be offset by the higher cost of electricity from some large electricity generation projects. As a result, the sector is facing increasing costs going forward, and unless additional measures are taken to minimize costs and expand demand, tariff adjustments will be necessary to ensure NEPCO's financial sustainability. Such

³³ The audited annual accounts of NEPCO indicate an operating loss of JD 78.9 million for 2018. The IMF second review indicates NEPCO operating loss at JD 90 million. The difference between these two figures depends the treatment of the transfer of retained earnings from the Samra Electric Power Company.

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measures also include reviewing the power purchase agreements (PPAs) that NEPCO has entered into. While the Government has initiated efforts on all these fronts, it is important that periodic tariff reviews and adjustments closely track the changes in costs to ensure that the sector does not incur losses.

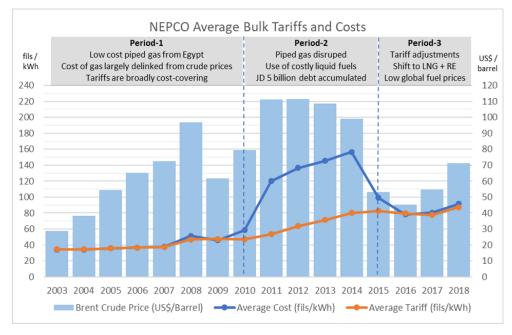


Figure 2 NEPCO Average Bulk Tariffs and Costs vis-à-vis Brent Crude Prices

Source: NEPCO Data and World Bank analysis

- 126. With little room for fiscal absorption of losses, NEPCO needs to close 2019 with a zero or positive operating balance by taking adequate and timely measures to address the impact of possible variations in electricity demand, consumer mix, generation mix, and Brent Oil prices. NEPCO financial projections indicate the need for additional cost reduction measures as well as continued tariff adjustments during 2019 to meet any gap. The Energy and Minerals Regulatory Commission needs to conduct quarterly tariff reviews to reflect variations in demand, revenues, and costs, the impact of planned measures, and the residual need for tariff adjustments. A robust communication strategy can help the Government explain its commitment to protect poor and vulnerable consumers as well as to facilitate economic growth by supporting the productive sectors.
- 127. NEPCO's legacy debt, which is related to the inability to pass-through the massive cost impact related to the Egypt gas shock, needs to be resolved to ensure the utility's longer-term sustainability. Meanwhile NEPCO's working capital requirement is increasing due to accumulation of distribution company receivables (arrears) from public sector agencies. Additional debt accumulation, as well as upward pressures on interest rates due to market developments, would result in increasing interest costs for NEPCO, and this could ultimately burden consumer tariffs going forward. Following the 2011 disruption of piped natural gas supplies from Egypt and an override of regulatory pass-through of the entire cost of expensive liquid fuels to the consumers, NEPCO accumulated a debt burden of JD 5.2 billion (about 20 percent of GDP). This legacy debt includes local commercial loans of about JD 2.3 billion taken directly by NEPCO (with Government guarantee), and Ministry of Finance advances of JD 2.72 billion. Meanwhile, NEPCO's receivables (and consequently its working capital needs) from the distribution companies increased from JD 446 million to JD 656 million in 2018, largely due to the distributors' own mounting receivables from public agencies, creating a knock-on effect on the sector's financial sustainability. NEPCO is now facing higher costs of borrowing with successive debt rollovers and additional working capital borrowings. NEPCO's mounting debt is also a cause of concern for the overall public debt

sustainability. This requires urgent steps to ensure timely payment by public agencies, as well as to restructure working capital debt to embark on a pathway to sustainable debt and interest servicing.

- 128. Jordan needs to embark on a multiyear tariff restructuring and move closer to global best practices in electricity sector regulation. Sector regulatory processes need to evolve toward enhanced transparency, accountability, and participation to build greater trust with consumers and credibility with licensees, investors, lenders, and donors. The electricity tariff determination calculations remain obscure to the public, as do the formulae underlying periodic tariff adjustments. Meanwhile, since November 2018, the annual tariff determination process—which encompasses a full reassessment of the demand-supply and revenue-cost projections—has been delayed. Also, even though NEPCO holds multiple licenses for its transmission, single-buyer, load dispatch, and fuel provision businesses, the regulatory process provides a common tariff for it. NEPCO has recently embarked upon accounting separation of its businesses consistent with its licensees. The electricity sector Financial Sustainability Roadmap includes steps towards strengthening regulatory processes. The prevailing tariff structure needs to be revised to closely reflect the underlying costs and to incentivize consumer behavior toward greater energy conservation and efficiency. The prevailing high tariff cross-subsidy needs to be addressed through better targeting of benefits toward the poor and vulnerable. This may require a better targeting mechanism and a shift away from the prevailing telescopic tariffs. Also, a level playing field needs to be created across grid supply and self-generation by applying cost-reflective grid charges for open access consumers.
- 129. The Government has now embarked upon a multiyear multipronged Financial Sustainability Roadmap for the electricity sector. The roadmap is based on the five-year electricity sector reform matrix and encompasses five key pillars:
 - Strengthening NEPCO earnings while reducing costs with immediate as well as medium-term cost-reduction measures. This includes securing adequate quantities of piped natural gas, minimizing the cost of LNG-related infrastructure (which will be retained as an energy security measure), and reviewing PPAs that NEPCO has entered apart from other smaller cost cutting measures. This step also includes a quarterly review of the impact of cost reduction measures, as well as variations in demand, consumer mix, fuel mix, and global energy prices to enable timely tariff adjustments and cover any remaining cost—revenue gap.
 - Increasing grid electricity sales while protecting the poor by taking measures to retain large consumers, such as
 reducing the cross-subsidy burden, better targeting of subsidies to poor and vulnerable consumers, and adopting
 cost-reflective grid use charges for open access. The Government is also striving to increase exports to
 neighboring countries, including Iraq and Lebanon.
 - Addressing the stock of NEPCO receivables and ensuring timely bill payments going forward, including through
 a one-time settlement of the stock of distribution company receivables from public agencies, and
 implementation of an "Electricity Bill Recovery Mechanism" for timely payment of bills by public agencies.
 - Adopting and implementing a debt optimization plan by restructuring the debt service profile to meet the space
 available in consumer tariffs through a combination of donor grants, a large commercial loans facility with longer
 tenure, and concessional funding from developmental agencies.
 - **Enhanced regulatory governance and processes** including a multiyear tariff restructuring roadmap with improved targeting and delivery of subsidies for the poor, as well as adoption of global best practices for a more participative and transparent sector regulation.

³⁴ The annual tariff determination is distinct from the monthly (or quarterly) tariff adjustments. The annual tariff determination is aimed at adopting the projections for all underlying factors such as demand growth, demand mix, fixed and variable costs, and generation mix etc. to determine the base tariffs for the next year. The monthly (or quarterly) tariff adjustments on the other hand are aimed at reflecting the cost impact of difference between the actual values of underlying factors and those projected in the annual tariff determination.

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Energy sector reforms and a low-carbon economy

DPF2 Prior action 7: The Borrower's Council of Ministers approved the Climate Change Bylaw No. 79, published in the Official Gazette No. 5573 on May 16, 2019, to continue low-carbon transition and climate resilient growth of the economy.

DPF2 Tranche 2 Release Condition 3: The Borrower's Council of Ministers has approved the "Roadmap for Financial Sustainability of the Electricity Sector," and EMRC has conducted Quarterly Tariff Reviews at the end of Quarter-2 and Quarter-3 of 2019 consistent with the financial model adopted by the EMRC.

DPF2 Tranche 2 Release Condition 4: The Borrower's Council of Ministers has adopted the "Electricity Bill Recovery Mechanism" to achieve reduction in distribution companies' receivables from electricity bills of the public sector.

DPF2 Tranche 2 Release Condition 5: The Borrower's Council of Ministers has approved the NEPCO's debt optimization implementation plan.

DPF2 Tranche 2 Release Condition 6: MEMR submitted to the Council of Ministers the results of a review of the power purchase agreements and other related agreements for significant power generation projects.

- 130. The new climate change bylaw will enable a further strategic approach to transformation towards a lowcarbon economy. Over 80 percent of Jordan's greenhouse gas emissions come from the energy sector and transport. Reducing the carbon intensity of the electricity sector involves increasing the share of natural gas and renewables in the generation mix. Reducing emissions in the transport sector involves a faster transition to electric vehicles. Jordan has one of the most advanced regulatory and policy frameworks for renewable energy investment in the Middle East and North Africa region. This policy framework has shown impressive results, with the share of RE-based electricity generation rising from none in 2012 to more than 10 percent in 2018. Initial assessment indicates that total carbon emissions from the electricity sector in Jordan has decreased by 31 percent since 2014 (a carbon intensity decline of 35 percent) without adversely impacting NEPCO finances and despite the country absorbing a large influx of refugees. Going forward, the new climate change bylaw establishes the institutional framework for mainstreaming climate change and enables development of new mechanisms to facilitate climate action and green finance. This is important progress towards achieving Jordan's nationally determined contribution under the Paris Agreement of the United Nations Framework Convention on Climate Change, which proposes to reduce Jordan's greenhouse gas emissions by 14 percent by 2030. This national commitment to climate action translates to sectoral actions across the transport, energy, industry, waste management, water and agriculture, and food security sectors, with the energy sector underpinning the bulk of emissions across other sectors.
- 131. **Expected results**. The implementation of the *Roadmap for Financial Sustainability of the Electricity Sector* would help address a wide range of challenges in the sector over the next few years. The introduction of piped natural gas would help reduce the overall sector costs and the vulnerability to Brent crude price variations. The lower sector costs from piped gas would also allow the financial space for making the necessary investments for energy storage and strengthening of load dispatch systems, which are needed to accommodate the contracted high levels of renewable energy. Going forward, NEPCO would move towards servicing its outstanding debt (including interest and repayments) through revenues from tariffs. A reduction in the highest tariffs for productive enterprises (capped at 200 percent of the cost of supply) would boost their economic competitiveness and enable faster economic growth. The rationalization of grid-use charges for self-generating consumers would create a level playing field for self-generating and grid-reliant consumers. This would enable increased installation of solar PV systems by homes and businesses by avoiding any adverse impact on

the electricity grid. Separation of licensed monopoly businesses of NEPCO into strategic business units would make the financial health of each business more transparent. Greater transparency and consumer participation in regulatory processes would make the utilities accountable to the regulator and, in turn, to consumers. Establishing a strategy and roadmap for electricity tariff restructuring will not only support sector financial sustainability but also contribute to improved energy efficiency and reduced greenhouse gas emissions because of anticipated reduced demand in response to electricity tariff increases. To support the implementation of the Electricity Sector Financial Sustainability Road Map, the World Bank will work with the Government to prepare a new operation to address the critical components of the Road Map.

- 132. The 'Electricity Bill Recovery Mechanism' will comprise of measures to achieve adequate budgetary allocations to public agencies for payment of electricity bills and a mechanism to ensure bill recovery in case of non-payment, as well as a role for schemes to existing and future schemes to promote energy efficiency and conservation measures consistent with the 2nd National Energy Efficiency Action Plan (NEEAP). This would help enforce timely electricity bill payment by public agencies and reduce the number of days of total outstanding receivables for NEPCO to about 75 days of sales by 2021 from 148 days in 2018.
- 133. **Future reforms.** The Government will embark upon implementing the electricity sector financial sustainability roadmap with reform actions in the areas of NEPCO debt optimization, tariff restructuring, targeted electricity subsidies for the poor and vulnerable, and adoption of global best practices in sector regulation. NEPCO debt optimization forms a critical component of the upcoming sector reforms and must be implemented in conjunction with reviews of PPAs for significant power sector projects, and efforts to improve operational performance as well as regulatory and institutional reforms. The Ministry of Energy and Minerals Resources will appoint consultants to conduct technical assistance studies in those areas and review and adopt the findings of the reports for implementation. In addition, the EMRC would conduct quarterly assessment of the revenue—cost gap and adjust tariffs as needed to strive for a zero or positive operating-balance for NEPCO at the end of 2019. The implementation of the Electricity Sector Financial Sustainability Plan would require mobilization of significant amount of financial resources with longer-tenor and possibly softer interest rates to extend NEPCO debt servicing obligation to sustainable levels. Such financial resources would have to be leveraged from commercial banks as well as multilateral developmental agencies and bilateral donors.

Improving investment efficiency, strengthening the role of public-private partnerships, and managing fiscal risks

- 134. With a declining public investment rate and the need for fiscal consolidation, Jordan is turning to the private sector for additional investment in infrastructure. Under DPF1, a foundation was initiated to leverage private sector participation in the economy through a maximizing finance for development (MFD) approach and an updated approach to managing debt and management of contingent liabilities. Under DPF2, the policy and regulatory framework for energy is being developed, as is the policy and regulatory framework for child care. In coordination with other partners, including AFD (Agence Française de Développement), EBRD and the EU, the policy and regulatory framework for urban transport is also being developed. Urban transport is a major bottleneck affecting female labor force participation.
- 135. Critical to a successful pivot to the private sector is setting up governance processes and resolving implementation challenges in public sector investment decision making. Jordan will need to increase efficiency and effectiveness in public investment through the effective implementation of the recently adopted public investment management/public—private partnership (PIM-PPP) governance framework under DPF1. The operationalization of the framework will entail coordination between the Central PIM and the PPP units with approvals granted at key PPP preparation and contracting stages via a designated committee of the Council of Ministers, subject to the terms and conditions set out in the PIM-PPP framework policy, the revised PPP Law, and associated regulations. It will be important for Jordan to make the right decisions about what the Government should invest in and to create the right opportunities

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for the private sector. Under DPF1 the Government also established a Central PIM unit at the Ministry of Planning and International Cooperation, initially with a limited staff.

Improving investment efficiency, strengthening the role of public-private partnerships, and managing fiscal risks

DPF2 Tranche 2 Release Condition 7: The Council of Ministers has submitted a revised PPP Law to the Parliament, (a) reflecting modifications provided by Cabinet Decision No. 56/10/6/17135 dated April 18, 2019; and (b) reinforcing provisions on government controls of fiscal risks and contingent liabilities as contained in PPP Law No. 31 (2014).

- Expected results. The revised PPP Law, underpinned by a COM approved PIM-PPP framework policy and 136. implementation plan that links together the PIM and PPP processes, is expected to ensure more selectivity and better management of the Government's contingent liability exposures. The National Registry of Investments Projects (NRIP), to be developed and managed by the Central PIM Unit with administrative rights to different NRIP functions extended to other government ministries, departments and agencies—including the PPP Unit—in accordance with the roles and responsibilities assigned for managing (inputting, updating, etc.) relevant project data. The NRIP will make possible the efficient tracking PIP and PIM project progress, manage them better, and to contribute to capital effectiveness. Through this process, it is expected that by 2021, 100 percent of new government projects above JD 10 million will be subject to rigorous economic analysis as established by guidelines. The new PIM-PPP governance framework is expected to contribute to better understanding of risks and contingent liabilities. By 2020 the Government expects to achieve the desired level or risk at an acceptable cost by preparing and publishing a public debt management strategy annually, based on a sound analysis of cost and risk. On public debt management, the government will be able to achieve the desired level of cost at an acceptable risk by preparing and implementing strategies for managing government debt and contingent liabilities. Jordan has been exempting energy and water projects from the PPP Law since its inception. This exemption has contributed to poor decision making in selecting and pricing some energy projects. The Government has committed to discontinuing exemptions with the passage of the revised PPP Law. Five PPP prefeasibility studies are expected to have been undertaken under the new PIM-PPP framework by 2021, compared with none in 2018.
- 137. **Future reforms.** On the PPP side, the next steps are to publish the bylaws for the PPP Law in the Official Gazette, to develop an operational business plan for the new PPP Unit being established under the Prime Minister's Office, and to develop a *PPP FCCL Management Operational Manual* (a step by step operational manual for ensuring fiscal and contingent exposure affordability for PPPs with standardized template documents). On the PIM and PPP sides, it is important to get the National Registry of Projects up and running. These key activities are set out in the PIM-PPP implementation plan.

Table 7 DPF Prior Actions and Analytical Underpinnings

Prior actions (PA)	Analytical Underpinnings	
	.,,	
DPF Background for All Pillars		
[All pillars]	1. Jordan Systematic Country Diagnostic (2016)	
	2. Development Policy Review (2012) - Policies for High and Sustained Growth for Job Creation	
	3. Jordan Jobs Diagnostic (WB, January 2019)	
	4. Country Private Sector Diagnostic (WB, forthcoming 2019)	
	5. Jordan Jobs Diagnostic (2019)	
	6. Jordan: Elements of a Growth Strategy (2019, Center of International Development-Harvard)	
Pillar 1: Reducing business cos	its and improving market accessibility	
PA 1 and 2 nd TRC 1: FDI and	1. OECD Investment Policy Reviews: Jordan 2013	
icensing 2. Jordan: Survey of Investors Lost (2017); Technical assistance by MTI		
	3. Assessment of pre-registration approvals	
	4. Assessment of vocational licensing	
	5. Assessment of sectoral licensing	
	6. Technical Note on Integrated Service Delivery for Jordan (2018)	
	7. Regulatory Predictability in Jordan: Baseline of Enterprise perception and Experience (2018)	
PA 2: Procurement	1.Implementation of Public Procurement Reform in Jordan (ODI, April 2014)	
	2.Corruption Risk Assessment of the Public Procurement System in Jordan (Sigma [EU/OECD],	
	November 2016)	
PA 3: Digital	1. Mashreq 2.0: Building Digital Infrastructure for Balanced Regional Development (WB 2018)	
Pillar 2: Creating more flexible	e and integrated labor markets and providing better and more efficient social assistance	
PA 4: Gender and High-	1. Legal Review of the Labor Market Framework: Tackling Gender Segmentation to Promote	
Skilled Labor	Inclusive Job Growth in Jordan (WB December 2018)	
	2. Jordan: Elements of a Growth Strategy (2019, Center of International Development-Harvard)	
	3. Jordan Jobs Diagnostic (WB, January 2019)	
	4. ILO (2017) "A Challenging Market Becomes More Challenging: Jordanian Workers, Migrant	
	Workers and Refugees in the Jordanian Labor Market"	
PA 5: Social protection	1. Jordan Jobs Diagnostic (Completed)	
2 nd TRC 2: Social protection	2. ESMAP supported ASA	
	inability and taking more informed decisions regarding risk	
PA 6: Revenue mobilization	1. Public Finance Review 2012	
PA 7: Climate Change	1. Continuation of Energy and Water DPF2 reforms (2017)	
2 nd TRC 3, 4, 5, 6: Energy	2. Electricity Tariff Cross-Subsidy Rationalization and Protection of Poor and Vulnerable	
	Consumers (Draft, May 2018)	
	3. Roadmap for Financial Sustainability of the Electricity Sector (April 2019)	
	4. Partnership for Market Readiness TA	
	5. ESMAP ASA on Energy Efficiency and Renewable Energy for Residential Sector	
2 nd TRC 7: PPP Law	1. Ongoing technical assistance	
	2. TA by IPG for Improving the PPP Law	

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

- 138. The World Bank Group Country Partnership Framework (CPF) for Jordan (2017–2022) focuses on mitigating the immediate impact of the regional crisis while at the same time supporting long-term development objectives and structural reforms, to improve the equity and quality of public service delivery.
- 139. Nevertheless, the CPF remains relevant to the current challenge of setting the foundations for equitable growth and job creation. The first pillar of the CPF supports fostering conditions for private sector led growth and better job opportunities for Jordanians and non-Jordanians.

