

# Jordan Diagnostic

By Bassem Kamar and Rafik Selim

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**European Bank**  
for Reconstruction and Development

This report was prepared by Bassem Kamar (Lead Regional Economist for the Southern and Eastern Mediterranean (SEMED) region) and Rafik Selim (Principal Economist for the SEMED region). The authors are grateful for contributions provided by EPG colleagues (Isabel Blanco, Damin Chung, Federica Foiadelli, Anastasios Giamouridis, Gabriele Liotta, Giorgio Manenti, Tarek Osman, Philipp Paetzold, Olivia Riera, Rami Samain, Mara Solomon, Levent Tuzun, Kjetil Tvedt and Marialena Vyzaki) and to Mattia Romani (Managing Director, EPG), Heike Harmgart (Managing Director, SEMED), Artur Radziwill (Director, Country Economics and Policy, EPG) and Peter Sanfey (Deputy Director, Country Economics and Policy, EPG) for their guidance. The report has benefited from comments from EBRD colleagues in other departments, including Banking (Esther Griffies Weld), Energy Efficiency and Climate Change (Sung-Ah Kyun and AbderrahimAssab) and Environment and Sustainability (Yasmine Deghedi and Sam Walker). The views expressed in this paper are those of the authors only and not necessarily those of the EBRD. The report is based on data available as of May 2019.

**Country diagnostics are an EBRD tool to identify the main obstacles to entrepreneurship and private sector development and to help shape the Bank's strategic priorities and project selection in new country strategies. Each diagnostic informs the EBRD's policy engagement with the authorities in the country.**

**Each country diagnostic assesses the progress and challenges of the country of operations in developing a sustainable market economy.** Private sector development and entrepreneurship are at the heart of the Bank's mandate in the regions of operation of the bank, but the private sector in all EBRD countries faces a range of problems and obstacles. The diagnostic highlights the key challenges facing private companies and shows where each country stands vis-à-vis its peers in terms of six qualities of transition – competitive, well governed, resilient, integrated, green, and inclusive – and points out the main deficiencies and gaps in each quality.

**The diagnostics draw on a range of methodologies and best practice for assessing how big different obstacles are.** Extensive use is made of in-house expertise across EBRD, along with surveys such as the Business Environment and Enterprise Performance Survey (**BEEPS**) and the Life in Transition Survey (**LITS**), as well as other cross-country surveys and reports from institutions such as the World Bank, World Economic Forum and OECD. For some larger countries, the diagnostics also draw on specially commissioned studies of selected issues that are critical for private sector development in the country.

**EBRD's Country Economics and Policy team lead the diagnostics,** drawing substantially on the expertise of sector, governance and political experts in the Economics, Policy and Governance department (EPG) and consulting widely with relevant experts across EBRD when preparing the final product. The diagnostics are shared with the EBRD Board during the country strategy process and published during the public consultation period.

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# Executive summary

**The private sector in Jordan faces a range of obstacles.** Key constraints include unpredictable regulatory processes, contractionary fiscal and monetary policies, labour market mismatches, low female labour and ownership participation, limited access to finance, constrained access to international markets and underdeveloped infrastructure including water scarcity.

**Regulatory processes and the government's policy orientations are unpredictable.** Despite undertaking several initiatives to simplify the regulatory framework related to private investment, there is an evident disconnect between: the international rankings used by the government to organise and track business environment reforms; the reform plans supported by donor programmes; the myriads of national 'visions', 'strategies' and 'plans'; and the relevance of the above to business and investor concerns.

**The private sector faces several macroeconomic obstacles.** Adverse external shocks in main partners in the GCC combined with contractionary monetary and fiscal policies have undermined the capacity of the private sector to drive higher potential growth. Since 2008, productivity and per capita output growth performances have lagged behind other emerging economies, and Jordan has gone from being an upper-middle-income country to a lower-middle-income one.

**Jordan has large youth inclusion gaps, and female labour force participation is one of the lowest in EBRD's countries of operations.** The private sector is unable to create the number of jobs needed to accommodate newcomers into the labour force. The TVET system is of low quality and meets neither students' ambitions nor employers' needs. The Jordanian labour force is characterised by significant horizontal and vertical gender segregation, mainly due to social norms and women and men's educational choices. In addition, the integration of over 1.3 million Syrian refugees living in Jordan remains a

massive social and economic challenge; creating pressure on basic services, infrastructure, and employment.

**The financial sector faces several obstacles, mainly in terms of structure and business model.** Access to finance is a major constraint for private investment, especially for women-led businesses and SMEs. Obstacles related to getting credit, investor protection, insolvency resolution, weak credit registry and credit bureau coverage persist in the financial system. **Barriers to trade diversification in terms of destinations, routes and products hamper the private sector.** The country's performance in terms of economic complexity of export products, and of integration into Global Value Chains (GVCs) is the worst among SEMED countries and has been declining in recent years. This limited access to foreign markets represents a major constraint to private investors. While the country is relatively open to foreign investments, FDI inflows have declined between 2006 and 2010 and stagnated since then.

**The quality of transport infrastructure is mixed, with major regional disparities.** Jordan is one of the countries with the poorest railroad infrastructure in the SEMED region, and is characterised by high urbanisation, increasing congestions, and a large proportion of low capacity vehicles in public transportation. High transport cost and clear regional disparities in terms of access to basic services and transportation, undermining private investment potential.

**The Water-Energy-Food Nexus is a pressing reality in Jordan, becoming a crucial barrier to economic growth and development.** Jordan is one of the most water scarce countries in the world with a limited amount of renewable internal freshwater resources, and climate change is projected to exacerbate the water scarcity. Several policy options are needed to secure a sustainable use of water to attract private investors in all sectors, particularly in the agricultural sector.

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# List of abbreviations

<b>EMRC</b>	Energy and Minerals Regulatory Commission
<b>FDI</b>	Foreign direct investment
<b>GCC</b>	Gulf Cooperation Council
<b>LNG</b>	Liquefied natural gas
<b>MENA</b>	Middle East and North Africa
<b>MENA ES</b>	EBRD-WBG-EIB Middle East and North Africa Enterprise Surveys
<b>NEPCO</b>	National Electric Power Company
<b>SEMED</b>	Southern and Eastern Mediterranean
<b>TVET</b>	Technical and Vocational Education and Training
<b>WB DBR</b>	World Bank's Doing Business Report
<b>WEF GCR</b>	World Economic Forum's Global Competitiveness Report

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# 1. Politics and Governance

**Jordan's political governance and regulations are seen as an impediment for investment, in a region that has been cursed with instability in the past two decades.** According to recent surveys, policy instability and inefficient government bureaucracy are among the top five problematic factors for a business operating in Jordan.<sup>1</sup> This chapter analyses specifically policy instability and the inefficient government bureaucracy. The other most binding constraints are dealt with in later sections.