- 140. The proposed DPF contributes to the objectives of improving economic opportunities for Jordanians, improving the institutional and regulatory environment for private sector activity and public investments, and improving access to finance and export development.
- 141. The proposed DPF also contributes to implementation of the expanded Middle East and North Africa Regional Strategy, originally presented to the Board in 2015 and updated in 2019, particularly its pillars on renewing the social contract; resilience to shocks, and (to some degree) regional cooperation. The proposed DPF is also supporting the maximizing finance for development approach, and the regional climate change mitigation and adaptation agenda.
- 142. The proposed DPF also contributes to the World Bank MENA Climate Change Action Plan, particularly its pillar on supporting policy reform building on Nationally Determined Contributions (NDCs). The program considers Jordan's NDCs and adaptation and mitigation measure to address the significant challenges Jordan faces due to the extreme scarcity of natural resources coupled with rapidly increasing consumption trends and exacerbated by climate change.
- 143. Policies supported by the proposed DPF will contribute to the twin goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. Reducing business costs and improving market accessibility will improve productivity; creating flexible and integrated labor markets and better, more efficient social assistance will allow more Jordanians and non-Jordanians to work and allow those that do not have employment or decent incomes to benefit from social assistance; and improving fiscal sustainability through more efficient public spending and better management of risks will support the attainment of fiscal objectives.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

CONSULTATIONS

A wide range of inclusive consultations were conducted to ensure the adequate preparation and design of the Renaissance Plan 2019-20. The Economic Policy Council, which includes the Governor of the Central Bank of Jordan, private sector organizations and experts, also followed a consultative approach upon producing the JEGP in 2017. The JEGP takes the Vision 2025 as a starting point and focuses more on public and private sector inputs for industries and sectors. The proposed operation and the DPF1 are both designed based on fundamental elements constituting Vision 2025 and the JEGP. The Jordan Strategy Forum was also another consultative platform established on a national basis which engaged the Jordanian public in economic and social dialogue to better inform Government strategies and policies. The World Bank was also keen on consulting with various stakeholders while preparing for DPF2. Accordingly, the Bank engaged with a group of CSOs in Amman on February 13, 2019 to ensure a wider consultative process on the proposed DPF. The process included particular emphasis on consultation with youth.

COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

- 145. The Five-Year Reform Matrix has been developed in close collaboration with Jordan's development partners, DFID, USAID and JICA, with inputs from EU, Germany, Canada and France.
- 146. To deepen collaboration between the Government of Jordan, development partners and the World Bank, and ensure coherence of various international support programs, the Government of Jordan is strengthening its aid and financing architecture. As part of the London Initiative, and as a follow-up to the London conference, a new Jordan Task Force (JTF) will be established. This platform aims to improve strategic dialogue, coordination and mutual accountability on the Government's reform agenda, and the financial support by international partners. This will provide a platform for the Bank to deepen collaboration with development partners and ensure monitoring efforts on DPF program implementation are aligned with the activities of other partners and embedded in the broader reform agenda (see section

- 5.4). Existing sector coordination mechanisms will be strengthened, and/or put in place where they do not exist to ensure effective collaboration at sector level.
- 147. The Bank maintains close collaboration with the IMF, especially on the EFF program and assessment of the overall macroeconomic framework. The IMF EFF program and the proposed DPF will complement each other, with the former focusing primarily on reducing macroeconomic imbalances and the latter on productivity gains while also contributing toward a more efficient public spending and more informed risk taking. The Bank closely cooperates with the IMF on energy, competitiveness, labor market reforms and social assistance.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

- The poverty and social impact analysis (PSIA) focuses on the impacts of the program's prior actions that directly affect households and discusses measures that mitigate these effects and facilitate future reforms, while examining ways to increase gender inclusion. The reform program supported by the multiyear DPF programmatic series is expected to have positive effects on the economy and on social welfare in the long term but could have some negative effects in the short term, which would require mitigation. The focus of the PSIA is on developing a mitigation plan to respond to changes in electricity prices to recover costs and reduce cross-subsidization, along with measures to mitigate the impacts on the poor and undertaking tax reforms (prior action 6). The short-term distributional impacts of these prior actions are important to analyze because they affect poor and vulnerable households by potentially changing either their income levels or the consumption prices they directly face. In addition, measures to increase female labor force participation (prior action 4) have the potential to increase inclusion and are also examined. Two actions with potential growth and labor market effects in the longer term are briefly discussed: liberalization of foreign direct investment (FDI) in selected sectors (prior action 1) and liberalization of visa requirements for skilled foreign workers (prior action 4). The remaining prior actions and second tranche release conditions were also reviewed for their potential impact on poor households through price or employment effects (see summary in annex 4).
- 149. Overall, while some actions could have adverse effects, they are either small or likely to be offset by the National Aid Fund (NAF) expansion agreed in DPF1 and other mitigation measures included in DPF2. The impact of the income tax and energy sector reforms will depend upon the degree of compliance with the former and the outcome of the quarterly tariff reviews and social protection measures for the latter. However, any combined impacts appear unlikely to be greater than the poverty reducing effect of the NAF expansion under DPF1. At the same time, gender inclusion is promoted by measures to promote female labor force participation, especially among poorer households.
- 150. Prior action 6 will see implementation of the Income Tax law, which is expected to provide a modest reduction in inequality and is unlikely to have an impact on poverty. A new income tax law has been introduced that modestly increases most tax rates and reduces the lowest, while eliminating some deductions and introducing a social solidarity tax of 1 percent of all income (see annex 5 for details of the new law and an extended analysis of its likely impacts). The percentage of households liable to pay tax would increase from 2.9 percent to 5.3 percent. The increase would be concentrated among the richest 10 percent of households and would affect relatively few households in the poorer half of the consumption distribution. However, households with large incomes may still not be well off in per capita consumption and living standards if they have many dependents. The income tax reforms are unlikely to have a measurable impact on poverty and will provide a modest reduction in inequality. Household survey data suggest that the rate of compliance with the new law is only one-third (see Annex 5). Under the unlikely scenario of full compliance among poorer households, poverty would at most increase by 1.1 percentage points, but this upper bound is unlikely. Even if

the impact followed the full compliance scenario, it would be more than offset by the NAF expansion and reform supported under DPF1 and currently being implemented, as discussed in more detail below. Meanwhile, inequality as measured by the Gini coefficient will fall modestly by 0.8 point.

- 151. Second tranche release condition 3 sees quarterly tariff reviews. The overall impact of this policy action will depend on the direct impact on households of any changes in tariffs, counterbalanced by any planned mitigation measures for poorer households and by the indirect effects of cheaper goods and services for consumers due to lower electricity prices for firms. Around 2.5 percent of total household consumption spending goes directly to electricity. In the event that quarterly tariff reviews lead to increases in electricity tariffs, poor and vulnerable households could potentially face higher direct expenses. However, mitigation measures to directly protect the poor and vulnerable are likely to accompany any tariff changes. At the same time, a reduction in tariffs to firms would mean a lower cost of doing business. To the extent that firms pass these savings on through prices to consumers, the latter will indirectly benefit from lower prices for other goods and services while they may directly pay higher prices for electricity. Middle class and richer households will also benefit despite higher direct electricity prices. The exact direct impacts will need to be analyzed in the case that new tariff structures are introduced (see Annex 5). The indirect benefits will also be analyzed if tariffs are changed. The impact on poverty would depend upon the net effect of higher direct prices, lower indirect prices and the extent and effect of mitigation measures.
- DPF1 supported approval of a plan for a significant expansion in coverage and improved targeting of the NAF, which is likely to reduce poverty substantially and mitigate any adverse effects of other DPF2 actions. The NAF expansion is currently being implemented. The targeting improvements and expanded budget are expected to reduce poverty and inequality considerably. Coverage will nearly double from the current 93,000 households, adding 25,000 households in 2019, 30,000 in 2020, and 30,000 more in 2021. At the same time, shifting from the current aid eligibility criteria (in which all people within a certain category are eligible—for example, female-headed households—regardless of income) to a more poverty-targeted approach means that the expanded coverage is more likely to benefit the poor. The precise impact on poverty cannot yet be estimated, but it is likely to be large and adequate to mitigate any adverse impacts of income tax and energy reforms. The Ministry of Social Development is currently finalizing a poverty-based targeting formula, similar but not the same as the common Proxy Means Test (PMT), which uses assets, housing, and household characteristics to impute household income. Once the formula is finalized, estimates of the NAF expansion and improved targeting can be calculated (see DPF1 annex 5 PSIA analysis). An additional benefit of the new social protection infrastructure is that it not only helps offset the poverty impacts of current reforms, it would be used to facilitate the implementation of future reforms.
- 153. Prior action 4 would not have adverse effects and could potentially boost gender inclusion in Jordan, where female labor force participation is very low. DPF-supported actions to bring more women into the work force would increase gender inclusivity in the country. At around 14 percent,³⁵ the percentage of working-age females working in Jordan is among the lowest in the world and the lowest in the region, where low participation rates are the norm. Removing restrictions on the types of jobs and hours women can work will address legal barriers to higher participation. But legal barriers are not the only ones. The large complex gender gaps in Jordan are the result of many factors, including laws, regulations, social norms, and other barriers such as lack of safe transportation options, family planning options, and childcare.³⁶ The impact of the DPF2 prior action on female labor participation will also depend on changing social norms and on other policy actions.

³⁵ The national estimate for women ages 15 and over is 12.6 percent, while International Labour Organization modeled estimates are 14.0 percent for those ages 15 and over. All figures from World Development Indicators.

³⁶ World Bank Jordan Jobs Diagnostic (2019).

- 154. **Prior action 4 also liberalizes visa requirements for high-skilled foreign workers**. Evidence from other countries suggests that in the short term, this is likely to increase job creation for lower-skilled Jordanians while transferring skills to them in the longer term. A lack of high-skilled workers can constrain businesses and productivity. By relaxing visa requirements to allow high-skilled foreign workers, this action can boost job creation as high-skilled immigrants contribute to technological adaptation, which has been shown in other countries to result in jobs for less-skilled local workers, while adding value to the work of others and improving productivity and growth overall. This evidence indicates that foreign, high-skilled workers are more likely to be complementary to less-skilled workers than substitutes. However, any concerns over substitution for Jordanians will be alleviated since the visas are only available when qualified Jordanians cannot be found first. Moreover, the visa liberalization would make FDI more appealing, which will in turn grow the economy and create further jobs.
- 155. Prior action 1 sees significant liberalization of FDI in previously restricted sectors. This action allows 100 percent foreign ownership in all sectors where it is not restricted and introduces objective criteria for any such restrictions. Increased investment, along with the potential knowledge transfer and increased productivity, has the potential for growth, while increased competition would lower the prices for consumers and firms in many sectors. However, the impact on employment and wages is unclear. For example, in Mexico the rents from restricted competition were shared between employers and employees due to strong unionization.⁴⁰ After trade liberalization and increased competition, employment stayed stable, but wages declined (by 3-4 percent in real terms).⁴¹ That is, employment was maintained through wage adjustment due to rents having been shared. In Morocco, there was no impact on wages or employment across most firms after wide-reaching trade reforms. In this case, the cost of adjustment was borne by the firms that reduced their previously sizeable profit margins, as there had been rent-sharing with workers. The firms also responded by increasing productivity.⁴² However, these examples are for manufacturing facing imported competition. In nontradable sectors such as transportation and construction, where competition does not come from imports but from the creation of FDI-driven but locally located new firms, jobs are likely to be created in the short run. Increased labor demand in the sector could lead to upward wage pressure for workers in the sector. But if wages for existing workers included shared rents, increased competition could lead to downward wage pressure. The balance of these two countervailing pressures is unclear. If wages had not included rent-sharing, adjustment by existing employers could be on the profit margins but could also be on the employment side, which would at least partially offset the job creation from the new competition. Existing firms are likely to face reduced profits in any scenario. With unclear outcomes, employment and wages within affected industries should be monitored carefully to understand how the sectors are evolving.

5.2. ENVIRONMENTAL ASPECTS

156. The reforms supported by the proposed DPF are not likely to cause significant impacts on the country's environment or natural resources. The analysis conducted by the World Bank concluded that the DPF-supported policies

³⁷ A. F. Constant, "Do migrants take the jobs of native workers?" (2014). https://wol.iza.org/uploads/articles/10/pdfs/do-migrants-take-the-jobs-of-native-workers.pdf.

³⁸ Ottaviano, Peri, and Wright (2010). https://www.nber.org/papers/w16439.

³⁹ Employers must advertise the terms of reference for the position, its compensation, and the parameters of the job for two weeks in national and widely read media. If a qualified Jordanian who is willing to accept the compensation package and parameters of the job (including relocation) cannot be found, then a visa for a foreign worker can be issued.

⁴⁰ Average union-non-union wage differential was 11 percent (Revenga 1997). Revenga, Ana, 1997. "Employment and Wage Effects of Trade Liberalization: The Case of Mexican Manufacturing," Journal of Labor Economics, University of Chicago Press, vol. 15(3), pages 20-43, July.

⁴¹ Revenga (1997) and Harrison and Leamer (1997).

⁴² Harrison and Leamer (1997) and Currie and Harrison (1997).

are not likely to have significant negative impacts on Jordan's environment or its natural resources. To the contrary, prior action 7 on the climate change bylaw, and the second tranche release condition 3 – which would include reduced demand by implementing a roadmap for electricity tariff restructuring – will result in positive environmental and climate change effects. Furthermore, overall emphasis on improving governance should improve environmental spending along with other categories.

- 157. Jordan's environmental policy and regulatory framework has been developed to ensure protection of human health and natural resources. Article 23 of the Jordanian Environmental Law # 52 of fiscal year 2006, and the Environmental Impact Assessment (EIA) Regulation No. 37 for 2005 provide direction for conducting environmental impact assessments for all types of projects. Regulation No. 37 details the main issues to be covered by an EIA, reporting procedures, and the approval process: "Every institution, company, plant or any party that, after the enforcement of the provisions of this law, exercising an activity which has a negative impact on the environment, shall be obliged to prepare a study of the environmental impact assessment for its projects, and refer same to the Ministry in order to make the necessary resolution in this effect."
- 158. Regular private and public investment activities resulting from policy actions supported under this DPF that could have negative impacts on the environment will be subject to the Jordanian legal framework for the protection of the environment. It is not expected that additional or special measures will need to be introduced for interventions to be carried out under this operation, so neither specific environmental studies nor environmental impact management measures are required at this level.
- 159. The new climate change bylaw is expected to result in strategies and programs with positive impacts on the country's environment. Currently, over 80 percent of Jordan's greenhouse gas (GHG) emissions arise from the energy and transport sectors. The country has been progressing in reducing GHG emissions in the energy sector by increasing the share of natural gas and renewable energy. An initial assessment indicates that total carbon emissions from the electricity sector in Jordan has decreased by 31 percent since 2014 (with a carbon intensity decline of 35 percent). The climate change bylaw establishes the institutional framework for mainstreaming climate change and enables development of new mechanisms to facilitate climate and green finance. It is considered an important progress toward achieving Jordan's nationally determined contribution under the Paris Agreement of the United Nations Framework Convention on Climate Change, which proposes to reduce Jordan's GHG emissions by 14 percent by 2030.
- 160. **Prior action 7 and the tranche release conditions related to energy will contribute to climate change benefits.** Consistent with the World Bank's Climate Change Action Plan of 2016, these prior actions, which relate to improving energy efficiency, including through implementing cost-reflective grid use charges, are expected to contribute to reducing carbon emissions due to the anticipated demand response to increased prices to end consumers.

CLIMATE CHANGE AND DISASTER RISK SCREENING

161. When the proposed project was screened for climate and disaster risk, climate change risks on operation sustainability were considered "low." The main vulnerabilities to climate change in Jordan are related to change of rainfall levels, increased temperature, and an increased sea level. Climate change is likely to affect water resources, human health, the agriculture sector, and coastal areas. Jordan is water-stressed, with water resources that are rainfall-dependent. Climate change, which has already decreased rainfall levels and increased temperatures, is likely to exacerbate water scarcity. Potential consequences for human health include increased incidence of foodborne diseases through crop contamination due to the reuse of grey or treated wastewater in irrigation to adapt to the shortage of irrigation water. Waterborne diseases and increased food insecurity and malnutrition are potential effects of climate change on human health. In the agriculture sector, the diminished rainfall could reduce agricultural productivity, which

will threaten livelihoods, particularly of poor people. Other potential impacts of climate change include those on coastal areas in Agaba that are expected to experience sea level rise, extreme rainfall events, or droughts.

5.3. PUBLIC FINANCIAL MANAGEMENT, AUDITING, AND DISBURSEMENT

- 162. The Government of Jordan continues its development of public financial management (PFM) systems, which began more than a decade ago. A recent PFM reform strategy was launched for 2018-22, building on previous reform efforts:⁴³ This strategy comprises 5 areas: (1) Adoption of program-based budgeting (PBB) with a budget classification system that includes the most important classifications (administrative, economic, functional, geographical, and program) and is broadly consistent with GFSM⁴⁴ 2001. All line ministries and Government units annually publish—on the General Budget Department (GDB) website—their strategic objectives, key performance indicators, outputs of the preceding two years, and projections for the ensuing three years; (2) Completion of the rollout of the government financial management information system (GFMIS) for budget preparation and execution to all 53 budget units (ministries, departments, and regional financial centers; (3) the GFMIS will be rolled out to independent units. (3) Adoption of cash-based International Public Sector Accounting Standards (IPSAS) in issuing annual financial statements. The Ministry of Finance has a strategic plan to move to accrual-based IPSAS within the coming 3-5 years; (4) Establishment of mechanisms to facilitate regular monitoring of arrears and introduction of a more effective commitment control system to prevent arrears accumulation; and (5) Issuance of a unified financial controls bylaw that requires all Government agencies to conduct an ex-post internal audit based on risks and to undertake annual audit programs. The Jordan Audit Bureau (AB) has withdrawn from ex-ante controls from all line ministries, a significant step toward strengthening its independence from Government operations. In recent years, the Central Government started giving high importance to the audit observations reported by AB and a special committee was established by the Prime Minister to review all AB audit observations to date.
- 163. Looking forward, the Government aims at sustaining implementation progress on the PFM reforms agenda. While many PFM reforms have been progressing, addressing the following issues would help fully realize the benefits of the above reforms and help the Government restore fiscal sustainability:
 - The initial strategic planning phase of budget preparation could be strengthened further. The subsequent budget preparation phase is characterized by spending plans and budget requests that greatly exceed the eventual budget settlement.⁴⁵ The macro fiscal framework should be strengthened, sector strategy review and planning effectively integrated into the budget process, and a stronger commitment made to medium-term expenditure framework indicative allocations.
 - Public sector expenditure arrears continue to be a problem. The GFMIS does not allow multiple quarter and
 multiyear commitment entries or capturing and populating the outstanding commitments and outstanding
 invoices for arrear monitoring. As a result, the Government has not fully benefited from the GFMIS to monitor
 the problem.
 - Despite the issuance of the Financial Controls Bylaw, it has not yet actually adopted by line ministries.
 Jordan Supreme Audit Institution (Audit Bureau) needs to revise its law to strengthen further its financial and administrative independence. Some of the areas of strengthening is providing better immunity for the Audit

⁴³ the reforms have four overarching objectives: securing long-term aggregate fiscal discipline, fostering policy-based budgeting, enhancing the role of the private sector, and giving due consideration to citizens' concerns. The strategy has been designed to effectively address the prevailing challenges, in particular the budget deficit, the level of public debt, and tax avoidance and tax evasion.

⁴⁴ Government Finance Statistics Manual, IMF.

⁴⁵ The World Bank is providing a substantial technical assistance that aims to improve Jordan Public Investment Management System, which will address weaknesses in investment planning and budget preparation and execution.

Bureau president with a fixed service term and annual financial allocations discussed and approved directly by the Parliament.

- 164. **Foreign exchange.** The Central Bank of Jordan (CBJ) was subject to the International Monetary Fund (IMF) safeguards assessment in connection with the Extended Fund Facility Agreement in November 2017. The report updates the findings of the previous assessments conducted in 2003 and 2013. The CBJ annual financial statements are subject to auditing by a private sector audit firm. The auditor issued a qualified opinion on the CBJ's financial statements for the year ended December 31, 2017. The main qualification is the same as that of 2014, 2015, and 2016, related to the statements making no provision for doubtful debts on regional governments and financial institutions. No material internal control issues that could affect disbursement from the proposed development policy operation were reported by the auditor. The audit report and financial statements of the CBJ are available on its website. Considering the status of the assessments mentioned and the review of the CBJ audit report of the year 2017, the foreign exchange control environment is assessed to be generally satisfactory.
- Development Policy Financing and will be disbursed in two installments. Once the loan is approved by the World Bank's Board and becomes effective, the proceeds of the loan will be disbursed in compliance with the stipulated release conditions and will be transferred by the International Bank for Reconstruction and Development directly to the Government Treasury account at CBJ. The funds will be transferred by IBRD in U.S. dollars, and equivalent amounts in Jordanian dinars will be credited to the treasury current account by CBJ. The MoF will furnish to the World Bank, within 30 days, a confirmation of each transfer, advising that the funds of the loan have been received. The administration of this loan will be the responsibility of the MoF. If the World Bank determines at any time that an amount of the loan was used to make payment for excluded expenditures, the borrower shall refund an equal amount of such payment to the World Bank, and such amount repaid to the World Bank shall be canceled.