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## 1.1. Political Overview

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**Demographics are essential to Jordan's political economy.** Jordan has a cohesive society, in which the Hashemite monarchy is the keystone representing the national identity. However, legacy issues have led to Jordanians from Trans-Jordanian background (East Bankers) having traditionally higher representation in state institutions and the public sector. This has always been an important tenet of the social contract that has existed for decades. As such, any major streamlining of the public sector (a key element in the country's reform programme) requires the political will to evolve that social contract.

**The predominantly young population and urbanisation add pressures to the labour market.** Since 65 per cent of Jordanians are under the age of 30, the demand for jobs has soared in the past decade. Although Jordan has a relatively advanced educational system, there is a mismatch between the skills developed and those needed by the market. This creates a systemic problem regarding employability in the country.

**Other challenges arise from the heritage of asset ownership in the country.** Though official land titles typically rest with the state, East Bank tribes have controlled significant parcels of land for extended periods of time, sometimes predating the establishment of the Kingdom. On the other side, West Bank families have traditionally established large sections of medium (and often large) size enterprises in the country. Though Jordan undertook large zoning projects which limited municipal lands, this heritage distribution of land control has entrenched a sense of inequality in terms of untaxed assets versus taxed income. This structure of asset (and especially land) ownership also affects economic opportunities and the ability to raise capital.

**Political reforms appear to have been set back as contrasted with the advances in economic reforms.** In 2011 and 2012, Jordan undertook significant political reforms to strengthen and ensure equality in political representation, as well as continue evolving Jordan towards constitutional monarchism. The parliament's involvement in naming the prime minister was strengthened, and genuine consultations took place between political parties and the Palace before the formation of governments in the period from 2012 to 2016. However, in the past two years, the constitution was amended, and there has been a trend to reassert the Palace's prerogatives, including in appointing and dismissing the heads of almost all key state institutions. Several observers explain some of the resurgent concentration in decision making with the acute security threats that Jordan has faced in that period.

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<sup>1</sup> World Economic Forum and International Financial Corporation 'The Arab World Competitiveness Report 2018'. At the same time, when business executives are asked to rate to what extent does the government ensure a stable policy environment for

doing business, the response is above the median value for SEMED countries (source: World Economic Forum's Global Competitiveness Report dataset)

**This slowdown in the pace of political reforms has significantly disillusioned Jordanian youth with the politics in the country.**

This was clear in the relatively low general and youth turnout rate in the last legislative election. This makes the executive's decisions to advance major economic reforms, difficult.

**However, there are promising developments in the political scene, and trends affecting Jordan, that give momentum to the reform drive.**

There is now a clear view within key political decision-making circles in the country that the prevailing political economy must evolve towards equality across the system, dilution of patronage, and reduction of legacy privileges within the society. The King has emphasised the need for that evolution in clear rhetoric in key recent speeches and decisions.

**The Government has also engaged in wide-ranging consultations with civil society organisations (CSO), to explain its thinking behind the reforms.**

In the past two years, Jordan took considerable steps to combat corruption. High profile cases were brought to the judicial system. Steps were taken to increase transparency in economic decision-making. In addition, there has been a notable expansion in e-government.

**A key trend putting momentum behind reforms is declining financial support to Jordan from abroad.**

Jordan remains an anchor of stability in the Eastern Mediterranean and the Middle East. However, several factors (regional political dynamics as well as economic, such as the fall in oil prices in the past few years) has resulted in a decline in Gulf financial support to Jordan. Though some international stakeholders have extended support to Jordan, the country's leadership has emphasised that Jordan depends on itself. In addition, Jordan realistically assesses that a significant percentage of the Syrian refugees it hosts will remain in the

country for, at least, a decade in the future. This realisation, underpins the centrality of reforms to achieving self-sufficiency.

**Some regional developments are beginning to augur well for reform prospects.**

Should Iraq and Syria move towards a much more stable socio-economic situation, this would usher in a major wave of reconstruction efforts in the two countries. Jordan, which has multi-faceted deep connections with both, would reap significant economic opportunities from these reconstruction efforts.

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## 1.2. Policy Instability

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**Regulatory processes are unpredictable and there is a lack of clear and reliable ex ante communication for the private sector.**

Prospective foreign and domestic investors need a level of certainty and transparency about the government's policy orientations that might affect their decisions to start and operate. Geopolitical factors and contingent elements in recent years have affected significantly the policy direction of the authorities. These include the short lifespan of governments and parliaments, which has hindered the sustainability of government initiatives. Nonetheless, such uncertainties faced by the private sector are symptoms of weak governance processes related to the way strategies, policies and regulations are designed, coordinated, consulted, implemented and updated.

**There is a wide and convoluted array of stakeholders.**

This includes ministries, state ministries, councils, commissions and other independent state entities which either report to a line minister or the prime minister directly. A number of these ministries are involved in regulating the business environment; for any given area of regulation, there are at least two or three entities responsible.<sup>2</sup> Some of these

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<sup>2</sup> UK DfID 'Assessment of Business Environment Reform in Jordan' p. 14

entities suffer from turf battles, overlapping mandates and multiple and conflicting priorities.

**There is a disconnect between international rankings, reform plans and executive directives on one side, and the relevance of the above to the private sector's concerns on the other.**<sup>3</sup>

The government uses international rankings such as the World Bank's Doing Business Report (WB DBR) to organise and track business environment reforms, but these rankings measure mainly legislative changes. There is a myriad of national "visions", "strategies" and "plans" – often supported by donor programmes – and numerous instructions issued by the Prime Minister's office. However, these are often detached from the needs and demands of businesses and investors. Moreover, coordination across line ministries and other government agencies in sector strategic planning, as well as procurement and budget processes, is suboptimal, and implementation capacity needs robust improvement. As a result, the few public investments – allowed by the limited fiscal space – are not cascaded down linearly from the top priority policy objectives and do not always end up delivering enough return on investment – with notable exceptions such as in renewable energy and waste water treatment.

**Inefficient government bureaucracy**

**The public sector is large, costly and inefficient, with low levels of productivity and implementation capacity.** Public sector employment as a share of overall paid employment is 38 per cent.<sup>4</sup> This is in line with the median level among the countries of the SEMED region, though higher on average than more advanced economies. Public sector-related spending (i.e., public salaries and pension obligations) account for around 30 per cent of

annual government expenditures.<sup>5</sup> In terms of performance, the Jordan National Vision and Strategy 2025 highlighted low levels of productivity of public sector institutions as an area of development. Several entities require strengthened capacity, with departments or staff insufficiently incentivised to provide strong performance and overcome bottlenecks to effective service delivery. Meanwhile, it is worth noting that the workload on the state administration has significantly increased with the influx of ~1.3 million refugees and migrants.

**The fiscal burden is unsustainable and a potentially major source of instability.** The public sector is used as a tool for maintaining stability via employment and public expenditure. The overemployed state administration needs significant financial resources to keep running, which come in part from international development partners – in the form of grants – and at the expense of the private sector – in the form of high tax rates and indirect taxes, which are among the top obstacles for firms. As stated by one of the banks in Jordan, "*Jordan should not rely on the private sector to finance the government's deficit, but rather rely on the private sector to invest*".

**The structural challenges of the public sector lead to poor service delivery to businesses.** The public sector is unfit to deliver reforms and to ensure a favourable business environment to the private sector. According to WB DBR 2019, Jordan performs worse than other SEMED countries, such as Tunisia and Morocco, on resolving insolvency (ranked 150<sup>th</sup> out of 190), dealing with construction permits (ranked 139<sup>th</sup>), enforcing contracts (108<sup>th</sup>) and starting a business (106<sup>th</sup>), due to lengthy and costly processes. Access to credit (rank 134<sup>th</sup>) is significantly challenging given the insufficient coverage of the credit registry and the low

<sup>3</sup> Ibid p. 2

<sup>4</sup> World Bank Group: Worldwide Bureaucracy Indicators (WWBI). It is worth stressing that in Jordan, similarly to Egypt, the average public sector wage premium is negative: public sector workers

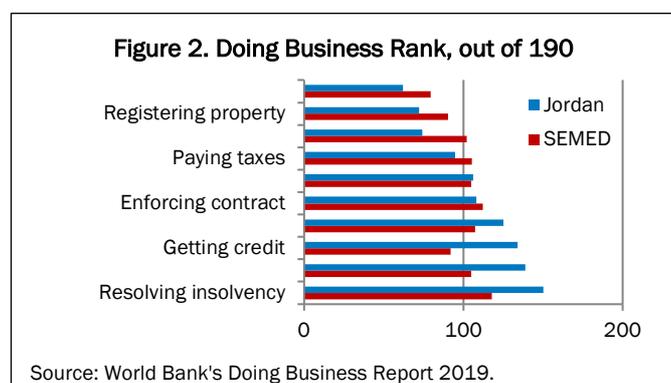
are paid less than private sector counterparts (source: Tamirisa, Duenwald, 'Public wage bills in the Middle East and Central Asia Names'. International Monetary Fund)

<sup>5</sup> OECD – Open Government review of Jordan 2017

degree of protection to the rights of borrowers and lenders provided by collateral and bankruptcy laws. Meanwhile, Jordan's performance in getting electricity (62<sup>nd</sup>), registering property (72<sup>nd</sup>), trading across borders (74<sup>th</sup>) and paying taxes (95<sup>th</sup>) is above regional averages, with only Morocco performing better.

**Other demonstrations of inefficient government bureaucracy appear in business inspections, licensing, public procurement and corruption.**

**Several initiatives to simplify the regulatory framework are underway or planned, but implementation has been mixed.** The Central PPP Unit under the Ministry of Finance and the Public-Private Partnership Council led by the Prime Minister are meant to support and assist all relevant ministries and agencies on PPPs, but progress has been limited so far [correct?]. There are valuable efforts under way on e-governance led by the authorities under the patronage of the royal court.



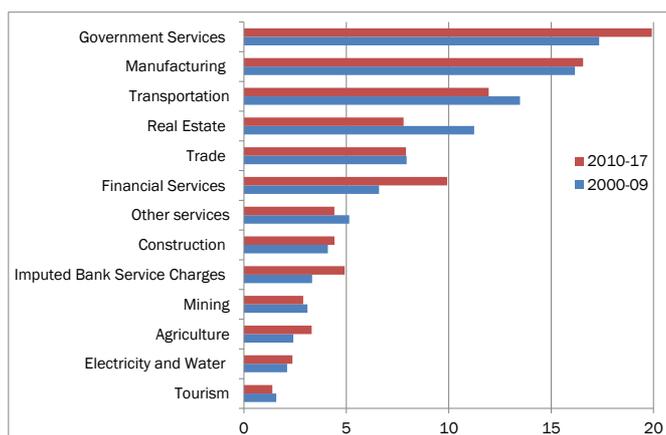
Business inspections appear to be particularly onerous for businesses, and they are inefficient and ineffective. This is due to lack of adequately trained staff, unclear requirements, a large number of inspectorates with overlapping responsibilities and the absence of a risk-based system. The licensing and permitting regime is also overly burdensome and unclear. The public procurement system demonstrates efficiency in certain areas, namely in the energy and water sectors. However, in order to entice more participation from private companies, it is crucial to expand such positive structures and processes to other areas where public procurement systems do not enjoy the same level of transparency and efficiency. In some cases, informal relationships may take precedence over formal procedures, and bribery and corruption are widely used to speed up processes.

## 2. Macroeconomic Stability

**The private sector operating in Jordan faces several macroeconomic obstacles, in a context of adverse external shocks.** Little monetary and fiscal space constrains the effective implementation of structural reforms and undermines the capacity of the private sector to drive higher potential growth.

**The main sectors of the Jordanian economy are** the public sector (18.5 per cent), manufacturing (16.3 per cent), transportation (12.8 per cent), real estate (9.7 per cent), financial services (8.1 per cent), and trade (7.9 per cent) (Figure 3).

Figure 3. Shares by sectors



Source: National authorities.

**Since 2010, growth averaged 2.5 per cent,** driven by the slowing sectors of financial services (growing at 5.6 per cent on average per year), transportation (3.4 per cent), manufacturing (1.9 per cent), the public sector (2.4 per cent), real estate (2.6 per cent), and trade (2.5 per cent).