5.4. MONITORING, EVALUATION, AND ACCOUNTABILITY

The overall responsibility for monitoring implementation of the DPF program rests with the Ministry of Planning and International Cooperation (MoPIC) (see annex 8). The Ministry will be responsible for coordinating, and reporting to the World Bank on the progress of implementing the DPF policy programs with the Government authorities responsible for the program implementation, including the Ministry of Trade, Industry, and Supply, ministries and municipalities issuing vocational and sectoral licenses, the Central Bank of Jordan, the Jordan Loan Guarantee Corporation, Jordan Investment Commission, the Jordan Standards and Metrology Organization, the Ministry of Transport, the Ministry of Energy and Mineral Resources, the Ministry of Labor, the Ministry of Social Development, the Ministry of Justice, the Ministry of Finance, and the Council of Ministers. Throughout implementation, the World Bank will undertake intensive supervision missions and provide technical assistance and policy advice to support the implementation and monitor the DPF-supported program. The proposed results indicators will be monitored to evaluate the achievement of the DPF objectives. Monitoring and evaluation of the results indicators will be based on data made available by the Government implementing authorities and verified by the World Bank throughout the DPF supervision. Given the large number of agencies involved, the establishment of an effective cross-ministerial mechanism for regulatory reform will be needed to support effective implementation of DPF and Five-Year Reform Matrix. Such a mechanism will be supported by a reform unit based in the Ministry of Planning and International Co-operation that requires: (1) annual regulatory plans and reform targets from regulators with direct progress reporting to a Prime Minister-led committee on identified high priority reforms, (2) regulatory impact assessment conducted on all major regulatory proposals, (3) simplification, (4) systematic consultation with the public and private sectors, and (5) access to and transparency of regulations.

- 167. **DPF monitoring arrangements will form part of a broader governance mechanism to track progress on the Government's overall reform efforts.** To maintain momentum around the Government's reform agenda set out in the Five-Year Reform Matrix and ensure coherent financial support from the international community, the Government, World Bank, and development partners are working to establish of the Jordan Task Force (JTF) (see section 4.4). The JTF, endorsed as part of the conference Jordan Growth and Opportunity: The London Initiative 2019, aims to provide a dedicated forum for strategic dialogue, coordination, and monitoring among the Government of Jordan, multilateral institutions, and bilateral partners.
- 168. This platform would also undertake regular reviews of the reform priorities based on the Five-Year Reform Matrix. To strengthen coherence between the DPF program and budget support operations by other partners, sector coordination mechanisms will be strengthened as needed. An empowered team within MoPIC will track reform priorities in liaison with sector ministries, prepare periodic progress reports for the JTF Steering Committee, and support the functioning of the proposed Jordan Task Force (JTF) platform. This will include monitoring progress in implementing the DPF program. The unit will benefit from technical assistance and resources from the World Bank under its Inclusive Growth and Economic Opportunities Multi Donor Trust Fund (Growth MDTF) and from international partners. It will liaise closely with the Prime Minister's office responsible for updating the Prime Minister on a regular basis and tackling issues related to policy coherence and the impact of reform proposals.
- 169. For grievance redress, communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, because of World Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

- 170. The overall risk rating is assessed to be high. The overall risk of the operation is high because several risks are identified as substantial, and these risks are not mutually exclusive and may materialize contemporaneously. For instance, geopolitical risks may affect the availability of grant or concessional funding to balance the macroeconomic framework or the restructuring of the energy sector. They may also affect funding for technical assistance, undermining the implementation of the public-private partnership (PPP) program or the pace of other reforms. Higher oil prices may affect national electric power company (NEPCO) sustainability and necessitate fiscal measures. Implementation bottlenecks in multiple agency reforms (FDI, licensing, PPPs, and so on) could be idiosyncratic (pertaining to individual agency issues) or to interagency decisions that may be affected by regional developments. Overall, to mitigate such risks, Jordan needs stable relationships with various funding partners, excellent intra-government and interagency communication, and a new level of communication with civil society about the purpose and risks of reforms. Key risks are as follows:
- Political and Governance Risk to achieving the DPF development objectives: Substantial. Recent developments point to the need to ensure that all elements of Jordanian society have a common understanding of the challenges

that the country faces, agree on the way forward, and have a perception of equitable burden-sharing toward the resolution of the challenges. Macroeconomic problems become more difficult to address when the economy is weak. Yet this is when consistency in decision making is most critical, common ownership of reforms across government and civil society is important, and stability in line ministries is key. A deeper and more thorough consultative process on the Five-Year Reform Matrix and support by the international community would help mitigate these risks.

- Macroeconomic Risk to achieving the DPF program development objectives: High. Economic indicators for 2018 confirmed the impact of sluggish adjustment and shocks on macroeconomic vulnerabilities through sizable external and internal imbalances that generated large external financing needs. On the internal front, challenging domestic political conditions, such as those manifested during the first half of 2018, disrupted economic activity and requisite policy actions were not taken on a timely basis. Three additional critical macroeconomic risks pertain to: further fiscal drain from the power sector (especially given the higher cost of energy inputs in the medium term), underperformance on revenue administration, and shortfalls in the prospective external financing on which the macroeconomic framework is based. Mitigation measures for these risks include additional measures to bring savings or adjust tariffs, as included in the Cabinet approved Roadmap for Financial Sustainability of the Electricity Sector, and additional fiscal measures already agreed with the International Monetary Fund (acceleration of GST reforms and taxation of oil derivatives). Measures for external financing include continued performance on reform implementation to underpin government credibility in outreach to donors.
- Technical Design Risk to achieving the DPF development objectives: Substantial. The reforms supported by this operation are complex and require close monitoring to ensure that the actions lead to desired results. This applies to business environment reforms, labor market reforms, and fiscal reforms, including the implementation of the strengthened governance framework for public investment management. Accordingly, a multi donor trust fund has been established, with seed money provided by the United Kingdom, to support the technical analysis for the five-year reform matrix and support the implementation of the reform agenda across macro critical sectors.
- Environmental and Social Risk to achieving the DPF development objectives: Substantial. In May 2018, the country witnessed protests and civil unrest against fiscal consolidation measures undertaken by the previous Government and increases of electricity tariffs for households. In view of the current challenging economic conditions, and the high rate of unemployment, some social tension could be spurred if necessary reforms are not adequately communicated through an outreach strategy or consultative process. Such social tension may in turn lead to security risks, hence the current risk rating of this category as substantial. Communication and awareness raising, as well as transparency in rationale for policy changes remain key to mitigating risks in any reform process.
- Institutional Capacity for Implementation and Sustainability Risk to achieving the DPF development objectives: Substantial. Several reforms under implementation, such as FDI, PPP, licensing, and energy, require multi-agency efforts and deep commitment within each agency. Energy has deep macroeconomic implications, because nonperformance in energy reform directly creates fiscal imbalances and affects the sustainability of the macroeconomic framework. In this regard, cooperation with the energy regulator regarding the tariff adjustment mechanism and agreement on the underlying assumptions, cost estimates, and so on will be critical. Previously in Jordan, reforms supported by the operation require the Government to keep a policy focus in each reform area and to avoid "projectizing" the reforms by focusing on and tracking only the inputs (such as regulatory changes and training). In addition, an effective coordination and supervision mechanism is needed for the cross-cutting reform areas. The establishment of an inter-ministerial mechanism and a supporting secretariat in the Prime Minister's office is a new structure established by Prime Minister Omar Razzaz to further strengthen monitoring. Anchoring the implementation of the operation on a strengthened inter-ministerial coordination and supervision

mechanism and enhancing capacity building for critical reform areas will mitigate the institutional capacity risks and strengthen the likelihood of sustainability of the reforms. For the energy sector, this approach will be supplemented with monthly monitoring of NEPCO operational balances, two quarterly tariff reviews (Quarter 2 and Quarter 3), review of the tariff adjustment mechanism, and assessment of assumptions and cost estimate. In the case of the PIM-PPP Governance Framework, a complementary World Bank program of institution-building and technical assistance is being put in place to support the government's PIM-PPP implementation plan. This includes a three-year technical and advisory program per the Memorandum of Understanding signed between the Government of Jordan and the IFC in January 2019.

- Stakeholder Risk to achieving the DPF development objectives: Substantial: The continued focus on implementation of reforms for medium and long-term gains remains critical to the success of the program and is coupled with significant stakeholder risks at both the national and international level. Local stakeholder risks involve possible negative public perceptions of increased borrowing by GoJ as well as social resistance to measures that involve tariff increases or other structural reforms. These are mitigated by the design and implementation of measures for the protection of the most vulnerable, a sustained commitment to poverty reduction including through the forthcoming poverty reduction strategy as well sustained efforts on communications to raise public awareness of key initiatives on private sector growth. Donors and international partners supporting Jordan will continue to monitor the implementation of the Five-Year Reform Matrix, the financial performance of NEPCO and efforts to further boost economic growth through strengthening the business environment. The World Bank Group provides technical assistance under each of these priorities, including through the recently established MDTF, as well as a large program of analytical dialogue and support. These include ongoing TA on governance reform, strengthening the ICT sector, increasing access of youth and women to jobs.
- Other—Geopolitical Risk to achieving the DPF development objectives: High. Improving prospects in Syria and reopening trade routes with Iraq bode well for Jordan in re-establishing some of the trade relations it once enjoyed with its neighboring countries. Also, pledges of some US\$2.5 billion from the 2018 Mecca summit (attended by Kuwait, Saudi Arabia, and the United Arab Emirates) have started to materialize, including a deposit at CBJ and five years of budget support. However, external risks stemming from any persistence or escalation of crises or conflicts in Syria or Iraq would still be considered substantial. In addition, there are risks of a spillover of the economic slowdown in Palestinian territories due to an emergency budget in the context of the transfers dispute with Israel. Overall, additional refugee inflows could increase pressure on Jordan's fiscal accounts, infrastructure, and the quality of Government services. Donor support is expected to continue and will be strengthened, contingent on humanitarian challenges, as well as on progress in implementing reforms.

Table 8 Summary of Risk Ratings

Risk Categories	Rating
Political and Governance	Substantial
2. Macroeconomic	High
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Substantial
8. Stakeholders	Substantial
9. Other	• High
Overall	• High

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ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
PILLAR I: Reducing business costs and in	mproving market accessibility		
The Borrower has enacted the Monitoring and Inspection Law to reduce the burden on businesses by improving the inspection and monitoring framework.	FDI opening markets and streamlining licenses: With the view to (a) open sectors important in Jordan's key value chains, the COM has amended, through Investment Bylaw No. 80, published in the Official Gazette on 5573 on May 16, 2019, Non-Jordanian Investments Bylaw No. 77-2016 to: (i) fully liberalize (100 percent foreign ownership allowed) 22 of 51 activities and services; and (ii) provide that foreign ownership in any activity or sector not on the negative list (as published in the Non-Jordanian Investments Bylaw) is permitted without restriction; and (b) modernize and simplify the licensing requirements for businesses, the COM has submitted to the Parliament a law abolishing Crafts and Industries Law (1953).	FDI retaining and expanding investments: The COM approved an investor grievance mechanism that enables the Jordan Investment Commission to identify, track, manage and solve grievances arising between investors and public agencies within specified time periods.	Foreign direct investment: FDI in services as a percent of total investments facilitated by Jordan Investment Commission: Baseline (2018): US\$10.3 million. Target (2021): 2.5 percent increase.46 Business inspections and licensing: Aggregate business compliance costs index: Baseline (2017): 10047 Target (2021): 8048

⁴⁶ Source: JIC's annual investment report.

⁴⁷ The business compliance costs index is constructed based on IFC's compliance cost savings model, which calculates aggregate business compliance costs, indexed to the number of businesses subject to compliance. A 2018 baseline will be constructed by June 2019.

⁴⁸ While both the baseline and target for inspection reform can be defined using a Compliance Cost Savings model, defining a baseline for sector licenses will not be possible until data collection is completed in late FY2019.

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Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
The Borrower's ability to serve Jordanian exporters has been improved by: (a) the Central Bank's and the Jordan Loan Guarantee Corporation's (JLGC) agreement expanding the resources available for reinsurance and strengthening JLGC's financial capacity to deliver trade insurance products; and (b) restructuring JLGC's Board to include independent directors.			Exports: Guaranteed exports as a percentage of total exports: Baseline (2017): 1.09 percent Target (2021): 2.40 percent
The Borrower has enacted the Insolvency Law introducing business insolvency procedures.			Insolvency: Insolvency Framework Index of the Doing Business indicator (range 0-16): Baseline (2017): 5 Target (2021): 10 Secured Transactions: Strength of Legal Rights Index of the Doing Business indicator (range 0-12) Baseline 2017: 0 Target 2021: 6

Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
	Procurement: The Borrower's Council of Ministers enacted a consolidated legal framework for public procurement (applicable also to stateowned enterprises) through the issuance of a new Bylaw No.28, as published in the Official Gazette on May 1, 2019 (containing provisions for framework agreements, e-Government procurement, independent review of bidder complaints, and establishment of an oversight and policy unit) consistent with international good practices.		Procurement: Government entities prepare annual procurement plans at least one month before the end of the fiscal year: Baseline (2018): 0 percent. Target (2021): 100 percent.
	Broadband: The Borrower's Council of Ministers adopted decision No. 11/3/1/127 dated January 1, 2019, authorizing the Ministry of Information and Communications Technology to enter into agreements with the private sector to lease excess capacity of the national broadband network, based on a PPP model.		Broadband: Average monthly retail price (excluding taxes) of residential 500 megabit per second broadband connection: Baseline (2019): JD 80 per month. Target (2021): JD 70 per month.

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Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
The Borrower's Council of Ministers has instructed the Ministry of Labor to review the legal framework to identify causes of segmentation in the labor market. The Borrower, through the Ministry of Labor, has issued Instructions on flexible work with minimum wage rates by unit of hours.	Gender and high-skilled labor: The MoL has through its decisions (a) No. 2/2018 dated December 30, 2018, amended the 2010 Decision for Article 69 of the Labor Code by removing all restrictions on the types of jobs and hours women are allowed to work; and (b) No. 3/2018 dated December 30, 2018, issued instructions allowing high-skilled foreigners to work in occupations and sectors previously restricted to them.		Female labor force participation rate: Baseline (2017): 14 percent. Target (2021): 17 percent. Flexible work: Growth of formal, private, part-time, female workers (average annual): Baseline (2014–16): 3.2 percent. Employment: Growth of formal, private, full-time employment (annual average): Baseline (2014–16): 3.1 percent. Target (2019–21): 3.3 percent.
The Borrower, through the Ministry of Labor, has: (a) allowed the Jordanian General Federation of Trade Unions to provide work permits for Syrian workers working in the construction sector and removed the requirement of Syrian workers to show a profession practice certificate as a prerequisite to obtain the work permit; and (b) waived fees for Syrian workers to obtain work permits for 2018.			Cost of work permits for Syrian workers Baseline (2017): JD 300–370 (without waiver) Target (2018 and 2019): JD 0 (zero) (with waiver)

⁴⁹ Based on the 2016 Labor Force Survey, we impute formality status using a model estimated with available 2010 data. We define part-time as those working 30 hours a week or less. Only 3 percent of working-age Jordanians have a formal part-time job in the private sector. There are basically no formal part-time workers in the private sector ages 15–24 years. The definition of the indicators to track are the following: (a) annual rate of growth of formal jobs in the private sector (workers ages 15–64); (b) annual rate of growth of formal part-time jobs in the private sector for women (ages 15–64).

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Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
The Borrower's Council of Ministers has reduced exemptions and increased preferential rates in the general sales tax and the special sales tax consistent with the 2018 Budget Law.	Revenue mobilization: The Borrower raised domestic revenues in the 2019 Budget Law through (a) implementation of income tax reform; (b) revisions to the general sales tax		Revenue mobilization: Cumulative impact of revenue measures in 2018–20: Baseline (2017): JD 0 Target (2021): About JD 1,280 million.
	and its administration; and (c) increases in customs revenues and nontax revenue.		

Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
The Borrower, through the Ministry of Energy and Mineral Resources, has (a) adopted indicators, targets, and a timeline to address grid-subsidy for self-generation and reduce cross-subsidies, and through the Energy and Minerals Regulatory Commission has (b) taken initial actions consistent with them.	(JUN 2019)	Energy: The COM has approved the "Roadmap for Financial Sustainability of the Electricity Sector," and EMRC has conducted Quarterly Tariff Reviews at the end of Quarter-2 and Quarter-3 of 2019 consistent with the financial model adopted by the EMRC. Energy: The COM has adopted the "Electricity Bill Recovery Mechanism" to achieve reduction in distribution companies' receivables from electricity bills of the public sector. Energy: The COM has approved the NEPCO debt optimization implementation plan. Energy: MEMR submitted to the Council of Ministers the results of a review of the power purchase agreements and other related agreements for significant power generation projects.	NEPCO's operating balance is zero or positive: Baseline (2018): No Target (2019): Yes Target (2020): Yes Target (2021): Yes Electricity tariffs: Tariff cross subsidy index: Baseline (2016): 25.5 percent Target (2021): less than 21 percent Index of grid subsidy for selfgeneration: Baseline (2016): Greater than 90 percent. Target (2021): 0 percent. Ratio of NEPCO's debt service liability to EBITDA: Baseline (2018): 5.85 Target (2019): 4.3 Target (2020): 3.0 Target (2021): 1.0 Number of days of total outstanding receivables (beyond the due date) for NEPCO: Baseline (2018): 148 days Target (2019): 100 days Target (2020): 75 days
			Target (2021): 75 days

Prior actions for DPF1 (COMPLETED JUN 2018)	Prior actions for DPF2 (JUN 2019)	DPF2 2nd tranche release conditions (DEC 2019)	Results (END 2021)
	Climate: The Borrower's Council of Ministers has approved the Climate Change Bylaw No. 79, published in the Official Gazette No. 5573 on 16 May 2019, to continue the low-carbon transition and climate-resilient growth of the economy.		Climate change: Number of sectoral and subnational climate change strategies or plans prepared: Baseline (2018): 0 Target (2021): 3
The Borrower's Council of Ministers has endorsed the Ministry of Planning and International Cooperation's proposal for the Jordan 2018 Public Investment Management—Public-Private Partnership Governance Framework.		Public Private Partnerships: The COM has submitted a revised PPP Law to the Parliament (a) reflecting modifications provided by Cabinet Decision No. 56/10/6/17135 dated April 18, 2019; and (b) reinforcing provisions on government controls of fiscal risks and contingent liabilities as contained in PPP law No. 31 (2014).	PIM-PPP: Use of National Registry of Investment Projects (NRIPs): Baseline (2017): 0 percent. Target (2021): 100 percent of new projects. PPP transactions: Number of prefeasibility studies undertaken under the new PIM-PPP Governance Framework: Baseline (2017): 0. Target (2021): 5. Debt management: Inclusion of contingent liabilities and rick assessment in Debt Management
			risk assessment in Debt Management Strategy Baseline 2017: No Target 2020: Yes

The World Bank Jordan Second Equitable Growth and Job Creation Programmatic Development Policy Financing (P168130)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Completes Second Review Under the Extended Fund Facility for Jordan

May 6, 2019

- Jordan's commitment to continued gradual and steady reduction in the fiscal deficit is critical. The
 recent income-tax reform should be accompanied by efforts to increase tax revenues to help finance
 spending needs for health, education and social programs.
- It is critical to advance structural reforms to reduce business costs—particularly for energy and the cost of formal employment—in order to enhance investment opportunities and create new jobs.
- The IMF calls for greater donor support to help Jordan cope with the Syrian refugee crisis.

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Jordan's economic performance under the Extended Arrangement under the Extended Fund Facility (EFF). The completion of the second review enables the disbursement of SDR 120.085 million (about US\$166.4 million), bringing total disbursements under the program to SDR 223.015 million (about US\$309. million).

The Executive Board also approved the authorities' request for waiver of non-observance of performance criterion on the Net International Reserves of the Central Bank of Jordan (CBJ), an extension of the arrangement to March 2020, and the rephasing of access.