**The business cycle is highly dependent on the Gulf Cooperation Council countries (GCC),** notably Saudi Arabia, as emphasised by several interlocutors. GCC countries are the first destination of Jordan's exports, and account for a large share of its tourism, remittances and capital inflows. As a result, Jordan could not benefit from the 2014-16 low oil prices because their positive effects were rapidly offset by the

lower external demand for Jordan's products from the GCC.

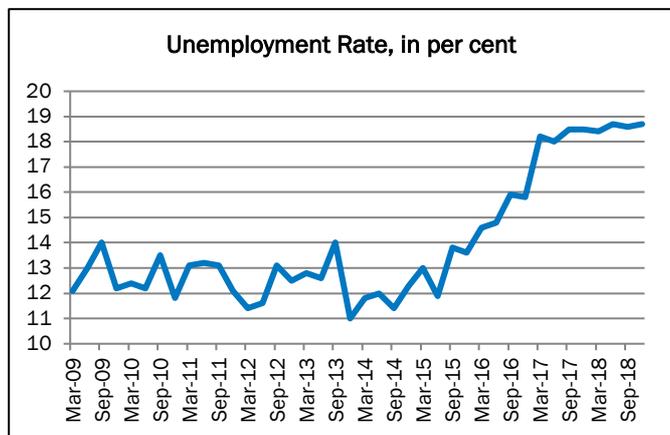
**The slower growth of all sectors directly affected employment.** Unemployment rate has been increasing in recent years, climbing from 11 per cent in Q4 2013 to 18.7 in Q4 2018 (Figure 4). In 2017, 35.3 per cent of the population was below 15 years of age, and 30 per cent were non-Jordanians, half of which are in Amman.

- 17.7 per cent of Jordanians aged 15+ have a university degree or higher, out of which 24.5 per cent are unemployed. Youth (ages 15-24) constitute 19.5 of the population; and 36.2 per cent of them are unemployed.
- Only 14 per cent of women aged 15+, which constitute half of the population, are economically active (compared to 63 per cent of men), and 25.7 per cent are unemployed (compared to 16.9 per cent of men).
- 18.4 per cent of the active population work in public administration and defence, 15.4 per cent in trade, 10.9 per cent in manufacturing, 9.4 per cent in education, and 7.9 per cent in construction. 55.1 per cent work in the private sector.

**The private sector employs over two-thirds of the population.** In 2016, 70 per cent of employees worked in the private sector, out of which 30 per cent were in wholesale and retail trade and 27 per cent in manufacturing. Of the 30 per cent working in the public sector, 45 per cent were in education, and 32 per cent were in public administration and defence, while the health sector employed 10 per cent.

**Micro, Small and Medium Enterprises (MSMEs) employed 69 per cent of workers in the private sector in 2016.** 37 per cent were employed in micro enterprises (1-4 employees), 18 per cent in small businesses (5-19), 14 per cent in medium firms (20-99) and 31 per cent in large corporates (100+ employees).

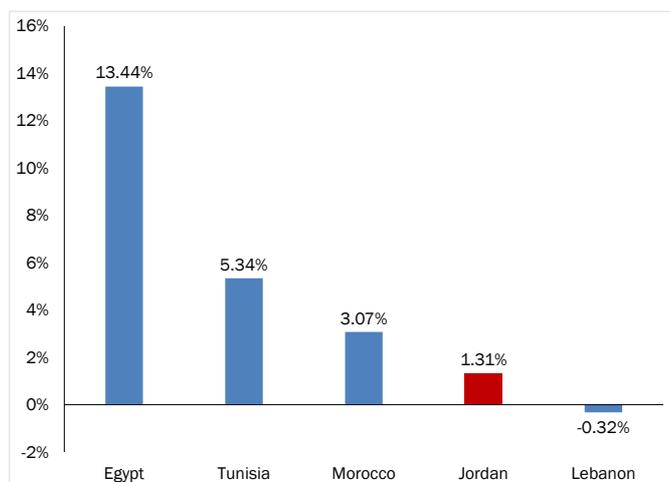
Figure 4. Unemployment rate



Source: Department of Statistics.

Since 2009, productivity and per capita output growth performances have lagged behind other emerging economies. Between 2000 and 2008, Jordan’s real GDP per capita grew 3.6 per cent each year on average, the highest among SEMED economies. Nevertheless, since 2009, the real GDP per capita declined at an average rate of 1.7 per cent each year. Since 2000, only Lebanon performed worse than Jordan on average (Figure 5).

Figure 5. Average GDP per capita growth rate (2013-17)

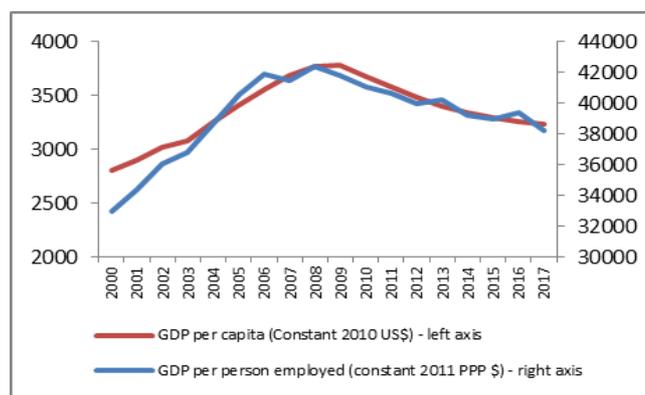


Source: World Development Indicators

Both the real GDP per capita and the real GDP per person employed – a measure of the productivity in the economy – peaked in 2008-09 (Figure 6). While the hosting of a large

number of refugees certainly increased the pressures on these variables due to a denominator effect and the development of the low productive informal sector, their decline started prior to the first arrivals, pointing towards structural issues.

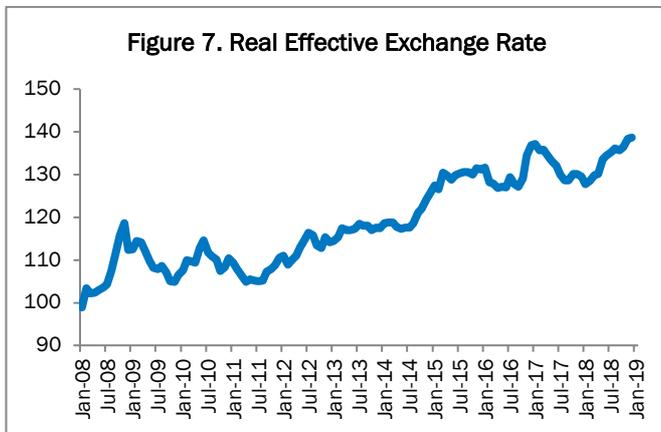
Figure 6. Productivity and GDP per capita



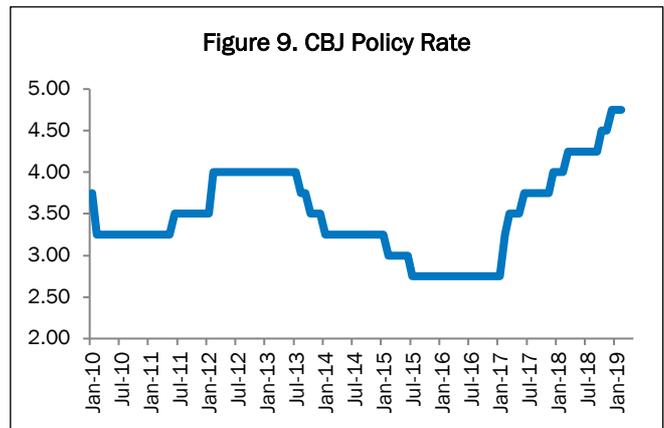
Source: World Development Indicators

Consequently, the nominal GDP per capita also decreased, to the point that Jordan lost the status of upper-middle-income country to become a lower-middle-income country in July 2017, according to the World Bank classification.

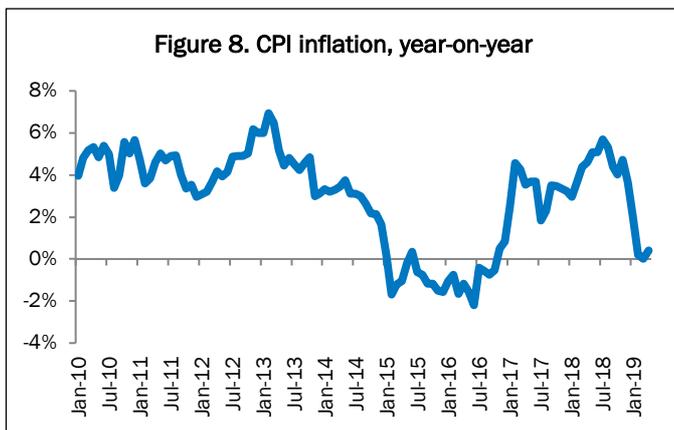
Since the end of 2016, the private sector has been operating under tightened monetary policy. The appreciation of the U.S. dollar, the anchor of the Jordanian dinar, due to the Fed’s monetary tightening, combined with the increase in inflation, translated into a decline in competitiveness as could be seen from the real effective exchange rate (REER) appreciation (Figure 7). This strong and lasting appreciation, in addition to lower demand from traditional trade partners, negatively affected Jordan’s exports. Manufacturing exports declined from 36 per cent to 18.6 per cent of GDP between 2008 and 2017, contributing to widening the current account deficit to 10.7 per cent of GDP in 2017, despite lower oil prices and energy imports.



Source: Bruegel. An increase denotes an appreciation



Source: Central Bank of Jordan



Source: Department of Statistics

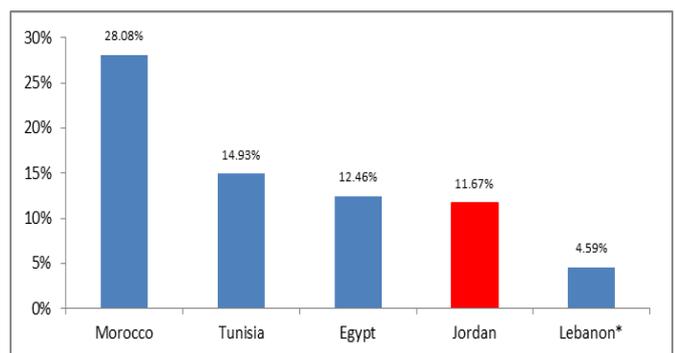
**Inflation has been volatile, driven mainly by development in food and oil prices.** After reaching a low level at -2.2 per cent y-o-y in June 2016, it increased sharply to reach 4.6 per cent eight months later, and, following a deceleration, rebounded further to reach 5.7 per cent in July 2018 (Figure 8).

**Central Bank of Jordan’s (CBJ) policy rate,** which had been reduced gradually from 4 per cent to 2.75 per cent until end-2016 to help sustain demand in a context of multiple external shocks, was increased by 200 bps to 4.75 per cent between February 2017 and December 2018 (Figure 9). The increase in interest rates, in turn, has increased the cost of and limited access to credit for the private sector.

**The savings rate is at a critically low level.**

Accounting for only 9.5 per cent of GDP in 2016 and an average of 11.7 per cent since 2010 (Figure 10), low savings have contributed to a sustained low investment rate (18.9 per cent in 2016) and sluggish TFP growth. They are due to high and rising unemployment, rising informality and low financial inclusion. In 2017, only 7.4 per cent of the population (aged 15 and above) reported having saved to start, operate, or expand a farm or business.

Figure 10. Savings rate



Source: World Economic Outlook 2018. 2010-17 average, \*except Lebanon (2010-13).

Moreover, according to stakeholders interviewed, “Jordanians often are lured by ‘prize’ savings, which are not sustainable. Rather, there is a need for ‘real’ savings”.

**On the fiscal policy side, the tax system is a major constraint faced by the private sector.**

According to the MENA ES, high tax rates are identified as the second main obstacle to business operations in Jordan, with 23.2 per cent of firms citing it as the main obstacle. Tax rates ranked first in the most problematic factor for doing business in the 2017 Executive Opinion Survey from the WEF GCR (13.9 per cent of firms), while tax regulations ranked 7<sup>th</sup> (out of 16). The WB DBR also evidences a performance below the MENA average in paying taxes, especially due to a high number of payments to be made annually (12 for social security, 6 for VAT) and a low post-filing index. Additionally, the GCR points out the negative effects of taxation on incentives to invest (Jordan ranks 105/137), while the total tax rate is lower than in other SEMED countries (27.6 per cent of profits).