In August 24, 2016, the Executive Board approved a three-year extended arrangement under the EFF for Jordan for an amount equivalent to SDR 514.65 million (about US\$723 million at the time of approval of the arrangement, or 150 percent of Jordan's quota) (see *Press Release No. 16/381* to support the country's economic financial reform program. This program aims at advancing fiscal consolidation to gradually lower public debt and broad structural reforms to enhance the conditions for more social-friendly inclusive growth.

Following the Executive Board's discussion on Jordan, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

Executive Board Assessment[1]

The authorities are to be commended for preserving macroeconomic stability, maintaining a prudent monetary policy, and ensuring a sound financial system. Jordan faces a challenging environment—including low economic growth, high unemployment, and elevated public debt—underscoring the importance of swiftly implementing policies and reforms to bring public debt on a downward path, boost investment and productivity, and enhance inclusive growth.

In this regard the recent London Initiative has been most timely, and has demonstrated the international community's ongoing determination to support Jordan. Continued donor assistance is key to help Jordan cope with the refugee crisis and support the authorities' policy and reform efforts.

The authorities should continue on a path of gradual and steady fiscal consolidation, with due regard to social protection needs. Although a number of key fiscal reforms have been delayed, recent amendments to the income-tax law are encouraging and will be key in helping Jordan secure a fairer and more sustainable fiscal framework. Resolute implementation of the new law is needed, as well as ongoing measures to enhance tax administration and reduce tax evasion. These reforms are crucial to preserve

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Jordan Second Equitable Growth and Job Creation Programmatic Development Policy Financing (P168130)

macroeconomic and external stability, place public finances on a sounder foundation, and lessen risks to debt sustainability.

Jordan's monetary policy stance is appropriate, and the authorities should remain ready to adjust interest rates as needed to continue to maintain an adequate reserve buffer. Banks remain sound and well-capitalized, and steps taken to improve financial sector oversight and supervision are welcome.

The enactment of long needed growth-enhancing reforms is encouraging, including the secured-transactions law, the bankruptcy law, and the business-inspections law. Together with reforms to promote labor-market flexibility, particularly for the youth and women, and publication of a financial-inclusion action plan along with measures to support credit to SMEs, much has been done to set the stage for high-quality, inclusive growth. These efforts should continue, including measures to improve labor market conditions and strengthen the social safety net. Steadfast implementation of these reforms will be vital.

Finally, priority should be given to measures to reduce business costs and boost employment. The authorities' roadmap to restructure the energy company to reduce high electricity costs for businesses is welcome. Measures under the plan—including elimination of large cross subsidies and implementation of the new tariff-adjustment mechanism—should be implemented as swiftly as possible, and complemented by a well-targeted social protection scheme to safeguard low-income and vulnerable households.

[1] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

IMF Communications Department MEDIA RELATIONS

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ANNEX 3: LETTER OF DEVELOPMENT POLICY



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Mr. David Malpass President of the World Bank Group The World Bank Washington D.C., USA

Subject: Letter of Development Policy for the Second Equitable Growth and Job Creation
Programmatic Development Policy Financing

Dear Mr. Malpass,

- Since taking office in June 2018, the Government of Jordan has expedited the economic revival process
 with the aim to stimulate growth and create jobs. In November 2018, we launched our two-year Work
 Plan for 2019-2020 'Road to Renaissance' that is citizen-centric responding to their needs and concerns.
 The two-year Work Plan is guided by three main pillars; State of Law; State of Solidarity and State of
 Productivity.
- 2. In close collaboration with the World Bank and our development partners, we strengthened and deepened the Five-Year Growth Matrix that started in early 2018. In the matrix, we prioritized and sequenced a set of important horizontal and vertical policy reforms critical to inclusive and sustainable growth as well as job creation. Several critical reforms were already completed while others are under implementation. In parallel, we are continuing with fiscal consolidation supported by our ongoing program with the IMF, Extended Fund Facility (EFF), which comes to an end in early 2020.
- 3. Moving forward, we are committed to fiscal and macroeconomic stability by continuing a gradual and sustainable deficit reduction strategy and controlling fiscal risks, including those posed by the energy and other public utility sectors. We are also committed to continue policy reforms that will stimulate demand growth, primarily through attracting foreign investment and promoting exports. To aid local businesses, we commit ourselves to continued investment and doing business reforms that will yield efficiency and lower costs to doing business. Most importantly, our aim is to continue reforms that will improve the jobs outcomes of Jordan's increasingly better educated female and youthful labor force. We also reinforce our commitment to low-carbon and climate resilient growth.
- 4. Moreover, for those that cannot yet fully benefit from the economic prosperity we aim to further improve and expand our social protection system. We are also in the process of launching a new Social Protection Strategy (2019-2025) focusing on three main pillars: better work; social assistance; and welfare and social protection services.

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Implementation Arrangements

- 5. To build on what has been achieved to date and to keep the reform commitments the Government has already strengthened the implementation arrangements in place to deliver and monitor progress made on its reform agenda. This was done by prioritizing and focusing on reforms that have will have a transformational impact on economic growth and job creation; maintaining tight management; and explaining the purpose of proposed reforms to ensure their broad acceptance. On the latter, we are strengthening outreach and communication of reforms and those that they are being rolled out and as the next phase of reforms is being designed. In this context, we will also need to sustain our collaboration with donors to pace adjustment reforms with the needed adjustment support.
- 6. The Second Equitable Growth and Job Creation DPF-2 supports the reform agenda initiated under DPF-1 and adds key strategic reforms (such as FDI liberalization, public procurement reform, and further strengthening earlier PPP reforms). The DPF-2 aims to support: (i) reducing business costs and improving market accessibility; (ii) creating more flexible and integrated labor markets and providing better and more efficient social assistance; and (iii) improving fiscal sustainability and taking critical actions in the energy sector.
- 7. Regarding the implementation of the reforms and policy measures tied to the second tranche conditions of this loan, the Council of Ministers' decisions were already obtained committing the Government to their implementation, technical assistance is on the ground, and consultations with stakeholders have already started. The Council of Ministers decisions include:
 - Energy: Cabinet adopted a bold Roadmap for Financial Sustainability of the Electricity Sector early April 2019. The Roadmap aims to optimize the legacy debt burden of the National Electric Power Company (NEPCO), strengthen operational performance, minimize working capital needs, as well as address the increasing cost structure of electricity generation. It also includes quarterly performance milestones in each of the policy reform area as well as other decision areas.
 - Targeting of energy support benefits to help protect poor consumers: As part of the Roadmap, the Government will improve and expand targeting of energy support benefits to help protect poor and vulnerable consumers.
 - Public Private Partnership: Introducing key amendments to the PPP Law, as well as to adopt a PIM-PPP Framework Policy Paper currently being prepared with support of the World Bank that outlines the rationale, policy changes and implementation arrangements of the revised law. The Government has committed to a timely preparation and submission of a new PPP Law to Parliament as conditions for the second tranche release. The Policy paper is complemented by a first year PIM-PPP Implementation Plan that sets out the milestone actions required to operationalize the PIM-PPP



Governance Framework and the amended PPP Law. The Implementation Plan includes the preparation and approval of the regulations, key institution-building steps, establishment of a Project Pipeline Development Fund, and activation of pipeline activities.

Investor Grievance Management Mechanism: The grievance management system would help ensure
that the Government responds to investor's complaints in a suitable and timely manner and in
accordance with the country's international investment agreements and domestic laws and
regulations. The Government will enable a set of policy, regulatory instruments (bylaws and/or
instructions) procedures and systems for an investor grievance management mechanism to operate
and empower the Jordan Investment Commission to identify, track, manage and solve grievances
arising between investors and public agencies within specified time periods.

Policy Priorities

I. Fiscal Consolidation, Debt Management, Management of PPPs and Fiscal Risks

Fiscal Consolidation

- 8. The Government remains committed to a gradual and steady fiscal consolidation path. The fiscal program for 2019 is envisaging an annual fiscal adjustment of 1.5 percent of GDP and reflects Jordan's commitment to resume deficit reduction and a path toward stabilizing and reducing Jordan's public debt. Despite the challenging social conditions, the Government passed the new Income Tax Law in December 2018 with a view to broaden the tax base and support fiscal adjustment goals. Overall, Jordan has shown its commitment to the goals of IMF-EFF Program and met all end-December 2018 performance criteria on fiscal areas. The Government intends to stay the course on the IMF-EFF program and has obtained a seven-month extension from the current closing date of August 2019. The Government also plans to start discussing soon a new follow-up program with the IMF.
- 9. Looking forward, we will not only strengthen implementation of government budget to meet our projected revenue and expenditure targets but will also monitor it tightly to reduce the fiscal deficit and arrears of key public agencies. We will also tightly manage fiscal risks. In particular, the energy sector poses fiscal risks which we are committed to contain. The risks emanate from the higher interest costs and the rising costs of the energy mix.
- 10. To this end, we recognize the critical need to restore NEPCO's operational balance and stabilize state-owned water sector companies' overall deficit. Moreover, the Government is keen to halt the accumulation of fuel, health, and water-sector arrears and to clear the legacy stock of energy arrears by end-2021. Claims will be monitored while further accumulation of arrears will be prevented by enforcing that Government Units will pay for their arrears from their own budgets, in line with the



Budget Law. These measures will help to reduce the combined public sector deficit to 2.6 percent of GDP in 2019 and turn it into a surplus by 2022.

- 11. On the expenditure side, further rationalization efforts are planned while strengthening the targeting for social assistance. In the medium term and building on measures undertaken in previous years, expenditure control includes the rationalization of non-priority current spending and a containment of the public sector size, including a limitation of the public-sector wage bill growth at around 1.5 percent. Expenditure policy priorities will utilize freed up fiscal space to focus on social assistance. The Government is planning to strengthen the social safety net in Jordan by doubling the coverage of the National Aid Fund (NAF)'s cash transfer program starting in 2019. Additional reforms are designed to enhance the cost-effectiveness of social safety net programs through the digitization of NAF payments and the improved targeting of existing programs.
- 12. Public finances in the coming years will be supported by the 2018 income tax reforms. The new Income Tax Law reduced the effective exemption thresholds of personal income taxes and introduced more progressive tax rates. Corporate income tax collection will benefit from the introduction of surtax on corporate profits for the non-manufacturing sector and the removal of arbitrage opportunities, by unifying the statutory tax rate for the manufacturing and commercial sector. Moreover, the Law is expanding the corporate tax base by taxing large agricultural companies and corporate income generated on activities within free zones. Further the tax bill is implementing various additional revenue initiatives, among others the introduction of an annual minimum corporate tax of JD500 for registered partnerships and limited partnerships.
- 13. The Income Tax Law will be supported by tax administration measures, which will enforce compliance and combat tax evasion. We are taking a series of measures to safeguard domestic tax revenue mobilization in 2019, further to the decline in 2018, and the need for robust and timely implementation of the revised income tax law. The Pay as You Earn (PAYE) compliance system for large taxpayers will be strengthened, by enhanced reporting requirements and with access to third party information. Taxpayer registration will be improved by linking the issuance of a business license to the issuance of a taxpayer identification number. The tax compliance among self-employed persons will be underpinned, by matching in an online system the Government records of licensed professionals and businesses against the tax authorities' registrations. Penalties for delays in compliance and tax evasion were strengthened across tax sources.

Debt Management

14. The Government endorsed an updated Debt Management Strategy for 2019-2023 for public and publicly guaranteed debt, both domestic and external, in preparation for DPF-2. The Strategy includes



quantitative targets for interest rate risk, refinancing risk, and foreign exchange risk. A risk assessment framework for government guarantees has been developed and implemented. While fiscal policies will be the main driver of debt reduction, the Debt Management Strategy sets the goals to manage and contain the debt: (i) increase external share of debt to a maximum of 51.8 percent of GDP; (ii) extend the average maturity of domestic debt by issuing debt instrument with long term maturity (3, 5, 7, 10 and 15 years) taking market conditions into consideration; (iii) decrease the share of debt maturing within one year; (iv) issue Islamic Sukuk to diversify the financing sources and expand the investor base in government debt securities; and (v) develop new policies for issuing guarantees.

- 15. To implement this Strategy, following the renewed momentum gained by the London Initiative 2019, we worked with our development partners, including the IMF and the World Bank, to increase the degree of concessionality—and grant shares—of future financing and to stretch the maturity. This approach will help us better manage the repayment of US\$3.25 billion in Eurobonds due in the years 2019, 2020, and 2022.
- 16. As part of the talks with our development partners, we are paying attention to the energy sector debt, which reached US\$7.46 billion or about 18 percent of GDP in 2018. About US\$3 billion of this debt is serviced by NEPCO with guarantees from the Central Government and the rest is serviced by the Central Government.
- 17. We made concentrated outreach to the donor community in preparation and following the London Conference seeking support for implementation of a comprehensive Debt Optimization Plan for managing NEPCO legacy debt. The plan is in line with the Roadmap on Financial Sustainability of the Electricity Sector approved in April 2019. We plan to leverage commercial as well as developmental funds to replace expensive commercial debt with long-term blended finance to ensure a smooth debt service profile, in exchange for critical reform efforts that will assure the financial sustainability of the energy sector.

Public Investment Management

18. Given Jordan's limited fiscal space, we are committed to continue ensuring that our public investment spending is well assessed and efficient to promote growth, while minimizing future risks to the budget. Measures to strengthen public financial management will improve the management of fiscal risks and the monitoring of the Government's underlying fiscal position. We adopted in June 2016 a decision establishing a central Public Investment Management (PIM) Unit at the Ministry of Planning and International Cooperation (MOPIC) along with an action plan. As part of DPL-1, we adopted a Governance Framework for PIM/PPP decision making, recognizing that but PIM and PPP use scarce public resources to deliver public goods. As next steps and in close cooperation with the World Bank,



IFC, USAID and IMF, we are: (i) establishing a Central PIM Unit at MOPIC; (ii) staffing it with selected PIM-PPP-trained government officials; and (iii) plan to begin managing all investments according to standards set by the new PIM/PPP framework by end 2019. We also plan to develop a National Register of Investment Projects (NRIP) for PIP and PPP projects and make it fully operational for all new projects to be selected through appropriate methodologies and selection criteria for the 2021 Budget Law. This Governance Framework is similarly complemented by the PIM-PPP implementation plan referenced previously.

Public Private Partnerships

- 19. Following assistance from the IMF Fiscal Affairs Department (May 2017), an IMF conducted Public Investment Management Assessment (PIMA, February 2018) and continuous World Bank technical assistance on PIM and PPPs, the Government is taking accelerated legislative action which we view as a critical step to ensuring large and small contracts that involve the public sector are contracted transparently and based on objective criteria, with no exceptions. The Council of Ministers recently approved submitting a revised PPP Law to Parliament, with key provisions including: (i) a PPP decision-making process embedded in public investment; (ii) a PPP Unit linked to the Prime Minister; (iii) eliminating exemptions under law (previously provided to projects in the water and energy sectors); (iv) functional fiscal commitments and contingent liabilities control; and (v) creation of a Project Pipeline Development Fund.
- 20. Furthermore, the Council of Ministers adopted a decision in January 2019 authorizing the Ministry of Information and Communications Technology to enter into agreements with private sector to lease excess capacity of the national broadband network, based on a PPP model. Moving forward, we are taking necessary steps to further strengthen the PPP infrastructure and culture as well as eliminating any bottlenecks to increase investment in public infrastructure.
- 21. In terms of next steps, the Government commits to a timely preparation and submission of the PPP Law to Parliament as conditions for the second tranche release. To this end, we took a Cabinet Decision on April 18, 2019, committing to the following: (i) preparation of a PPP Policy Framework to be finalized by end-June; (ii) preparation of amendments to the PPP Law no. 31 of 2014 to be submitted to Parliament in September; (iii) implementation of a robust Government PPP communications strategy to ensure full understanding and ownership across stakeholders of the importance of the legislative amendments.

II. Electricity Reform and Climate Change

 Despite a critical dependence on imported fuels for power generation, Jordan provides reliable and good-quality electricity supply to all its citizens. After achieving a zero-operational loss during 2016,

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NEPCO witnessed a small loss of JD0.7 million in 2017. Despite adopting a monthly Tariff Adjustment Mechanism since end of 2017 and securing additional revenue of JD237 million through monthly tariff adjustments, NEPCO witnessed an operational loss of about JD77 million in 2018 (about 0.3 per cent of GDP) according to the Company's audited financial statement. This fall in sector financial performance raised a red flag that the Government takes urgent actions to avoid slipping into deeper losses. We are committed to maintain the financial viability of NEPCO by ensuring that operational balances are zero or positive in 2019 and in subsequent years.

- 23. The losses in 2018 were cause by wide fluctuations in LNG import costs (benchmark Brent oil price rose from US\$55 per barrel to US\$85 per barrel) and a fall in grid-electricity demand (high cross-subsidy burden and low solar photo-voltaic prices encourage large consumers to self-generate). Furthermore, the sector is projected to have a surplus generation capacity going forward with significant take-or-pay contractual obligations. We anticipate an increasing interest cost from rolling-over of legacy debt burden of US\$7.46 billion accumulated from disruption of Egyptian gas supply between 2011 and 2015. Meanwhile, a large quantum of electricity bill-receivables from Government agencies (over JD 200 million added during 2018) also contribute to the sector's financial difficulties.
- 24. With the objective of addressing these challenges and putting the sector back on the road to financial sustainability and maintaining zero or positive operating balances in 2019 and beyond, the Government together with the World Bank team developed and adopted a Roadmap for Financial sustainability in the Electricity sector.
- 25. The Roadmap comprises of the following key measures, which we are committed to implement as planned:
 - We initiated important steps to reduce sector costs and to ensure adequate tariff revenues. Jordan started receiving piped gas from Egypt since January 2019, which is not only cheaper than the LNG, but also has a much lower indexation to the Brent oil prices. Along with some other cost reduction measures at NEPCO, and increased revenues from higher bulk tariffs charged by NEPCO to the distribution companies. The Government took the decision to eliminate cross-subsidies to households with three-phase connections or those with more than one meter. We are committed to ensure that there is no operational loss in the sector at the end of 2019 and will undertake quarterly review of the sector financial performance and implement timely measures to mitigate any revenue-gap, including adjustment of consumer tariffs if needed.
 - We imposed a moratorium on new generation contracts outside of the latest electricity master plan.
 Moreover, with an aim to address the excess generation capacity and high-cost take-or-pay contracts, we hired legal and financial advisors to help us optimize the risk and cost allocations under our portfolio of Power Purchase Agreements (PPAs) and related agreements. We are keen on



reviewing these agreements and to take action to ensure that the prices paid by NEPCO are consistent with international experience and least cost electricity generation principles.

- We are also exploring options to export electricity to neighboring countries. We will continue to
 diversify our fuel sources towards cheaper, less volatile and domestic sources. Additionally, we
 committed to expanding domestic renewable energy capacity with suitable measures to address
 variability in generation.
- We will further adopt fair economic chargers applicable to self-generation consumers to reflect costs of capacity support, network support, network losses, and electricity banking, among others.
- The Ministry of Energy and Mineral Resources and the Ministry of Social Development will
 develop and implement a medium-term framework for improved targeting of tariff subsidies, as well
 as energy-saving schemes to reduce the need for cross-subsidies, and on-bill payment assistance to
 cap the amount of subsidy support. We anticipate that these measures will progressively decrease
 the cross-subsidy burden, allowing us to reduce the prevailing high tariffs for productive sectors.
- We adopted measures that will allow us, by the third quarter of 2019, to address the stock of
 electricity bill receivables from public agencies, as well as to ensure timely payment by all agencies
 going forward. These measures will include a one-time settlement of the stock of bill receivables by
 the Ministry of Finance against the advances provided to NEPCO earlier.
- We are in process of developing and adopting an Electricity Bill Recovery Mechanism, which would include a number of measures, including but not limited to: (i) ensure adequate budgetary allocation to public agencies for payment of electricity bills; and (ii) mechanism to ensure bill recovery in case of non-payment by due date. The design of the bill recovery mechanism will also capture schemes for public agencies to adopt energy efficiency and conservation measures.
- We reached out to the donor community in course of the London Conference in end February 2019
 requesting their support for implementation of a comprehensive Debt Optimization Plan for
 managing NEPCO legacy debt. The Plan will be closely linked to the Financial Sustainability
 Roadmap of the Electricity Sector and will leverage commercial as well as developmental funds to
 replace expensive commercial debt with long-term blended finance to ensure a smooth debt service
 profile and reduce the interest burden.
- We remain committed to institutional and governance reforms in the sector. In 2018, we started
 implementing governance reforms at NEPCO with assistance from EBRD. We will strengthen the
 regulatory set-up according to global best practices on transparency, accountability and stakeholder
 participation in the processes.