**Tax evasion is high, and exemptions to general sales tax and tariff rates are numerous, leading to high average and low effective rates.**

While the weighted average tariff rate is around 10 per cent, the effective rate reaches only 3 per cent according to the IMF 2017 Article IV consultation report. Taxes on individuals also generate distortions: Jordan's personal income tax base is narrow, as only 5 per cent of individuals are contributors. This is due to the particularly high-income threshold (superior to 3 times the per capita income) and allowances. The tax system complexity affects negatively both the private sector operations, due to a lack of visibility, and the government's revenues. Yet, tax reforms have suffered the major delays among the reforms included in the IMF supported programme. In absence of further sustained, lasting efforts, these obstacles will continue to hamper inclusive growth.

**The cost of doing business is high, hindering private sector development.**

In addition to the incidence of high taxes and tariffs, and the high cost of financing, the cost of energy, transport and labour is also high. This is compounded further by the real appreciation, the result of inflation and the pegged exchange rate regime.

**Estimated at 94 per cent of GDP, public debt is high.**

After an increase from 67.1 per cent to 94.3 per cent of GDP between 2010 and 2017, public debt stabilised at this level in 2018, due to fiscal consolidation efforts. The fiscal deficit was reduced from 14.4 per cent of GDP in 2012 to 3.7 per cent in 2017. Despite its extent and duration, this consolidation has not been able to bring public debt toward a declining, more sustainable path. Moreover, the pace of fiscal consolidation slowed down amid social unrest. Massive protests in June 2018 led to the appointment of Omar Razzaz as Prime Minister and the immediate withdrawal of a draft fiscal law. Consequently, the pace of fiscal consolidation slowed down.

**Foreign support remains significant as hosting the refugees fleeing the Syrian conflict exerts high burden on public finances.**

In June 2018, Saudi Arabia, Kuwait, and the United Arab Emirates announced a US\$ 2.5 billion pledge in aid, followed soon after by a US\$ 500 million pledge by Qatar. While this aid will ease Jordan's financing needs, the country still has a limited space for the public sector to support economic activity and implement reforms to foster sustainable, inclusive growth.

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## 3. Labour Market Challenges

### **Economic inclusion gaps remain a challenge for the private sector in Jordan.**

While the Government has undertaken a significant number of reforms and initiatives to address them, areas of concern remain, particularly regarding youth, women and refugees' participation in the labour market.

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### 3.1. Youth inclusion

#### **Jordan has “large” youth inclusion gaps.**

Unemployment reached a 25-year record high in 2018 of 18.7 per cent (estimated at 250,000 people<sup>6</sup>) and unemployment among young people exceeded 33 per cent. Unemployment is particularly high for highly skilled labour; 75 per cent of graduates are unable to find employment within one year of completing their studies. Furthermore, the rate of youth not in education, employment or training exceeded 28 per cent in 2016 (ILO W4Y), almost half of which are women. Furthermore, Jordanians from Palestinian origin (West Bankers) have traditionally been concentrated in cities, while significant groups of Trans-Jordanians used to live in rural areas. Increasingly, the growth in the size and density of key cities has swelled the demand for jobs there, without a corresponding increase in job opportunities.

#### **The private sector is unable to create enough jobs to accommodate newcomers into the labour force and to meet the expectations of the skilled and educated.**

With more than 65 per cent of the population under the age of 30, it is estimated that 70,000 Jordanians join the labour market each year. At the same time, fewer than 30,000 jobs are created annually. The majority of the population work for the government, local governing bodies (municipalities) or the military. The Ministry of Labour (MoL) also estimates that 425,000 Jordanians work in GCC countries. In recent

years, many have returned permanently to Jordan, bringing relatively high levels of education, work experience and skills. A prominent representative of an IFI in Jordan once proposed to “*first, let the private sector create enough jobs, and then, expect people to work in the private sector*”

#### **Geo-political dynamics and challenging economic conditions continue to limit the creation of job opportunities for labour market entrants.**

Furthermore, competition with Syrian refugees for available jobs, skills mismatches, poor working conditions and low pay are among the main factors contributing to high youth unemployment in Jordan. The MoL estimates that approximately 600,000 non-Jordanians are formally working in Jordan, with an additional 200,000 working in the informal sector.

#### **Jordanians place high value on working conditions and employment packages, especially in the private sector.<sup>7</sup>**

A recent study of ILO concluded that it is important to improve working conditions currently characterised by unstimulating working environment, low wages, lack of social security or insurance coverage, the practice of working additional hours without compensation, irregular timing of payments, and the unpredictable working hours. The study revealed that the culture of ‘being ashamed to accept jobs below one’s perceived status’ is gradually decreasing and Jordanians would accept many of the jobs currently available in the labour market if working conditions were improved.

#### **The recently adopted by-law regulating home-based businesses constitutes an opportunity to engage youth and particularly women in the economic cycle.**

It also has prospects for expansion and graduation from household operations to small-scale businesses. The majority of the rural population in Jordan operate

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<sup>6</sup> Labour force is estimated at 1.4 million.

<sup>7</sup> In 2014, when Greater Amman Municipality improved the working conditions of public cleaning workers by converting them

into fulltime employees rather than daily labour, around 8,000 job applications (of Jordanians) were submitted to fill 500 vacancies.

informally some kind of non-registered business activity from their home, with household economic activity growing after 2011. This is mainly due to the Syrian refugee response packages, which directed huge investments into increasing the household income of host communities through micro-businesses such as dairy, sewing, handcrafts and retail, as well as supporting market linkages and business management training. It is estimated that more than 550 home-based businesses have been registered and licensed since the by-laws were passed in late 2017.<sup>8</sup>

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## 3.2. Gender inclusion

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**Female labour force participation in Jordan (at 17.7 per cent) is one of the lowest in EBRD countries of operations.** Men outnumber women in all economic sectors, except for education, health and social work, where women hold a slight majority (with 57 per cent, 51 per cent and 64 per cent respectively in 2016). The public sector is widely perceived as the only socially acceptable employer for women. In the private sector, only 21 per cent of women in private ventures reach senior management positions, and only 4 per cent are represented in governing bodies.<sup>9</sup> Only 2 per cent of companies employ a woman as top manager.<sup>10</sup>

**In a recent survey, only 15.7 per cent of firms have female participation in ownership.** This is well below the already low SEMED regional average of 22.4 per cent (MENA ES, 2013). The main barriers to women's entrepreneurship comprise the small scale, home-based, informal nature of those enterprises, in addition to complicated registration procedures, lack of access to information and legal awareness,

negative perceptions of female entrepreneurial activities, and limited ownership of assets that can be used as collateral.

**The labour force, notably in the private sector, is characterised by significant horizontal and vertical gender segregation, mainly due to social norms and women and men's educational choices.** A large majority of enterprises report that they prefer hiring men to hiring women. The reason given by 39 per cent of firms is the perception that women are less productive (World Bank, 2013). Around 38 per cent of Jordanian men and 22 per cent of Jordanian women do not find it acceptable for a woman to take a job outside her home if she wants to.

**Gender-based violence affects women's access to economic opportunities.** Certain forms of violence in the Jordanian society are perceived as acceptable: 90 per cent of women believe a man is justified in beating his wife under certain conditions. This belief is even more pronounced among adolescent girls.<sup>11</sup> Early marriage and, in some rare cases, polygamy are still practiced in Jordan.

**The Government of Jordan has launched a number of reforms aimed at creating quality jobs for women and promoting women's participation in the labour market,** including by supporting childcare provision and paternity leave and investments in transportation in urban areas. Nevertheless, unequal treatment of men and women remains in some areas of the legislation. For example, male workers are entitled to a family allowance if they are married, while women only qualify for this allowance if

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8 This is equivalent to creating 21 sustainable small-sized businesses of 5 employees

9 IFC (2015), Gender Diversity in Jordan.

[https://www.ifc.org/wps/wcm/connect/e93318004a0d7ff195cfb7e54d141794/IFC\\_Jordan\\_Gender\\_Report\\_Sep\\_2015.pdf?MO D=AJPERES](https://www.ifc.org/wps/wcm/connect/e93318004a0d7ff195cfb7e54d141794/IFC_Jordan_Gender_Report_Sep_2015.pdf?MO D=AJPERES)

10 World Bank data, 2013

11 JICA (2009), Jordan: Country Gender Profile.

[https://www.jica.go.jp/english/our\\_work/thematic\\_issues/gender/background/pdf/e09jor.pdf](https://www.jica.go.jp/english/our_work/thematic_issues/gender/background/pdf/e09jor.pdf) ; UNICEF (2009), Jordan. MENA Gender Equality Profile.

<https://www.unicef.org/gender/files/Jordan-Gender-Equality-Profile-2011.pdf>

they are widowed or if they prove that they are the family's primary breadwinner.<sup>12</sup>

**Discriminatory legal provisions in pension laws and personal status laws still restrict women's freedom of movement, legal capacity to sign contracts and administer property, inheritance rights, and ability to testify in court proceedings.**

For instance, a woman is precluded (in practice) from filing a legal claim without the permission of a male relative as well as applying for a loan to a bank. Appearing in court, including testifying, can also lead to social stigma for women. Debt financing and overdue payments emerged as the main source of disputes women face. Court fees in Jordan are the highest in the region, amplified by expensive legal services.

**The EBRD and the International Development Law Organisation (IDLO) recently assessed Women Entrepreneur's Access to Justice in Jordan.** The study showed that more than 80 per cent of entrepreneurs claimed "little", "basic" or "no" understanding of the business-related legal and regulatory framework. Furthermore, procedures to open a new business are perceived as overly complicated, with little expert legal advice available. Courts feature as a weak link for being slow, having limited opening hours, and lack of expertise among judges and lawyers.

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### 3.3. Education and labour skills

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**As a resource-poor country, Jordan has always prioritised investment in human capital.** Over the years, Jordan has achieved education and skills standards that are higher than the rest of the region, especially GCC countries. This was particularly true during the 1980s and 1990s.

However, due to a variety of factors, including lack of investment in related infrastructure, the high population growth rate<sup>13</sup> and geopolitical dynamics, development indicators in education and skills have deteriorated since the turn of the century. While access to education remains comparatively high, the quality of education is low. There are around 3,800 public schools and 3,200 private schools with capacity for 1,336,000 and 515,000 students respectively (with additional 171 United Nations Relief and Works Agency (UNRWA) schools accommodating around 122,600 students).

**Schools are unable to meet the increased demand caused by the rapid population and refugee growth.**

UNICEF estimates that one in every three children in Jordan is a refugee with around 230,000 school-aged Syrian children. This has led some schools to adopt the dual shift system, accommodating around 10 per cent of students at all levels. Furthermore, it is estimated that about a quarter of public school buildings are rented, accounting for more than 10 per cent of students, while other school buildings are old and do not meet the required standards. It is worth highlighting that schools in Jordan are not physically equipped to include disabled students into the educational system. Additionally, teachers and educators lack necessary training for dealing with students with special needs.

**The skills and qualifications of school administrators and teachers are often inadequate.**

Furthermore, the Ministry is unable to retain qualified teachers as the private sector employs many of them, in addition to those who emigrate to GCC countries seeking better remuneration. Consequently, studies revealed that most existing teachers tend to apply the outdated teaching methods they are most

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12 ILO (2013), Towards Pay Equity. A Legal Review of Jordanian National Legislation. [http://www.ilo.org/wcmsp5/groups/public/-arabstates/--ro-beirut/documents/publication/wcms\\_215608.pdf](http://www.ilo.org/wcmsp5/groups/public/-arabstates/--ro-beirut/documents/publication/wcms_215608.pdf); USAID (2012), Jordan: Gender Analysis and Assessment. <http://inform.gov.jo/Portals/0/Report%20PDFs/8.%20Civil%20S>

ociety%20Enabling%20&%20Protection/i.%20Social%20Policy/2012%20Mar-USAID-Gender%20Analysis%20and%20Assessment.pdf  
13 6.5 million population in 2004 to 9.5 million in 2016 (Central Statistics Office)

comfortable with, usually with parents' consent, especially in rural areas.

**Staff turnover is generally elevated for all business sectors because of high competition for skilled labour.** Employers find it hard to retain qualified labour especially at entry levels, as these workers are usually willing to leave their current employer for even a slightly better wage premium. Employers are thus discouraged from properly investing in capacity development of their staff, worsening the overall skills situation in the relevant sector and driving skilled labour to migrate mostly to GCC countries. The lack of skilled labour constitutes a key challenge for mid-management employees too.

**A comprehensive revision of the education system is under way.** The government launched a National Human Resource Development Strategy in 2016 to reform human capital development in Jordan by 2025. The strategy is based on four main pillars, namely: 1) Early childhood education and development, 2) Basic and Secondary education, 3) Technical and Vocational Education, and 4) Higher Education.