- 26. Moreover, and as part of our transformation towards a low-carbon economy, the Government passed a new Climate Change Bylaw. This is important progress toward achieving Jordan's nationally determined contribution under the Paris Agreement of the United Nations Framework Convention on Climate Change, which proposes to reduce Jordan's greenhouse gas emissions by 14 percent by 2030. Over 80 percent of Jordan's greenhouse gas emissions come from the energy sector, including transport. Reducing the carbon intensity of the electricity sector requires increasing the share of natural gas and renewable energy, while reducing in the electricity generation mix. Reducing that of the transport sector involves a faster transition to electric vehicles. Jordan has one of the most advanced regulatory and policy frameworks for renewable energy investment in the MENA region. This policy framework has shown impressive results with the share of RE-based electricity generation rising from none in 2012 to more than 10 percent in 2018.
- 27. Initial assessment indicates that total carbon emissions from the electricity sector in Jordan has decreased by 31 percent by a quarter since 2014 (a carbon intensity decline of 35 percent) without adversely impacting NEPCO finances and despite the country absorbing a large influx of refugees. The new Climate Change Bylaw establishes the institutional framework for continuing this low carbon, while mainstreaming climate change across all sectors, enabling development of new mechanisms to facilitate climate action and attracting climate and green finance from public and private sources. This is important progress toward achieving Jordan's nationally determined contribution under the Paris Agreement of the United Nations Framework Convention on Climate Change, which proposes to reduce Jordan's greenhouse gas emissions by 14 percent by 2030.
- 28. This national commitment to climate action translates to sectoral actions across the transport, energy, industry, waste management, water and agriculture, and food security sectors, with the energy sector underpinning the bulk of emissions across other sectors.

III. Encouraging Private Investment and Entrepreneurship

Foreign Direct Investment

- 29. The Government of Jordan amended the Investment Regulation for Non-Jordanian Investors (Regulation No. 77-2016) removing equity restrictions on FDI in 22 additional activities (mainly in services) to unlock growth, create jobs, and support export diversification. The Government also adopted a gradual approach to liberalization, recognizing that it may disadvantage specific groups, and to allow for enough time to strengthen the competent authorities to ensure a level playing field and a fair and full implementation of the amended regulation.
- Moving forward, the Government plans to institutionalize a strengthened investor grievance management mechanism that enables the Jordan Investment Commission (JIC) to identify, track,

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manage, and solve grievances arising between investors and public agencies within specified time periods. This would require adopting a policy, designing the investor grievance management implementation arrangements and adopting appropriate regulatory instruments (regulations/bylaws and/or instructions) to strengthen three critical elements of the investor grievance management mechanism, namely: (i) empowerment of JIC as the lead agency to establish and exercise an investor grievance management mechanism (including scope, escalation stages, etc.); (ii) details on the applicable procedural rules (requirements, eligibility, timelines, tracking device, portal, details on escalation, etc.); and (iii) scope, functions and obligations of JIC as the lead agency vis-à-vis other authorities and other review mechanisms, to institutionalize the filtering, referral, and problem-solving approach of grievance cases.

31. In terms of additional course adjustments, JIC will continue to strengthen governance and sharpen focus upon its investment promotion and investor-servicing mandate. As part of an inter-agency effort, the Government will continue to work on revising the incentives framework to achieve cost-effectiveness, improve transparency and administration, and better targeting to increase positive public spillovers and impact.

Exports

- 32. We intend to continue taking measures to improve competitiveness and bolster export diversification and growth. The Government's plan is aimed at intensifying export promotion and services to support Jordanian exporters; improving access to the EU, US, African and new and unconventional markets; improving National Quality Infrastructure; increasing export finance; and reducing the high cost of trade.
- 33. To this end, the Government established a national export promotion agency 'Enterprise Jordan' following a partnership model between the public and private sectors, which will set in place an institutional framework to assist Jordanian businesses develop and promote their products in global markets. This is an essential step towards creating a sustainable framework for export promotion, which goes in line with the Government actions in facilitating export growth. Next steps include developing a strategy, action plans, and procedures and a sustainability model to ensure the effectiveness of this agency.
- 34. The relaxation of Rules of Origin (ROO) for exports to the EU in July 2016 provides a significant opportunity to diversify our markets and broaden our product mix. We took several active steps to accelerate the potential benefits of this opening and agreed in December 2018 to loosen the requirements for businesses to benefit from this arrangement. The ROO Decision, which was extended to 2030, is no longer restricted to pre-specified industrial and development zones and the minimum

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- proportion of Syrian workers involved in production will now remain flat at 15 percent. Moreover, if the number of active work permits issued to Syrian refugees reaches 60 thousand, the minimum employment requirement will be lifted entirely.
- 35. Domestically, several workshops were conducted to raise awareness among Jordanian firms of the benefits and requirements of the revised initiative, while also simplifying application procedures, continuing with waiving fees associated with work-permit applications, and supporting Jordanian firms on marketing and certification for entry into the EU market. The Government also conducted trade missions to (and began free trade negotiations with) fast-growing East African countries, and to the U.S. (with which Jordan has a free trade agreement) to diversify the mix of products currently dominated by garments.
- 36. More broadly, for Jordan to expand its footprint in global markets, it must have the capacity to meet the standards that those markets require, which will in turn require an appropriate "National Quality Infrastructure" (NQI). In this regard, we will adopt a National Quality Policy and associated action plan in 2019 to eliminate internal conflicts of interest, increase the transparency and predictability of the process for adopting mandatory requirements, and provide a full range of NQI services to Jordanian customers—including conformity assessment, metrology, and surveillance.
- 37. On export finance, as part of DPF-1, the Government created an Export Guarantee Fund (managed by Jordan Loan Guarantee Corporation-JLGC) and provided capital in the form of a JD100 million loan from the Central Bank of Jordan to help support exporters. On the latter initiative, the Government adopted a strategic plan that will allow JLGC to increase its underwriting capacity on foreign buyers.
- 38. On trade facilitation, the Government approved new Customs Law and Bylaws permitting the implementation of a Customs Silver List (preferred merchant scheme); establishing single window procedures; addressing export controls and customs procedures (including integration and simplification of inspection work in export and import control institutions); and automating a number of key services.

Licensing and Inspections

- 39. A key Government priority is to further streamline the business environment through facilitating and integrating procedures and improving the investors' journey. For this purpose, the Council of Ministers submitted to the Parliament for its consideration a bill abolishing the Crafts and Industries Law (1953), as a first step towards eliminating duplicative licensing requirements.
- 40. In the medium-term, the Government will streamline municipal licenses by enacting the amended Vocational Licensing Law for Greater Amman Municipality (GAM) and develop secondary legislation for it. We will also amend the Vocational Licensing Law for Municipalities to follow the revised model

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which is characterized by a streamlined vocational license that uses risk-based approaches and extended license validity, abolished health license, allowing virtual and home-based businesses and new types of businesses that could emerge, more transparent and predictable licensing regime by introducing governance principles, in addition to the inclusion of professional offices by merging the Law of Professional Offices Fees to streamline licensing and ensure a uniform vocational licensing regime for all businesses.

- 41. The Government will further streamline sectoral licenses. We started implementing the Licensing Reform Policy Paper (adopted by Council of Ministers in January 2019) and assigned a qualified and empowered core team with clear mandate and responsibilities. We also started to carry out capacity building and awareness raising activities on the Licensing Reform Policy Paper to ministries and agencies that issue licenses, as part of the consultations with the sectoral regulators on the findings of the Licensing Assessment report, on which we will reach decisions on final recommendations.
- 42. As part of this effort, the Government plans to revise the Cities and Villages Law to streamline zoning and construction permitting regimes, and to revise the environmental licensing regime as well as to undertake the required amendments to the Environmental Law and Environmental Licensing Bylaw.
- 43. The Government is also expediting inspections reform. The bylaws for the new Inspections Law were enacted October 2018. The Inspection Law, which was endorsed by Parliament in September 2017, streamlines the inspection mandates and processes of several inspectorates in Jordan, and will improve the business environment by reducing the burden on the private sector resulting from overlapping inspection mandates and unplanned inspection visits, and by reducing uncertainty by introducing risk-based targeting while raising business awareness on compliance requirements. The Law also emphasizes the role of the Higher Committee for Inspection Reform as the national umbrella for business inspections.
- 44. Subsequently, rationalizing and streamlining Jordan's inspections and licensing regimes will reduce the time and cost burden on businesses resulting from unnecessary inspections and improve the transparency and predictability of the licenses and inspections that are necessary. We started designing a fully integrated service delivery approach that integrates registration with licensing and inspection.
- 45. In the coming months, the Government will streamline and launch an online portal for business registration. Building on the approved policy for licensing reform, the Government will abolish unnecessary or excessive licensing, streamline remaining licenses that are necessary and extend license durations, and will put in place a moratorium on issuing new types of licenses that are not aligned with the principles of the Policy Paper. The Government of Jordan plans to implement the abolishment of the Crafts and Industries Law over the next six months. In this context, the Government will request adding



it to the agenda of the extraordinary session of Parliament this summer. The Government will also take necessary steps to map all secondary regulations that are affected by abolishing this Law in order to come up with a more realistic timeline for abolishing or re-issuing these regulations.

Credit Infrastructure (Insolvency and Secured Transactions)

- 46. Modern Insolvency and Secured Transaction laws are the cornerstones of an enabling financial system. Jordan has made great progress on enacting and implementing both laws. Following the approval of the Insolvency Law in May 2018, we enacted the associated bylaws in January 2019. As next steps, the Government plans for efficient implementation of the reform through:
 - · Legal drafting: Draft the instructions foreseen in the regulation.
 - Insolvency Practitioners (IPs) training and oversight: (ii) form the insolvency practitioners
 committee foreseen in the law and the regulation, (ii) develop training material for IPs & code of
 Ethic, (iii) Hold the first training round for IPs, (v) certify first generation of IPs under the new
 regime.
 - Capacity Building and Awareness Raising: (i) Build capacity of judges in collaboration with the Judiciary Institute, and (ii) Raise awareness with lawyers, bankers, accountants and business community.
 - Set-up the Insolvency E-Registry: (i) fundraise for a customized IT solution, and (ii) appoint a registrar and train ministry officials.
- 47. Moreover, Parliament approved the new Secured Transactions Law (Law of Movable Asset Rights No. 20 of 2018) in April 2018, and the Council of Ministers approved the related Bylaw in October of the same year. Based on which, an online Collateral Registry was launched in March 2019. The Collateral Registry System was established under the Ministry of Industry, Trade and Supply as a fully functional, electronic registry in accordance with provisions of the new law. It is pertinent to note that the Collateral Registry had been launched as a pilot for registration of interests held by leasing companies, which by the provisions of the law, their registered interests will be categorized as prior notices.
- 48. By end of April 2019, 20 accounts had been setup and 325 transactions were registered. However, as this type of reform changes existing commercial practice and procedures, results are expected to become substantial within twelve months from the launch of the Registry. In the coming year, we plan to continue stakeholder engagement and capacity building that will focus on providing technical support to the Ministry of industry, Trade and Supply; and training on the scope of the legal framework to relevant stakeholder groups, associations and beneficiaries.

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Public Procurement

- 49. The Government recognizes that a well-functioning public procurement system can improve governance and service delivery, and advance sustainable development, through more efficient, transparent and accountable public spending. The recently enacted new Unified Public Procurement Bylaw no. 28 for 2019 provides for the establishment of a central policy and oversight unit and an independent complaints-handling unit. In addition, it contains provisions on framework agreements, electronic Government Procurement (e-GP), and alignment of SOE procurement practices with the provisions of the Bylaw.
- 50. The Government will allocate appropriate financial and human resources for its successful implementation by: (i) operationalizing the central policy and oversight unit and the procurement complaints handling unit by end of 2019; (ii) Issuance of regulations and standard bidding documents to support implementation of the new bylaw by December 2019; (iii) conduct an awareness campaign by October 2019; and (iv) develop and deliver a continuous capacity building program to all stakeholders including the private sector.
- 51. In line with the e-transformation program adopted by the Government, the development of the e-Government Procurement (e-GP) system, JONEPS, will ensure the highest levels of integrity, transparency of the procedures and fair competition between the bidders and wider, more equitable access to the procurement market for the private sector, including SMEs, women & youth, while also facilitating access to information and inclusion of stakeholders, including civil society.
- 52. Following the endorsement of the JONEPS enhancement strategy and action plan in March 2019, the Government made a commitment to allocate the needed financial and human resources in order to (i) set-up of the institutional framework by November 2019; (ii) develop and implement the enhanced system functionalities including measurement of procurement performance indicators by February 2020; (iii) support the Project Management Unit in implementation of JONEPS full roll-out and deployment; and (iv) develop and implement sustainable training of buyers and sellers.

Digital Economy - Broadband

53. Over the past decade, the digital economy has transcended the boundaries of physical borders, and it now provides a transformative opportunity for the world's economies to optimize growth and create platforms for the youth of today. The Government set a goal of broadening the base of digital economy in Jordan in its action plan (Reach 2025). Completion of the National Broadband Network (NBN), a key element of Reach 2025, is expected by 2021. Through the PPP setup, the NBN will obtain an important commercial value, increase the national penetration rates of broadband internet, reduce connectivity costs, and enhance the competitiveness of local businesses, and provide high-speed internet access in



second tier cities. Entering into agreements with the private sector to lease the excess capacity of the NBN, based on a PPP model, will extend the broadband fiber access to additional 170,000 households as a direct result of NBN expansion.

54. In the coming months, the Government will select a company, following a competitive process, to manage and expand the NBN (by March 2020). As complementary measures to support the digital economy development, the Government will establish procedures mandating the use of digital signatures (e-signatures) by businesses for statutory filings with Government agencies. We will also negotiate current agreements with mobile operators to incentivize additional investments in the sector, including extending the duration of current spectrum licenses, creating a fund for digital skills development, and reviewing the current revenue-sharing model.

Transport and Gender

- 55. Related to reducing business cost and accessing newer markets is also the issue of transportation. The transport and logistics sectors contribute 9 percent to GDP in Jordan, and are recognized as an important driver of competitiveness, growth, job creation and social development. Government will focus on two areas in the transport sector, which are urban transport and freight transport.
- 56. First, in urban transport, and the current state of the subsector add enormous direct and indirect cost to commuting workers and poses an exceptional burden on women that want to enter the labor force. In urban transport, the Government initiated the reform process through the 2017 Public Transport Law, focused on consolidating the individual ownership of buses (80 percent) into companies, as a first step towards enhancing the quality and service reliability of Public Transport. The Ministry of Transport is piloting the reform in the city of Jerash, including the consolidation, the contracts with the new operators and the ITS system (GPS tracking and e-payments).
- 57. The Ministry of Transport is also revising the Public Transport Strategy for the cities of Irbid, Madaba, Zarqa and Salt, and consultations with the operators have started. The General Amman Municipality is developing the first Bus Rapid Transit in Jordan, which will have an integrated fare with its feeder buses, by 2021. The government also committed adopting e-payments for all public transport systems following the consolidation.
- 58. Recent studies show that about 47 percent of women reported that they turned down or gave up job opportunities because of the current state of public transportation with harassment being one of their main concerns. To respond to this, the Government developed the Code of Ethics and Professional Conduct for the transport sector, which will regulate the passenger, the driver and the operator conduct in public transport and which will address harassment in the public transport system.



- 59. The code of conduct will be part of all the agreements to be signed with the new operators. It is very important to support the Ministry of Transport in implementing the code of conduct to ensure it has an impact on the ridership of women in public transport, and this includes communication, training of all key entities and personnel, particularly those in customer front-facing roles, and creation of a Grievance Redress Mechanism to ensure that complaints including on sexual harassment are addressed promptly and effectively.
- 60. Here, it is worth noting that user-oriented and gender-responsive public transportation is a public goodit can score environmental gains in terms of reducing traffic congestion, enhancing road safety and improving environmental outcomes, such, as reduction in emissions - by encouraging move from private to public transport usage, which can only be achieved if transport service providers accommodate the needs of their diverse passenger base and meets both women's and men's mobility needs.
- 61. A second very important area of concern for us is freight transport in the Amman-Aqaba corridor. The freight market in Jordan is based on trucking, which is fragmented both in terms of firm characteristics and market structure and runs an aged fleet that is subject to a range of regulatory constraints, including access restrictions at Aqaba Port. We are keen on reforming the sector and reaping the benefits of efficiencies of scale and scope. The Government will work with relevant stakeholders to develop an action plan that will upgrade the sector through fleet renewal, professionalization, and firm consolidation, while increasing overall trucking and logistics sector efficiency and reducing market distortions.
- 62. The Government is working in all these areas. The primary emphasis will be on containerized cargo for international trade. The Government is undertaking a number of measures to reduce the total cost of transport on the Amman-Aqaba corridor through the establishment of an electronic platform through the electronic system project of the way bill, and the introduction of e-payments. The Government will explore updating existing incentives for fleet renewal, implement a scrapping program based on global best practice and revise related regulations.

IV. Labor Market Reforms and Protecting the Poor

63. Creating good jobs for the fast-growing population is the Government's key aim where all reforms and efforts are geared to creating an economy that produces good-paying jobs. That said, we are working on addressing remaining challenges in the structure, performance and results of the labor market, including issues related to labor market segmentation. To address labor market segmentation, the Government is taking necessary steps to revise existing structures as well as legal and regulatory framework wherever needed.



64. In parallel, to promote a more inclusive growth process and help households manage the risks from some necessary fiscal reforms, including price increases in certain sectors such as electricity and water and the removal of subsidies, the Government will continue to expand and improve targeting of social safety nets for the poor and vulnerable.

Labor Market Segmentation - Gender

- 65. The Government prioritizes the creation and facilitating employment opportunities especially for women noting that Jordan's women economic participation is among the lowest globally and regionally at 14 percent. In this respect, the Government is committed to continued revisions of laws and regulations that may affect the opportunities and outcomes of women in the labor force. In line with DPF-2, we have undertaken a number of actions to further improve and promote women economic participation, including amendments to the Labor Law.
- 66. While good childcare is a family issue, not women's issue, in Jordan, access to good childcare does affect women more than men. For this reason, reforms providing childcare and facilitating licensing for establishing childcare establishments is an initiative to help women enter and stay in the labor force. The new Labor Law makes it mandatory for all establishments with more than 20 parents (not just mothers) to have childcare on their premises or to provide vouchers for private childcare. In addition to the fact that access to affordable childcare is an important factor in their decision to join the labor force, nurseries are a potentially important sector of employment for women.
- 67. Moreover, concerns about the burden that requirements to provide childcare for employees place on business are addressed. The Government is considering a pilot voucher system that will allow flexibility both in the financing and provision of these childcare services. The gist is to show less costly, and equally effective, modes of fulfilling the mandate to have more childcare services available to working mothers and fathers. If successful, the pilot will allow the Government to exploit the flexibility the new Labor Law provided private businesses to help finance some of the cost of childcare services.
- 68. In addition to the Code of Conduct adopted by the Ministry of Transport, the Ministry of Labor has also recently introduced a Code of Conduct for Employers and Employees in the Workplace to be adopted by companies as part of their annual registration process. Both codes of conduct make explicit references to sexual harassment and gender-based discrimination and specify Grievance Redress Mechanisms in the instructions. The Government expects that this will allay concerns, prominent in the Jordanian streets, that women are not safe when using public transport and in the workplace. This relatively modest measure is expected to begin to turn that view around and help women enter the workforce.



- 69. To address Jordan's relatively poor jobs performance, especially for young Jordanians, the Government introduced more flexibility into the labor market. New legislation was approved to promote and regulate flexible work (part-time work) with hourly minimum wage rates to encourage employment of women and youth. The Government is also considering options such as temporarily reducing the employer's contribution to the social security fund when the employer hires a new entrant to the labor market. The Government is working with the World Bank to understand how such a temporary reduction would impact the social security fund and to estimate whether there would be sufficiently added youth employment to justify the costs.
- 70. The Government's ongoing efforts to reduce informality will also help promote demand for young Jordanian workers. Government ongoing efforts to better manage the number of permits provided to foreign workers through the Ministry of Labor's work permit reforms would help stem the flow of guest workers entering the informal sector once their permits have expired. Informality attenuates incentives for the economy to produce better quality low-skilled jobs, disadvantaging youth. Young workers, given their relatively lean experience and comparatively low skills, compete for work that is most likely to be the type informal workers do. Because of their informal status, these workers are likely less expensive and more flexible than young workers protected by the law and expecting that worker-employer relationship will not be abusive.
- 71. Finally, the Government and the World Bank are engaged in a study of the Social Security Corporation regulations. This joint effort is studying equalizing, for example, the retirement age of men and women. At present, women's eligibility to retire with full social security benefits comes earlier than for men and may be encouraging women to leave their jobs when the Government may prefer them continue to be productive at work.

High skilled Labor

- 72. The Government will stimulate job creation by allowing talented foreign workers to make contributions to the local economy. To stimulate labor demand and increase job opportunities, the Government liberalized visa requirements for high-skilled foreign workers. By allowing high-skilled foreign labor to enter, this reform fills labor shortages for this segment of the labor market and keeps it working efficiently. This visa reform is a job creation measure because high-skilled immigrants contribute to technological adaptation that has been shown to result in jobs for less-skilled native workers.
- 73. The Government recognizes that high-skilled foreign workers are likely to complement less-skilled workers—not replace them. The Government expects that high-skilled foreign workers add value to the work of others and improve productivity and growth overall.



Labor Market Segmentation - Supporting Syrian Refugees

74. One of the most pressing problems in unemployment and underemployment is found in the Syrian refugee community. Many Syrian refugees have yet to receive work permits, but they nevertheless have high employment rates. Their drive to work, regardless of their qualifications, likely means they seek and gain employment in the informal sector. To increase formal participation of Syrian men and women in the Jordanian labor market, the Government instituted a set of reforms that facilitate refugee access to the formal labor market. The Government waived work permits fees for Syrians since 2016 (over 143,000 cumulative work permits were issued since 2016), introduced flexible work permits in agriculture and construction sectors, and recently allowed home-based businesses for Syrians refugees.

Social Protection

75. The Government is committed to an ambitious social safety nets reform agenda to enhance the protection of the poor and to facilitate their transition out of poverty. First, we are expanding the coverage of NAF's cash transfers to an additional 85,000 households by 2021. The first phase of the expansion, covering 25,000 new households will start very soon. The Government is committed to ensuring adequate budget to cover 55,000 additional households in 2020 and 85,000 additional households in 2021. The expansion of cash transfers is being accompanied by improvements in the delivery system of the program, including the digitalization of payments to beneficiaries and improved targeting. Second, the Government of Jordan will also, starting in 2019, complement income support through NAF with other services, such as health insurance. Third, the Government of Jordan is also envisaging the introduction of energy support benefits to help protect poor consumers. Fourth, starting in 2020, the Government of Jordan will start providing employment support to selected NAF beneficiaries, focusing on employable youth. Fifth, this enhanced support to the poor will eventually be delivered through two interconnected platforms: the National Unified Registry (for income support and social services) and the National Electronic Employment System (for employment support services). Given the limited fiscal space, as income support and key services are expanded, programs with low cost-effectiveness will be reformed.

Implementation of the Five-Year Growth Matrix

76. The Government is keen on paving the country's path for economic revival, through inclusive and sustainable growth, and most importantly, through signaling to the world that Jordan is open for business. The Government considers the reform agenda an essential part of its 2-year Work Plan, which in turn, will reposition Jordan as a successful model in the region, as enabler and implementer of reforms, and as a catalyst for development from every angle and in every sector.

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- 77. With the help of its development partners, the Government worked on developing a well-defined five-year reform matrix, which identifies a sequenced set of priority reforms to be implemented as part of Jordan's economic revival plan. The Government thus commits to focusing on implementing the prior actions identified in the DPF-2 operation over the period 2019-2020, which are considered as critical milestone for the release of the second tranche as stipulated in the operation's Program Document.
- 78. The international community has played, and continues to play, an important role in supporting Jordan and the Jordanian people during challenging times. Jordan, in turn, has exerted every effort to establish and maintain a long standing, strong partnership with its development partners. More recently, donor support has been extended to the Government in terms of reinforcing a mechanism for delivery of support and commitment to the priority reforms identified as part of the DPF2 operation. As Jordan continues to carry the burden of large financing needs, an agreement has been reached that donor financing will be sequenced based on the enactment of reforms.
- 79. We, hereby, reiterate that our Government considers the reforms identified in the Five-Year Growth Matrix of highest priority, and as such, it dedicated serious efforts over the last months to mobilize the Cabinet and relevant authorities to ensure that necessary laws have been passed accordingly, and that adequate funding has been allocated to finance the implementation of prior actions.
- 80. Implementing these reforms as planned will also send an important signal to our partners. The Government was keen on publicly discussing the priority reforms, to ensure a consultative process and buy-in from the public. The Government of Jordan was also earnestly keen on developing a time bound action plan for each of the tranche prior actions. Moreover, while a strong and efficient governance structure for the Five-Year Reform Matrix is being established, the process has been accelerated for energy reforms.

In conclusion, the Government reaffirms its commitment to the reforms supported by DPF-2. In particular, the Government commits to implementing reforms envisioned under the second tranche of the DPF-2 to which the Government's Cabinet decisions attest.

Our Government appreciates the seriousness of the country's fiscal conditions and financing needs, and will continue to mobilize every effort towards implementing the Five-Year Growth Matrix, to benefit from the important lifeline financing resources available such as DPF-2, and to further obtain Bank support in devising projects and utilizing lending instruments that serve the reform process, and ultimately, serve the interests of the Jordanian people.



Finally, allow me to take this opportunity to reiterate our sincere appreciation to the World Bank Group continued support to Jordan and we look forward to a stronger partnership in the future.

Please accept my highest esteem and consideration.

Sincerely,

Dr. Omar Razza: Prime Minister

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ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions for DPF2 (JUN 2019)	DPF2 2nd Tranche (Release conditions DEC 2019)	Significant poverty, social, or distributional effects	Significant environmental effects			
PILLAR I: Reducing business costs and in	PILLAR I: Reducing business costs and improving market accessibility					
Prior action 1—FDI opening markets and streamlining licenses: With the view to (a) open sectors important in Jordan's key value chains, the COM has amended, through Investment Bylaw No. 80, published in the Official Gazette on May 16, 2019, Non-Jordanian Investments Bylaw No. 77-2016 to: (i) fully	2nd Tranche release condition 1—FDI Retaining and expanding investments: The COM has approved an investor grievance mechanism that enables the Jordan Investment Commission to identify, track, manage, and solve grievances arising between investors and public agencies within specified time periods.	This has the potential for increased growth and competitiveness and lower consumer prices for goods and services, but the impact on employment and wages is unclear and will require monitoring.	Adverse environmental effects are not expected.			
liberalize (100 percent foreign ownership allowed) 22 of 51 activities and services; and (ii) provide that foreign ownership in any activity or sector not on the negative list (as published in the Non-Jordanian Investments Bylaw) is permitted without restriction; and (b) modernize and simplify the licensing requirements for businesses, the COM has submitted to the Parliament a law abolishing Crafts and Industries Law (1953).		Adverse poverty and social impacts are not expected.	Adverse environmental effects are not expected.			

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Prior actions for DPF2 (JUN 2019)	DPF2 2nd Tranche (Release conditions DEC 2019)	Significant poverty, social, or distributional effects	Significant environmental effects
Prior action 2—Procurement: The Borrower's Council of Ministers enacted a consolidated legal framework for public procurement (applicable also to state-owned enterprises) through the issuance of a new Bylaw No. 28, as published in the Official Gazette on May 1, 2019 (containing provisions for framework agreements, e-government procurement, independent review of bidder complaints, and establishment of an oversight and policy unit) consistent with international good practices.		Adverse poverty and social impacts are not expected.	Adverse environmental effects are not expected.
Prior action 3—Broadband: The Borrower's Council of Ministers adopted Decision No. 11/3/1/127 dated January 1, 2019, authorizing the Ministry of Information and Communications Technology to enter into agreements with the private sector to lease excess capacity of the national broadband network, based on a PPP model.		Adverse poverty and social impacts are not expected.	Adverse environmental effects are not expected.

Prior actions for DPF2 (JUN 2019)	DPF2 2nd Tranche (Release conditions DEC 2019)	Significant poverty, social, or distributional effects	Significant environmental effects
Prior action 4—Gender and high skilled labor: The MoL has through its decisions (a) No. 2/2018 dated December 30, 2018, amended the 2010 Decision for Article 69 of the Labor Code by removing all restrictions		This action has the potential to increase female labor participation rates and promote gender inclusivity. The extent of the impact will depend upon social norms on women working.	Adverse environmental effects are not expected.
on the types of jobs and hours women are allowed to work; and (b) No. 3/2018 dated December 30, 2018, issued instructions allowing highskilled foreigners to work in occupations and sectors previously restricted to them.		International experience suggests high productivity for domestic workers when high-skilled foreign labor is a complement.	Adverse environmental effects are not expected.
Prior action 5—Digital payments: The Borrower's Council of Ministers approved, through Decision No. 56/10/6/1440, dated January 16, 2019, the digitization of payments to new National Assistance Fund (NAF) beneficiaries through e-wallet and bank accounts.	2nd Tranche Release Condition 2— Targeting: The COM has approved a targeting mechanism for delivering electricity support benefits that will help in providing social protection to the poor.	The extent to which this measure can mitigate the impact of higher energy prices on the poor will depend upon the final framework as to who is eligible and what mitigating measures will accompany this framework.	Adverse environmental effects are not expected.
PILLAR III: Improving fiscal sustainability and taking more informed decisions regarding risk			

Prior actions for DPF2 (JUN 2019)	DPF2 2nd Tranche (Release conditions DEC 2019)	Significant poverty, social, or distributional effects	Significant environmental effects
Prior action 6—Revenues: The		The 2019 income tax reform is unlikely	Adverse environmental effects are not
Borrower raised domestic revenues in		to have a significant impact on poverty	expected.
the 2019 Budget Law through (a)		and will modestly reduce inequality by	
implementation of income tax reform;		increasing income tax being paid by	
(b) revisions to the general sales tax		the richest households. The extent of	
and its administration; and (c)		the impact on poverty from the	
increases in customs revenues and		personal income tax reform will	
nontax revenue.		depend upon compliance among the	
		small number of households with large	
		incomes but many dependents but is	
		expected to be considerably less than	
		the poverty reduction impacts from	
		the NAF expansion under DPL1 and	
		currently being implemented.	
	2nd Tranche Release Condition 3 –	Reduction in cross-subsidization would	Significant positive impacts on
	Energy: The COM has approved the	result in lower cost of doing business	environmental and climate change
	"Roadmap for Financial Sustainability	and potentially greater job creation. At	effects due to the anticipated reduced
	of the Electricity Sector," and EMRC	the same time, tariff increases could	demand in response to electricity
	has conducted Quarterly Tariff Reviews	increase poverty unless mitigating	tariff increases.
	at the end of Quarter-2 and Quarter-3	measures are taken. However, part of	
	of 2019 consistent with the financial	the impact of increased direct prices	
	model adopted by the EMRC.	will be offset by lower prices on goods	
		and services that use electricity in their	
	2nd Tranche Release Condition 4-	production, now being charged to	
	Energy: The COM has adopted the	firms at a lower price. The final impact	
	"Electricity Bill Recovery Mechanism"	will depend upon the mechanisms for	
	to achieve reduction in distribution	social protection adopted, as well as	
	companies' receivables from electricity	the value of lower prices for other	
	bills of the public sector.	goods and services, but the impact of	
		tariff increases is likely to be offset by	
		the NAF expansion.	

Prior actions for DPF2 (JUN 2019)	DPF2 2nd Tranche (Release conditions DEC 2019)	Significant poverty, social, or distributional effects	Significant environmental effects
Prior action 7—Climate Change: The Borrower's Council of Ministers approved the Climate Change Bylaw, No. 79, published in the Official Gazette No. 5573 on 16 May 2019, to continue the low-carbon transition and climate-resilient growth of the economy.	DPF2 Tranche 2 Release Condition 5- Energy: The COM has approved the NEPCO debt optimization implementation plan. DPF2 Tranche 2 Release Condition 6- Energy: MEMR submitted to the Council of Ministers the results of a review of the power purchase agreements and other related agreements for significant power generation projects.	Adverse poverty and social impacts are not expected.	Significant positive impacts on environmental and climate change effects due to the implementation of mitigation measures and reduction of greenhouse gases in the medium to long term.
	2nd Tranche Release Condition 7— PPP Law: The COM has submitted revised PPP Law to the Parliament (a) reflecting modifications provided by Cabinet Decision No. 56/10/6/17135 dated April 18, 2019; and (b) reinforcing provisions on government controls of fiscal risks and contingent liabilities as contained in PPP law No. 31 (2014).	Adverse poverty and social impacts are not expected.	Adverse environmental effects are not expected.

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ANNEX 5: FULL POVERTY AND SOCIAL ANALYSIS

171. An important feature of the PSIA for DPF2 is the use of new household survey data. A new Household Income and Expenditure Survey (HIES) collected in 2017–18, has recently become available. It provides a picture of current Jordanian and non-Jordanian household welfare and spans a full year, critical for examining the seasonality of consumption for potential future reforms in electricity and water.

TAX REFORM

- Prior action 6 saw the introduction of a new income tax law, which saw modest reductions in income 172. exemptions and increases in tax rates. A new income tax law was proposed by the Cabinet in September 2018 and passed by the Parliament and signed by the Royal Court in modified form in December 2018. Table A5.1 compares the existing law with the versions proposed by the previous administration in May 2018 and the current administration in September, as well as the final version. The September draft, like the May draft, proposed modest reductions in household income exemptions. Annual personal and dependent deductions were to be reduced from JD 12,000 each to JD 9,000 with the dependent deduction falling again to JD 8,000 in 2020. Deductions up to JD 4,000 for medical, education, rent, and interest expenses were to be removed, and the total maximum household joint exemption limit reduced from JD 28,000 to JD 20,000. Only the first JD 25,000 of agricultural income was to be exempt, instead of all such income currently. Tax rates for the lowest bracket would be reduced from 7 percent to 5 percent but increased for all other brackets, while a social solidarity tax of 1 percent of all income was introduced. However, during Parliamentary deliberations, several reforms were watered down. Medical, education, rent, and interest deductions were restored up to JD 3,000 in 2019 and increased to JD 5,000 in 2020. Agricultural income becomes taxable only at JD 1 million, while a new exemption of JD 2,000 per disabled household member was introduced. One tax bracket rate was reduced while the top rate was increased from the current 20 percent and proposed 25 percent to 30 percent on all income above JD 1 million, and the social solidarity tax applies only to incomes above JD 200,000.
- 173. Analysis of the existing and new tax laws is complicated by underreporting of income in the household survey and estimating the extent of compliance. Estimating who is liable for income tax and how much is an inexact analysis using household surveys. Households tend to underreport income in household surveys, for a variety of reasons, including fear of incomes becoming known to tax authorities. Moreover, for farmers and the self-employed, their income fluctuates and often is not well-known even to themselves.⁵⁰ There is evidence of underreporting of income in the Jordan HIES. Reported income is lower than reported consumption across all consumption deciles. While this could indicate dissaving to support consumption levels, it more likely reflects underreporting. Changes in reported net assets are lower than would be required to be consistent with the degree of dissaving implied by comparing income and consumption (see table A5.3 and later discussion). This is a common phenomenon in many countries, not just Jordan. Moreover, estimates of who is paying tax and how much are further complicated by noncompliance with the existing law and likely noncompliance with the new law. The analysis of potential tax liability under the current law indicates that 2.9 percent of households would be liable to pay tax, which is likely lower than the true liability given the underreporting. However, only 1.0 percent of households in the survey report paying taxes. With little reason to misreport on this question, it suggests that many households that should pay tax do not. Determining which additional households liable to pay tax under the new law will comply is difficult. Attempts are made below to adjust for both underreporting and noncompliance but are estimates only.

⁵⁰ See Deaton and Zaidi (2002) "Guidelines for Constructing Consumption Aggregates for Welfare Analysis," LSMS Working Paper 135.

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Table A5.1 Key Changes to Income Tax Law

PERSONAL INCOME TAXATION	Current Tax Law	May 2018 Draft Bill	September 2018 Draft Bill	Final 2018
	(a)	(b)	(c)	(d)
EXEMPTIONS				
Personal exemption	JD 12,000	JD 8,000	JD 9,000	JD 10,000 (FY 2019)
				JD 9,000 (FY 2020)
Dependents exemption (irrespective of number)	JD 12,000	JD 8,000	JD 9,000 (FY 2019)	JD 10,000 (FY 2019)
			JD 8,000 (FY 2020)	JD 9,000 (FY 2020)
Household exemption (joint limit)	JD 28,000	JD 20,000	JD 18,000 (FY 2019)	JD 20,000 (FY 2019)
			JD 17,000 (FY 2020)	JD 18,000 (FY 2020)
Additional Exemptions				
Medical, education, rent, housing loan interest, Murabaha interest	JD 4,000	Removed	Removed	JD 3,000 (FY 2019)
				JD 5,000 (FY 2020)
Agricultural income	Exempt	The first JD 25,000	The first JD 25,000	100% exempt up to JD 1 million, then regular tax rate
Retirement and social security income	First 3,500 JD Exempt	First 3,500 JD Exempt	First 3,500 JD Exempt	First 3,500 JD Exempt
Insurance compensation	Exempt	Exempt	Exempt	Exempt
Inheritance or cash/in-kind gifts	Exempt	Exempt	Exempt	Exempt
Capital gains (stocks, bonds, equity loan, and futures and options contracts)	Exempt	50% exempt	50% exempt	Taxable at regular rate
Dividends paid to individual	Exempt	Exempt		Exempt
Income of disable person(s)	Taxable	Taxable	Taxable	JD 2,000 exempt per disabled person
DEDUCTIONS				
Transfers from Governments and NGOs	Non-taxable	Non-taxable		Non-taxable

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Contribution of pension/provident fund, life and health insurance	Non-taxable	Non-taxable	Non-taxable	
Taxes paid in the previous period	Non-taxable	Non-taxable		Non-taxable
TAX BRACKETS				
JD 1-5,000	7%	5%	5%	5%
JD 5,001–10,000	7%	10%	10%	10%
JD 10,001–12,000	7%	15%	15%	15%
JD 12,001–15,000	14%	15%	15%	15%
JD 15,001–20,000	14%	22%	22%	20%
JD 20,001–24,000	14%	25%	25%	25%
JD 24,001-300,000	20%	25%	25%	25%
JD 300,001-1,000,000	20%	25%	25% Flat rate	25%
JD 1 million+	20%	25%	25% Flat rate	30% Flat rate
Social solidarity tax	-	1%	1%	1% for annual income >200,000 JD

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- Without adjustments, the survey data indicate that the percentage of households liable to pay tax would increase from 2.9 percent to 5.3 percent. The increase would be concentrated amongst the richest 10 percent of households and affect few households in the poorer half of the consumption distribution. Table A5.4 shows the projected increase in households liable for income tax under the existing law, the law proposed in May 2018, and the final law passed by Parliament. The percentage of households liable for tax nearly doubles from 2.9 percent to 5.3 percent, although this is considerably lower than the 9.4 percent that would have resulted from the May proposal. Almost all the increase comes from households with total income in top 10 percent of the distribution (decile 10), with the percentage of decile 10 liable increasing from 29 percent to 53 percent and no other deciles affected. The May 2018 proposal would have extended tax liability to 14 percent of the second richest decile by income, although 99 percent of all tax would still have been paid by decile 10. However, households with large incomes may still not be well-off in per capital consumption and living standards if they have a high number of dependents. Table A5.2 presents the results when households are arranged in deciles according to per capita consumption, the basis for estimating poverty and welfare. Under the existing law, 1 percent or less of the poorest 70 percent of households were liable for tax, while 18 percent of the richest 10 percent were liable. The new law would increase liability amongst the richest 10 percent to 26.3 percent, but also for the second richest decile from 5.1 percent to 8.8 percent. Liability for the poorest 30 percent would remain under 1 percent but be between 1.6 percent and 5.8 percent over deciles 4 to 8.
- 175. The new law modestly broadens income tax incidence away from the richest 10 percent, which would remain responsible for 80 percent of tax liabilities. However, effective tax rates will remain very low for all households, including the richest. Under the existing law, 90 percent of tax liabilities fall upon the richest 10 percent and almost all the rest on the next richest 10 percent (table A5.1). The new law would reduce incidence of liabilities for decile 10 to 80 percent, with modest increases in the burden for deciles 8 and 9 and small increases below that. However, this increased burden below decile 10 is minor; the effective tax rate—tax liability as a percentage of household income—is under 4 percent for those liable in deciles 1 to 8, and only increases from 4.6 percent to 6.7 percent for those in decile 9 and 10.4 percent to 10.9 percent for the richest decile (table A5.4). The exception is in decile 2, where it increases from 0.9 percent to 11.5 percent, indicating several relatively high-income households but with many dependents are seeing a significant increase in the tax rate.
- 176. If there was full compliance with the new personal income tax reforms, there would be a small impact on poverty of 1.1 percentage points and a modest reduction in inequality by 0.8 points in the Gini coefficient. Table A5.6 shows the net impact of the income tax reform on poverty and inequality. Assuming full compliance, poverty would increase from 15.9 percent to 17.0 percent while inequality as measured by the Gini coefficient falls modestly from 35.1 to 34.3. The increase in poverty reflects households with large incomes but many dependents paying more tax. The modest reduction in inequality reflects the fact that the tax base is not broadened below decile 10 very much and that the effective tax rates for all remain very low, reducing the effectiveness of the new law in both raising new revenues and reducing inequality.

Table A5.2 Tax Incidence by Total Household Income Decile

	Total household income decile										
	1	2	3	4	5	6	7	8	9	10	
Household income gross, annual (JD)	1,856	3,789	4,906	5,916	7,181	8,774	10,663	12,945	16,407	28,610	10,101
Households liable for tax in 2019 (%)											
Existing law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	29.1	2.9
May 2018 proposal	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.0	13.6	80.5	9.4
September 2018 proposal	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	3.2	66.5	7.0
Final new law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	53.0	5.3
Incidence of tax paid (%)											
Existing law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	
May 2018 proposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	99.0	
September 2018 proposal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	99.9	
Final new law	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	100.0	

Source: 2017–18 Jordan HIES and World Bank calculations.

Table A5.3 Tax Incidence by Per Capita Consumption Decile

	Per-capita consumption decile										
	1	2	3	4	5	6	7	8	9	10	
Household income gross, annual (JD)	5,846	6,846	7,773	8,379	9,058	9,720	10,179	11,195	12,514	19,503	10,101
Household taxable income, annual (JD)											
Existing law	5	32	8	30	19	14	64	154	429	3,141	389
May 2018 proposal	39	103	92	175	269	213	377	663	1,203	5,068	820
September 2018 proposal	22	77	53	115	159	124	237	465	896	4,478	662
Final new law	13	57	29	73	84	70	152	312	682	3,816	529
Households liable for tax in 2019 (%)											
Existing law	0.1	0.4	0.1	0.8	0.6	0.7	1.0	2.4	5.1	17.9	2.9
May 2018 proposal	1.1	1.5	2.4	4.2	6.3	6.0	9.0	12.4	17.8	33.6	9.4
September 2018 proposal	0.6	1.2	1.6	2.3	4.3	3.4	5.3	8.1	12.7	30.1	7.0

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Final new law	0.4	0.7	0.8	1.6	3.2	2.1	3.3	5.8	8.8	26.3	5.3
Household total tax liability (if greater than zero), a	annual (JD)										
Existing law	36	60	57	32	74	21	152	287	576	2,027	1,381
May 2018 proposal	266	772	292	339	309	262	359	499	765	2,358	1,161
September 2018 proposal	258	694	236	405	259	255	382	535	820	2,349	1,315
Final new law	223	786	221	307	157	192	346	450	834	2,126	1,306
Household total tax liability (if greater than zero ar	nd if reportin	ıg tax paic	l), annual	(JD)							
Existing law	0	0	0	0	0	0	0	3	8	1,137	10
May 2018 proposal	0	0	0	0	92	17	240	161	302	2,528	1,631
September 2018 proposal	0	0	0	0	19	0	147	97	208	2,241	1,428
Final new law	0	0	0	0	9	0	68	56	112	1,787	1,128
Effective tax rate (%) if greater than zero											
Existing law	0.6	0.9	0.7	0.4	0.8	0.2	1.5	2.6	4.6	10.4	13.7
May 2018 proposal	4.6	11.3	3.8	4.0	3.4	2.7	3.5	4.5	6.1	12.1	11.5
September 2018 proposal	4.4	10.1	3.0	4.8	2.9	2.6	3.8	4.8	6.6	12.0	13.0
Final new law	3.8	11.5	2.8	3.7	1.7	2.0	3.4	4.0	6.7	10.9	12.9
Incidence of tax paid (%)											
Existing law	0.0	0.1	0.0	0.1	0.1	0.0	0.4	1.7	7.2	90.4	
May 2018 proposal	0.3	1.0	0.6	1.3	1.8	1.4	2.9	5.7	12.4	72.5	
September 2018 proposal	0.2	0.9	0.4	1.0	1.2	1.0	2.2	4.7	11.4	77.0	
Final new law	0.1	0.8	0.3	0.7	0.7	0.6	1.7	3.8	10.6	80.8	

Source: 2017–18 Jordan HIES and World Bank calculations.

- Underreporting of income in the household survey likely means that total tax liabilities will be slightly higher than estimated. All households report lower income than they report spending outside of the poorest decile, with the gap ranging from 9 percent for decile 2 up to 33 percent for decile 10. This is common in many countries that collect both income and consumption in the same survey and may reflect both underreporting of incomes among the rich and volatile incomes from different sources among the poor which can be difficult to report accurately. However, the 2017–18 HIES also collects information on saving and dissaving, asking about purchases and sales of stocks, bonds, and property and lending and borrowing, which taken together can be used to calculate the change in household assets. In an accounting sense, this change in assets is the same as net savings (income minus consumption). We can use this relationship to test how consistent a household's responses are. Ex-ante, we might expect households, especially richer ones, to underreport income than buying and selling of assets as the existing law does not tax property or capital gains. Table A5.4 shows the two net savings calculations, the first being income minus consumption and the second being change in assets. For most households these two measures are broadly consistent, except for the poorest households, which report a reduction in assets which is greater than that implied by the income-consumption gap and the richest households, which report a lower reduction in assets than the income-consumption gap implies. The gap between these two net savings estimates if they imply income underreporting (that is, the income-consumption gap is greater than the reduction in assets)—is modest, ranging from 6 percent to 12 percent of income across the richest three deciles.⁵¹
- 178. However, the exact impact will also depend upon compliance with the new law. The number of households estimated to be liable for income tax under the existing law is three times higher than the number of households that report paying tax in the same survey. With little reason to underreport payment of taxes, this suggests a compliance ratio of a third nationally (table A5.7). The increase in de jure tax liabilities under the new law may not result in the same increase in de facto taxes paid without further strengthening of tax administrative capacity. To understand the potential difference between de jure and de facto tax liabilities, we held the current compliance ratio fixed under the new tax law. Consequently, while the de jure liability of decile 10 increases from 17.9 percent to 26.3 percent, the de facto liability is projected to increase from 6.2 percent to only 9.1 percent. The compliance ratio for the poorer half of the consumption distribution is taken as the average across deciles 1 to 5 since so few households are liable and even fewer compliant within each decile. The projected de facto liability of the poorest four deciles is less than 1 percent of households in each decile.
- 179. Given likely compliance, the new law is expected to have a limited impact on poverty but also to show only modest improvements from an equity perspective. With current compliance for the few households in the poorer half of the consumption distribution, the impact of the new law on poverty is expected to be small, with the 1.1 percentage point increase under full compliance very much an upper bound of the likely impact. However, a combination of poor compliance among richer households and the modest nature of the final de jure reforms passed by Parliament means that there are also only likely to be modest reductions in inequality, likely less than one point for the Gini coefficient. Consequently, there is an opportunity for future reforms to further increase revenue without significant adverse impacts on most Jordanians. As table A5.5 shows, the new law broadens the tax base below the richest decile to a relatively small degree. Table A5.7 indicates that there is significant room for increasing tax revenues from the richest 10 percent as well. Under the new law, only half of the richest 1 percent of households (by per capita consumption) are liable for tax, falling to a third or less for the rest of the top decile. Furthermore, less than 20 percent of total household income is taxable under the new law for most of the top decile.

⁵¹ The reverse result where greater asset reductions are reported by the very poor is unclear but may reflect poor household incentives to over-report dissaving in order to look more eligible for social assistance and a lack of incentive to underreport income as they do not fear becoming liable for income tax (or may have volatile incomes which are harder to report). As almost no households in these deciles pay tax, the assumption of no adjustment will not affect our results.

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Table A5.4 Potential Underreporting of Income

		Per-capita consumption decile											
Annual JD	1	2	3	4	5	6	7	8	9	10			
Per capita income	64	83	100	117	127	146	163	189	239	437	166		
Per capita consumption	63	90	110	128	148	171	198	236	305	583	203		
Net savings 1 (income - consumption)	1	-8	-10	-12	-21	-25	-36	-48	-66	-146	-37		
as a percentage of income (%)	2.2	-9.2	-10.1	-9.9	-16.9	-17.3	-21.8	-25.2	-27.6	-33.3	-22.2		
Net savings 2 (change in assets)	-15	-22	-16	-22	-25	-29	-29	-36	-38	-111	-34		
Difference in net savings 1 and 2	-16	-14	-6	-10	-4	-4	7	12	28	34	3		
Underreporting adjustment	0	0	0	0	0	0	7	12	28	34			
as a percentage of income (%)	0.0	0.0	0.0	0.0	0.0	0.0	4.2	6.3	11.7	7.8			

Source: 201718 Jordan HIES and World Bank calculations.

Table A5.5 Potential Non-compliance

	Per-capita consumption decile										
	1	2	3	4	5	6	7	8	9	10	
Existing law											
Households liable for tax (%)	0.1	0.4	0.1	0.8	0.6	0.7	1.0	2.4	5.1	17.9	2.9
Households reported paying tax (%)	0.1	0.0	0.1	0.2	0.3	0.4	0.6	0.8	1.3	6.2	1.0
Compliance ratio	0.97	0.00	0.97	0.28	0.58	0.68	0.59	0.31	0.25	0.35	0.34
New law											
Households liable for tax (%)	0.4	0.7	0.8	1.6	3.2	2.1	3.3	5.8	8.8	26.3	5.3
Compliance ratio	0.56	0.56	0.56	0.56	0.56	0.68	0.59	0.31	0.25	0.35	0.34
Estimated compliant households (%)	0.2	0.4	0.5	0.9	1.8	1.4	2.0	1.8	2.2	9.1	1.8

Source: 2017–18 Jordan HIES and World Bank calculations.

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Table A5.6 Impact of New Income Tax Law on Poverty and Inequality

	Full c	compliance	Partial o	ompliance
Impact on poverty	Poverty rate	Change in poverty	Poverty rate	Change in poverty
Existing law	15.7	0.0		
May 2018 proposal	17.9	2.2		
September 2018 proposal	17.1	1.5		
New law	16.8	1.1		
Impact on inequality	Gini	Change in Gini	Gini	Change in Gini
Existing law	35.1	0.0		
May 2018 proposal	34.1	-1.0		
September 2018 proposal	34.2	-0.9		
New law	34.3	-0.8		

Source: 2017–18 Jordan HIES and World Bank calculations.

Table A5.7 Tax Incidence by Per-Capita Consumption Percentile, Richest 10 Percent

	Per-capita consumption percentile										
	91	92	93	94	95	96	97	98	99	100	
Household income gross, annual (JD)	14,903	14,189	15,433	15,604	19,132	16,791	19,619	20,016	27,294	32,293	
Households liable for tax in 2019 (%)											
Existing law	12	11	10	12	18	15	20	18	29	34	
Final new law	21	18	19	19	24	24	28	28	35	47	
Household taxable income, annual (JD)											
Existing law	882	769	695	944	3,787	1,608	2,867	3,228	7,801	8,967	
Final new law	1,526	1,319	1,262	1,568	4,699	2,416	3,597	4,195	7,496	10,193	
Household taxable income, percentage of total incor	ne										
Existing law	6	5	5	6	20	10	15	16	29	28	
Final new law	10	9	8	10	25	14	18	21	27	32	

Source: 2017–18 Jordan HIES and World Bank calculations.

FEMALE LABOR FORCE PARTICIPATION

180. Jordan has one of the lowest female labor force participation (FLFP) rates in the world; DPF supported policies to bring more women into the work force could significantly increase gender inclusivity in the country. At under 14 percent,⁵² the percentage of working age females working in Jordan is amongst the lowest in the world, and the also lowest in the region where low participation rates are the norm (Figure A5.2).

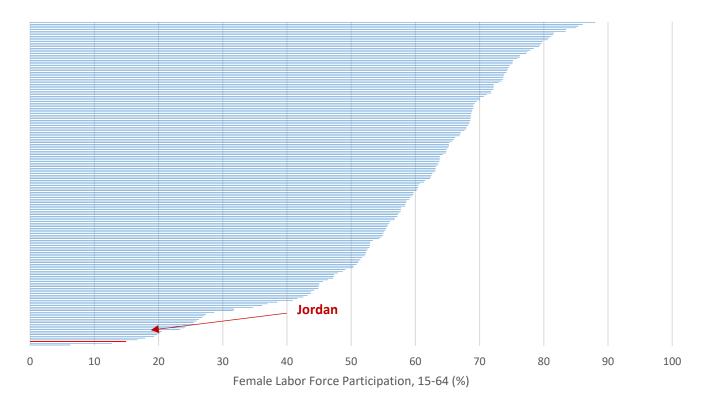


Figure A5.1 Female labor force participation rates, all countries with data

Source: WDI using ILO modelled 15-64-year-old estimates.

181. Understanding the large gender gaps in Jordan is complex, as they are the results of many factors including laws, regulations, social norms as well as other barriers such as lack of safe transportation options, family planning options or childcare.⁵³ Countries that experienced long-term gains in female labor market outcomes also experienced improvements on other fronts, such as increased human capital, more gender equality under the law and less gender-biased social norms.⁵⁴ In Jordan, the significant improvements in education attainment were not accompanied by significant reductions in negative attitudes toward women in the labor force. About 80 percent of the population in Jordan agrees with the statement that "when jobs are scarce, men should have more right to a job than women" (Figure A5.3). Jordan is an outlier in comparison with countries with similar levels of educational attainment, where less than 40 percent of the population agrees with such statement. As expected, women in Jordan are less likely than men to have

⁵² The national estimate for women aged 15 and over is 12.6 percent, while ILO modelled estimates are 14.0 percent for those aged 15 and over and 14.9 percent for those aged 15-64. All figures from WDI.

⁵³ The following discussion comes from the forthcoming World Bank Jordan Jobs Diagnostic.

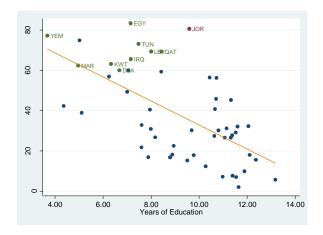
⁵⁴ Jaumotte (2003).

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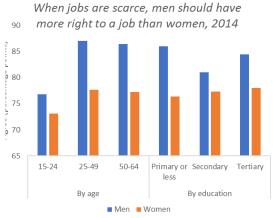
negative attitudes toward their own labor market inclusion, but not by a large margin (Figure A5.3). Moreover, while international evidence shows that in general young and skilled people are more likely to have favorable views about gender equality, in Jordan there are no large differences in attitudes across age or education groups (Figure A5.3).

Figure A5.2 Negative attitudes toward women in the labor market

a. Across countries



b. Across age, education and gender in Jordan



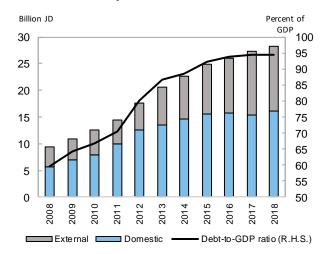
ANNEX 6: DEBT SUSTAINABILITY ANALYSIS

Overview

182. The government's fiscal restraint over last few years has slowed down the expansion in public debt. Even though Jordans's public debt to GDP ratio has been increasing over the last decade, the adoption of fiscal reforms and phased adjustment to cost-reflective electricity tariffs have helped the country achieve a significant decelaration in the growth of public debt ratio. Gross public debt-to-GDP ratio stood at 94.4 percent in 2018, 0.1 percentage points higher compared with 2017 levels (Figure A6.1). During the past six years, the government relied more on external financing compared with domestic financing to cover its funding gap. Still, the share of domestic debt at end-2018 has increased to almost 57.3 percent of total public debt.

183. More than two-thirds of the public debt is long term in nature with implications on the interest bill. As of end-September 2018, most of the domestic debt is held by

A6.1 Evolution of public debt



Source: Jordanian Ministry of Finance

resident banks, while a substantial share of the long-term debt is held by the pension fund. Moreover, almost 80 percent of the public debt is medium- to long-term in nature (over one year). However, while longer term maturities facilitate in reducing refinancing risks, care must be taken particularly in the context of rising interest payments. The interest expense has increased from 11.5 percent of revenues (including grants) in 2016 to 12.8 percent by end-2018. Even so, domestic debt is subject to a high refinancing risk, with almost a quarter of Jordan's domestic debt maturing in one year, and 38.7 percent in two years. The government envisages to marginally increasing the average time of maturity of public debt from 5.3 in 2018 to 5.5 years by 2023 by extending average maturity of domestic debt (from 3.6 in 2018 to 4.5 in 2023) by issuing long-term domestic debt instruments such as 3,5,7,10 and 15 years while targeting a significant reduction in the average maturity of external debt (from 7.9 in 2018 to 6.9 in 2023).

Debt Sustainability Analysis

184. Under the baseline scenario, Jordan's public debt-to-GDP ratios are projected to decline gradually over the medium term. The baseline scenario assumes (1) economic growth to increase from 1.9 percent in 2018 to 2.8 percent in 2022 and (2) the fiscal consolidation plan to remain on track, with the primary balance⁵⁶ (including grants) remaining turning into surplus in 2019 and increasing to reach 3.4 percent of GDP in 2022.⁵⁷ Under these assumptions, the public debt-to-GDP-ratio is projected to decrease from 94.4 percent in 2018 to 89.2 percent by end-2022 (table A6.1).

⁵⁵ Jordan Medium Term Debt Management Strategy (2018–22).

⁵⁶ Inclusive of fiscal gap measures.

⁵⁷ Inclusive of fiscal gap measures.

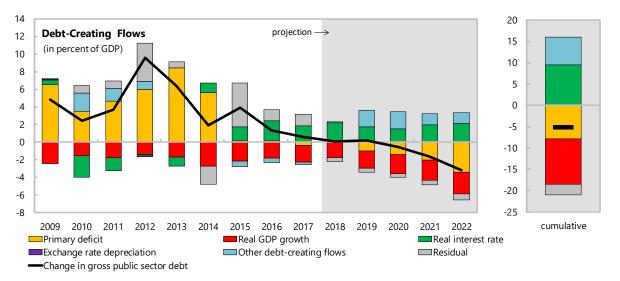
Table A6.1 Jordan Public DSA—Baseline Scenario

(in percent of GDP unless otherwise indicated)

	Ac			Pro	jection	S		As of December 01, 2018					
	2009-2015 2/ 2016 2017				2018	2019	2020	2021	2022				
Nominal gross public debt	78.5	93.8	94.3		94.4	94.6	94.1	92.4	89.2	Sovereign	Spreads		
Of which: guarantees	9.1	11.9	12.1		11.7	11.2	10.6	10.1	9.6	EMBIG (bp) 3/	453	
Public gross financing needs	27.8	27.1	20.3		18.2	20.9	17.5	16.1	14.0	5Y CDS (bp)	n.a.	
Net public debt		86.5	88.0		88.3	88.8	88.5	87.1	84.2				
Real GDP growth (in percent)	2.9	2.0	2.1		1.9	2.2	2.4	2.6	2.8	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	4.9	1.3	1.7		1.8	2.2	2.5	2.5	2.5	Moody's	B1	B1	
Nominal GDP growth (in percent)	8.0	3.4	3.9		3.7	4.4	5.0	5.2	5.4	S&Ps	B+	B+	
Effective interest rate (in percent) 4/	4.5	3.9	3.8		4.2	4.1	4.3	4.8	5.0	Fitch	n.a.	n.a.	

185. GDP growth and primary balances are expected to improve public debt dynamics over the medium term, whereas elevated interest rate partially dilute this effect. In the baseline scenario, Jordan's public debt is expected to decrease by 5.1 percentage points, cumulatively between 2018 and 2022. The improving primary balance as well as the real growth rate are expected to bring down the ratio and will be able to contain increasing real interest rates and other factors that are negatively impacting the trajectory (Figure A6.2).

Figure A6.2 Jordan's Debt Dynamics: Contributions to Debt-to-GDP Ratio



186. **Public debt dynamics, nonetheless, will remain a source of fiscal vulnerability**. Together with contingent liabilities of government own-budget agencies, total interest payments will continue to absorb a large share of fiscal revenues (including grants), averaging at 13 percent over 2018–22. The public debt-to-revenue ratio during the projection period is projected to average around 340 percent.

Stress Tests

187. Stress tests show that public debt is particularly sensitive to a combined macro-fiscal shock. The most important deterioration of public debt levels vis-à-vis the base case scenario takes place under a multiple simultaneous shock (such as lower growth and a slowdown in fiscal consolidation efforts, in tandem), a real GDP growth shock and primary balance shock (figure A6.3). In the case of the most extreme shock, fiscal consolidation occurs at a slower pace,

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such that the primary balance turns to the negative territory in 2019 and 2020. At the same time, economic growth is 0.8 percentage points lower than the baseline scenario throughout the forecast horizon. The relatively loose fiscal policy will also lead to higher interest payments, and thus a higher real positive interest rate on outstanding debt. Under this combined macro-fiscal shock, the debt-to-GDP ratio is projected to continue increasing throughout the medium term reaching as much as 100.9 percent by 2022 (11.6 percentage points higher than the baseline scenario).

- 188. Similarly, a policy slippage scenario is expected to increase the debt-to-GDP trajectory by 6.5 percent of GDP relative to baseline. Under the policy slippage scenario, growth stagnates at its 2015–17 average level of 2.2 percent, and the fiscal consolidation efforts cease, such that the primary deficit plateaus at 0.0 percent of GDP throughout the forecast horizon (at its historical average of 2015–17). In this case, the debt trajectory continues to increase, until it reaches 95.8 percent of GDP by 2022.
- 189. Other standard shocks raise the ratio by 2-5 percent with respect to the baseline scenario. A real GDP growth shock raises the public debt by 4.5 percent of GDP in 2022 relative to the baseline. Under the primary balance shock, the debt-to-GDP ratio deteriorates in 2019 and 2020 and reaches 92.9 percent in 2022, compared with 89.2 percent in the baseline scenario. Similarly, shock to the real interest rate increases the debt ratio by 2.1 percentage points compared to the baseline scenario.

Baseline Primary Balance Shock Real Interest Rate Shock Real GDP Growth Shock Real Exchange Rate Shock **Gross Nominal Public Debt Public Gross Financing Needs Gross Nominal Public Debt** (in percent of GDP) (in percent of Revenue) (in percent of GDP) **Additional Stress Tests** - Combined Macro-Fiscal Shock Baseline **Gross Nominal Public Debt Gross Nominal Public Debt Public Gross Financing Needs** (in percent of GDP) (in percent of Revenue) (in percent of GDP)

Figure A6.3 Jordan Public DSA—Stress Tests Macro-Fiscal Stress Tests

Source: World Bank staff estimates Notes: 1/ Country team projections

- 2/ Real GDP growth is at baseline minus 1 percentage point
- 3/ Primary balance is at baseline minus one standard deviation
- 4/ Real interest rate is at baseline plus 200 basis points

ANNEX 7: ECONOMIC CONTEXT IN FIGURES

Figure A7.1 Jordan's economy is growing at 2 percent per annum, a sign of resilience given the external shocks the country was subjected to...

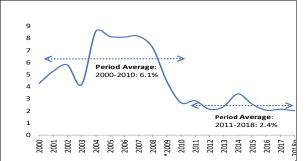


Figure A7.3 One consequential external shock was the disruption of favorably priced gas from Egypt in 2011, which led to energy subsidies and higher deficits, and rising debt when couples with low growth

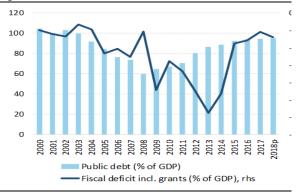


Figure A7.5 Jordan's economy has not been efficient as similar rates of investment are contributing to lower growth than before (worse ICOR)...

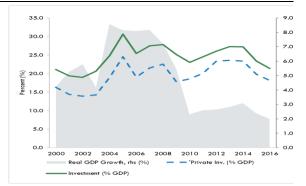


Figure A7.2 ...but too slow given the large influx of refugees, which result in negative per capita income growth, and add to fiscal and social costs

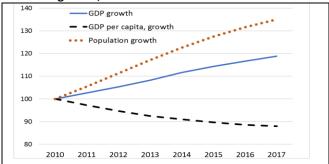


Figure A7.4 Culprits in low growth and rising public debt were also the declining remittances and lower public transfers, especially after 2015, owing largely to the poorer performance of the GCC economies

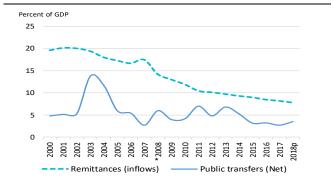


Figure A7.6 ...and Total Factor Productivity (TFP) and labor productivity growth have been on declining trends

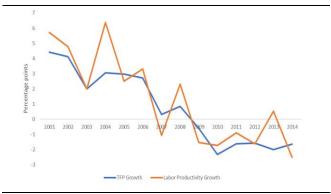


Figure A7.7 With Gross Domestic Savings being near nil for the past decade, Jordan has relied on...

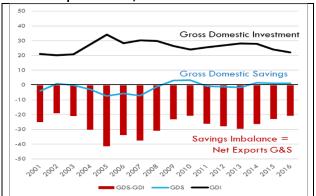


Figure A7.9 The global financial crisis affected prices of merchandize exports, and shares of GDP declined, though services increased as a share of GDP...



Figure A7.11 With capital expenditures taking the brunt of fiscal adjustment, and low savings, Jordan, must look to...

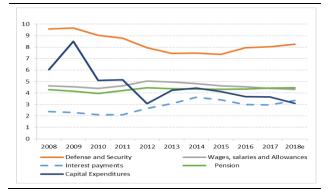


Figure A7.8 ...foreign savings to fuel its investment, though now both are in a downward trend.

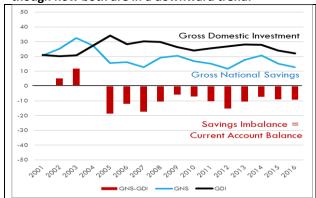


Figure A7.10 ...in spite of the strong real bilateral exchange rates, and the appreciating real effective exchange rate

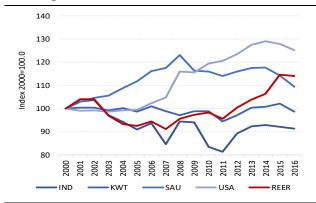
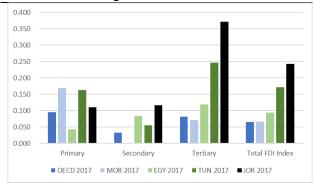


Figure A7.12 ...FDI for more investment and for efficiencies in its economy, but its FDI regime is very restrictive according to the OECD restrictiveness index



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ANNEX 8: PROGRAM IMPLEMENTATION

190. The 2016 Jordan Systematic Country Diagnostic (SCD) identified the challenge of implementation as being related to elite capture of the economy and compartmentalized development partner project support. Capacity shortcomings are also present, but these are not likely to be the main causes of any lagging performance on reforms. To address these challenges, the Government and its development partners came up with a joint performance and support framework, which paces reform performance and funding support. This approach, described below, is consistent with learning from the SCD that collective action by partners can mitigate risks by conditioning the closing of financing gaps on the delivery of reforms.

A. Current Approach

191. The Government of Jordan has acted consistently with that approach to deliver its extended reform program in the 12 months since taking office. First, it has narrowed the list of economic policy priorities through the adoption of the Five-Year Reform Matrix. Second, it has begun to streamline donor support around these priorities, as a mutually enforcing mechanism for delivery of support and commitment to reform. Third, it has strengthened its implementation mechanisms. Fourth, it has secured funding for the Five-Year Reform Matrix, and funding for the first year, largely the DPF2 program, has been released. Fifth, it is taking action in several areas pertaining to the second tranche release conditions. And sixth, it is engaging with development partners to develop the Jordan Task Force (JTF) (see section B).

1. Five-Year Reform Matrix

192. The Five-Year Reform Matrix is assisting the Government to focus on a narrower set of priorities that pertain to the most critical economic policy issues facing the country. The Government has used the matrix to focus on key growth sectors, such as FDI exports, energy and PPPs, and crucial social protection reforms. The matrix is time-bound, with semiannual updates. The Council of Ministers has approved the matrix, and the matrix forms the work plan for key ministries. The Government's Economic Team, chaired by the Prime Minister, oversees the implementation of these reforms.

2. Development partners

193. Jordan's development partners supported Jordan to develop the Five-Year Reform Matrix alongside the World Bank. Now key development partners (USAID and Germany) are already designing their new medium-term programs to support the implementation of the Five-Year Reform Matrix, with identifiable reforms milestones.

3. Implementation mechanism

194. **The Government is working on at least four levels:** (1) getting a common vision within government and focusing on fewer, more macro critical priorities, (2) getting reform ownership at the cabinet level, (3) accelerating government decisions, especially regarding multi-agency reforms, such as FDI and PPP reforms, and (4) building line ministry ownership and capacity. The Government is also strengthening coordination capacity at the Ministry of Planning and International Cooperation. Going forward, the Government will work with partners to institutionalize these changes (see section B). In doing so, it will strengthen the relevant functions at Office of the Prime Minister (with EU support) and the Ministry of Planning and International Cooperation (with the Growth MDTF).

4. Securing funding

195. The World Bank signed an agreement with UK DFID in London on February 28, 2019 to support Jordan's Growth MDTF. The World Bank will manage the Growth MDTF, which will support key reforms that the Government has committed to implement for spurring inclusive growth and creating job opportunities. These reforms come from Five-

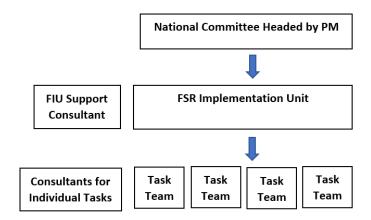
Year Reform Matrix,⁵⁸ which the Government, the international community, and the World Bank considers as the reference plan for economic reforms. DFID's contribution to the MDTF over five years is £14 million (US\$18.5 million), starting April 2019. In the next 12 months, the World Bank will focus on supporting the DPF2 reforms with special attention to second tranche conditions related to energy, FDI, PPP, and social targeting. The Netherlands have already expressed interest in joining the MDTF.⁵⁹

5. Specific actions for DPF2 second tranche conditions

196. In addition to the foregoing mechanisms, the Government and World Bank teams have developed the approach to implementing *DPF2 second tranche conditions*.

• Energy: The Government developed the Roadmap for Financial Sustainability of the Electricity Sector, approved by the Council of Ministers on April 10, 2019. Implementation arrangements for the Roadmap comprise of three levels: (i) National Committee headed by the Prime Minister – responsible for policy aspects and periodic progress monitoring, (ii) Financial Sustainability Roadmap Implementation Unit (FIU) – responsible for implementation of the overall roadmap, and (iii) Individual Task Teams – responsible for implementation of each individual task of the Roadmap.

Schematic Diagram of the Implementation Arrangements



• The Roadmap for Financial Sustainability of the Electricity Sector contains quarterly performance milestones in each of the policy reform and other decision areas. The World Bank's DPF2 draws some of those quarterly reform milestones as conditions for the second tranche release. At the same time, the commitments by government on the Roadmap are being put forth to other development partners as Jordan looks for large scale financing to smoothen NEPCO's rising debt service (for 2020–24). At the operational level, the World Bank and the Government have agreed to (1) monthly monitoring of NEPCO operational balances, (2) two quarterly tariff reviews (Quarter 2 and Quarter 3), and (3) World Bank review of the tariff adjustment mechanism. In addition, Ministry of Finance, and Ministry of Energy and Mineral Resources would together develop the 'Electricity Bill Recovery Mechanism' which would

⁵⁸ https://www.londonjordan.co.uk/Uploads/Event 1400/Downloads/Jordan Bro&Matrix-WebResolutiuon.pdf

⁵⁹ USAID is also designing a new 5-year program that focuses on economic growth and is being developed as a complement to the MDTF, focusing on large scale initiatives. An important source for the design of this assistance is the business environment component of the 5-year matrix (which includes institution building to support export development and FDI)

comprise (among others): (i) the approach for adequate budgetary provision for electricity bills of public agencies, and (ii) electricity bill-recovery process in case of non-payment by the public agencies. The Bill Recovery Mechanism would also have a role for existing and future schemes for energy efficiency and energy conservation measures for public agencies. Similarly, the Ministry of Energy and Mineral Resources, and the National Aid Fund would together develop the mechanism for targeted energy saving benefits for the poor and vulnerable households. The World Bank will provide extensive technical assistance to Jordan for implementation of the financial sustainability roadmap, supported by the Growth MDTF.

- PPP: The Government has committed to timely preparation and submission of the PPP Law to Parliament as conditions for the second tranche release. To this end, the Government took a Cabinet Decision on April 18, 2019, committing to the following: (1) preparation of a PPP Policy Framework to be finalized by end-June; (2) preparation of amendments to the PPP Law 31 of 2014 to be submitted to Parliament by end-September; (3) implementation of a robust Government PPP communications strategy to ensure full understanding and ownership across stakeholders of the importance of the legislative amendments. Key implementation milestones are set out in a first-year implementation plan, included as part of the PIM-PPP Policy expected to be approved by Cabinet by end June 2019. In addition, for support to Government through the stage or submission of the law to parliament, the World Bank will finance key institution building in support of the PIM and PPP through the Growth MDTF. This initial phase of technical assistance will have a two-fold focus. First is capacity building to develop project concept notes to accelerate the implementation of the PPP pipeline in line with the PIM-PPP Governance Framework and the revised PPP Law and updating PPP regulations, procedures, and guidelines to ensure efficient and accountable implementation. Second is designing and establishing the National Registry of Investment Projects (NRIP). This MDTF support will be further complemented by a three-year technical and advisory program per the Memorandum of Understanding signed between the Government of Jordan and the IFC in January 2019.
- Investor grievance mechanism (IGM): The investor grievance management mechanism would help
 ensure that the Government responds to investor grievances in a suitable manner and in accordance
 with the country's international investment agreements and domestic laws and regulations. To
 implement a strengthened investor grievance management mechanism, the following intermediate
 steps will be undertaken:
 - O By October 2019: The Government has approved the policy and design of IGM. This includes completion of the following tasks: (i) assessed the effectiveness of the aftercare system in place at the JIC, (ii) assessed the appropriate regulatory instruments (regulation/bylaw, instruction) to implement the IGM, and approved the design of a strengthened investor grievance management mechanism, with consideration of the following critical elements to institutionalize the IGM: (a) empowerment of the Jordan Investment Commission as the lead agency to establish and exercise an IGM mechanism (including scope, escalation stages, etc.); (b) details on the applicable procedural rules (requirements, eligibility, timelines, tracking device, portal, details on escalation, etc.); and (c) the scope, functions, and obligations of the Jordan Investment Commission as the lead agency vis-à-vis other authorities and other review mechanisms, to institutionalize the filtering, referral, and problem-solving approach of grievance cases.

 By November 2019: The COM has approved the regulatory instrument (regulation/bylaw, instruction), procedures and systems for the detailed establishment and implementation of the IGM mechanism.

The World Bank will support the Jordan Investment Commission in the implementation of the IGM through the Growth MDTF.

• Adoption of a targeting methodology for social assistance programs. The Government has committed to adopting a methodology to determine eligibility for social assistance programs as DPF2 second tranche condition. Informed by latest Household Income and Expenditure Survey, the methodology will target existing social assistance programs in 2020, such as the NAF, as well as new programs. The Government is establishing a committee led by the Ministry of Social Development (MOSD) to work on the targeting methodology. The World Bank will support this effort through the ongoing technical assistance to the NAF and MOSD and the National Unified Registry project. The new methodology will improve upon the targeting mechanism that the NAF has already developed for beneficiaries in 2019. The World Bank will evaluate that mechanism, propose possible adjustments and alternative approaches (some work has already been done), and support the operationalization of the final methodology. The Bank will also support the adjustments to the automated system to verify eligibility information that come with the new targeting methodology through the National Unified Registry project.

B. Institutionalization and Governance Structure

Reform Secretariat

197. To ensure implementation of the reform agenda, proper follow-up and efficient coordination, a dedicated Reform Secretariat will be established in MoPIC, financed by the World Bank-administered Growth MDTF (Recipient-Executed Trust Fund) and resources by development partners, to coordinate the implementation of the Five-Year Reform Matrix and the commitments under the London Initiative. The main functions of the Secretariat will include:

- Track, monitor, and follow-up on the implementation of the Five-Year Reform Matrix, and identify gaps and challenges facing implementation.
- Prepare periodic progress reports and communication material on the implementation of the different reform areas under the Five-Year Reform Matrix, and present progress and challenges to the Prime Minister on a quarterly basis.
- Coordinate with line ministries, development partners and the private sector, on a regular basis, to strengthen ownership, align resources and cater to the needs of businesses.
- Create sector working groups (as needed), or utilize existing groups, to strengthen reform dialogue and discussion on reform benchmarks in specific sectors
- Facilitate regular review and update of the Five-Year Reform Matrix in liaison with line ministries, sector working group (if applicable), and development partners.
- Help communicate reforms effectively, to ensure clear messaging on the rationale and expected results, to targeted groups and stakeholders.

- Coordinate technical assistance provided through development partners and provide guidance to donor programs to align with reform priorities.
- Follow up on aid pledges and monitor aid commitments under the London Initiative or in subsequent discussions.
- Feed updates into the Jordan Task Force (JTF), and act on and communicate feedback and strategic direction provided by JTF.

Jordan Task Force

- 198. To maintain momentum around the Government's reform agenda, follow up on agreements reached under the Jordan Initiative, strengthen mutual accountability, and ensure coherent financial support, it is proposed to set up a platform for coordination, monitoring, and dialogue among the Government, and development partners. The Jordan Task Force (JTF) is proposed to coordinate the various financing instruments and channels that will be deployed in support of the Government's Debt Management Strategy, Five-Year Reform Matrix, as well as the commitments under the London Initiative. It may also include dedicated mechanisms to pool donor contributions. The JTF will include representatives of the World Bank and key development partners in Jordan.
- 199. From inception, the JTF will address the key principles of mutual accountability, transparency, harmonization, alignment, and optimal use of donor financial contributions. It aims to:
 - Provide a platform for strategic dialogue and monitoring of the Government's Five-Year Reform Matrix, including regular reviews and updates for reform priorities.
 - Promote international resource mobilization in support of the Renaissance Plan and provide an overview of partner commitments and contributions.
 - Align international resources behind Jordan's Debt Management Strategy to ensure that an
 optimal mix of financing instruments is deployed that can ensure Jordan's public debt
 sustainability and close projected financing gaps.
 - Reduce transaction costs through improved coordination and coherence of international support, better information-sharing on "who is doing what" and streamlined results reporting.
 - Provide guidance on how to utilize financing channel(s) that can pool grant resources or guarantees in innovative ways to optimize the use of international financing and leverage other sources of funds from capital markets.
 - Strengthen institutional capacity to ensure coordination and support delivery of the reform and financing package.
- 200. It is proposed that the JTF will hold biannual meetings with the Prime Minister, providing a forum for strategic and technical dialogue on the Government's growth and jobs reform program and issues of macro fiscal stability and debt management. The World Bank will support the Government in the preparation of the biannual meetings with the Prime Minister. It is envisaged that these meetings would be a platform to:
 - Discuss priorities, sequencing, and implementation of the Government's reform agenda and related support programs.

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- Address and help resolve bottlenecks and challenges in the implementation of the reform agenda as and when required.
- Review and monitor progress on the Five-Year Reform Matrix, Debt Management Strategy and the commitments under the London Initiative.

Coordination and Governance architecture