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

**The lack of a well-trained and motivated labour force, able to meet private sector employers' needs, is one of the key factors contributing to youth exclusion from the labour market.**

Despite expanded capacity for providing TVET<sup>14</sup>, this system is of low quality and meets neither students' ambitions nor private sector employers' needs. In addition to skills mismatches at all levels of employment, graduates of the TVET system are unable to meet skills' demands in light of technological advancements in the labour market. This is a key limitation for the productivity of

manufacturing industries and the quality of the services sector.

**Students perceive TVET as academically lower quality.** It is often associated with achieving lower academic results and is chosen usually by students from poorer families. This perception is not far from the reality, as the learning outcomes of the TVET system are indeed low, with the private sector expressing clear dissatisfaction with TVET graduates' skills. Furthermore, due to lack of proper investment in the sector, high school secondary vocational programmes focus more on theoretical than on practical, vocational aspects, which leads to high dropout rates. The same applies to vocational colleges at the tertiary level, with an annual successful graduation rate not exceeding 5 per cent.

**The government has drafted a law to create a Higher Council for Vocational Education and Training.** The latter will govern all TVET institutions in Jordan and bring together the relevant authorities under the chairmanship of the Minister of Labour. The law will also regulate the establishment and operations of private sector-led Sector Skills Councils.

**The EBRD has supported the creation of a Sector Skills Council for Hospitality and Tourism in 2018.** In line with the EBRD's considerable investments in the sector, and at the request of industry, the skills sector was created to oversee the design of clear paths to career progression and skills' standards for a variety of occupations within the industry. Skills councils are also being established in other sectors including the Water and Energy sector, Logistics, ICT, Garments, Pharmaceutical and Paints.

<sup>14</sup> TVET in Jordan is covered by the following institutions: 1) secondary vocational education under Ministry of Education (grades 11 and 12), with capacity for around 30,000 students every year; 2) post-secondary vocational education at university colleges and the Balqa Applied University under the Ministry for Higher Education and Scientific Research, with capacity for around 21,000 students every year; and 3) the Vocational Training Corporation (VTC), an independent entity chaired by the

Minister of Labour that provides vocational training programmes of different durations, with 45 centres around the country and capacity for around 10,000 students every year.

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### 3.4. Syrian refugees

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**The integration of over 1.3 million Syrian refugees living in Jordan<sup>15</sup> remains a massive social and economic challenge.** The influx has caused pressure on basic services such as health, education and water, sanitation and hygiene (WASH), as well as infrastructure in general. Despite recent political developments, it appears that Jordan is likely to continue providing refugee support for some time ahead.

**Additionally, the Jordan Compact has added tremendous pressure on the labour market.**

The international community and the Jordanian Government committed to creating up to 200,000 job opportunities for Syrian refugees, adversely affecting employment opportunities for Jordanians. Furthermore, Syrian refugees are perceived as being more skilled, willing to accept lower wages and tougher working conditions compared to Jordanians; thus increasing competition for available job opportunities.

**Policymakers are struggling to balance opening-up economic opportunities for young Jordanians and ensuring employment opportunities are available to Syrian refugees.**

On one hand, the MoL issued a list of occupations that are closed to Non-Jordanians, and designed a National Employment Strategy (NES 2011-2012) that offers generous incentives<sup>16</sup> to employers who substitute Non-Jordanian employees with Jordanians. On the other hand, the MoL waived work permit fees<sup>17</sup> for Syrian refugees and implemented a 'free' work permit arrangement in the construction sector. Additionally, a recent by-law issued by the MoL permits the Minister, through a committee that he establishes, to issue short-term work permits of six months to Syrian refugees, in all occupations including the closed occupations.

**Until recently, the home-based businesses by-laws were also closed completely to Syrian refugees.** However, a Cabinet decision in November 2018 to allow Syrians to operate formally micro-businesses from their homes waived this restriction.

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<sup>15</sup> There are more than 671671,000 Syrian refugees registered with UNHCR; 80 per cent of whom live in host communities (outside refugee camps).

<sup>16</sup> Including half year salary, social security contribution and transportation fees for the relevant staff member for one year

<sup>17</sup> That exceeds 700 JODs (US\$ 1,000) in some cases

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## 4. Access to Finance

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### 4.1. Structural and legal challenges in the financial sector lower financial inclusion and access to finance for the private sector, notably for SMEs

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The financial sector plays an important role in the efforts to achieve the outcomes detailed in the Jordan 2025 vision, but faces several obstacles to fuelling private sector-led growth.

#### Structural and business model-related obstacles

**Access to finance is the main constraint for Jordanian firms.** According to the MENA ES, only 16.7 per cent of firms had a loan or a line of credit, well below the SEMED average of 32.1 per cent and the rest of the EBRD region average of 37.4 per cent. Almost 70 per cent of firms that needed a loan were either discouraged from applying for a loan or rejected when they did, which is above the SEMED average of 57.2 per cent and the average for the rest of the EBRD region (47.5 per cent). Over 70 per cent of SMEs were credit-constrained, compared to 19.7 per cent of large firms.

**The banking sector exhibits limited competition and a heavy focus on relatively conservative business models.** The sector comprises 25 banks, with assets accounting for almost 80 per cent of the financial sector. Banks are mainly private, although the government-administered pension scheme maintains small stakes in most banks. The sector is concentrated, with the two largest banks – Arab Bank and Housing Bank – accounting for around 50 per cent of the assets. The number of banks remains high, and efforts of the CBJ to promote a consolidation process through increasing minimum capital requirements have not proven successful. The size of the Jordanian banking sector (175 per cent of GDP on an

unconsolidated and around 280 per cent on a consolidated basis) underscores the limits in its ability to offer further support in terms of increased lending to private sector.<sup>18</sup>

**Obstacles related to getting credit, investor protection and insolvency resolution persist in the financial system.** According to the WB DBR 2019, Jordan has climbed the rankings in getting credit and minority investor protection, albeit from a low base, and has fallen back in terms of insolvency resolution – ranking 134<sup>th</sup> out of 190 countries in getting credit (185<sup>th</sup> in 2016, for reference), 125<sup>th</sup> in minority investor protection (163<sup>rd</sup> in 2016), and 150<sup>th</sup> in insolvency resolution (146<sup>th</sup> in 2016).

**Regarding getting credit, Jordan is performing below the SEMED average in terms of strength of legal rights and credit bureau coverage.**<sup>19</sup> In terms of protecting minority investors, Jordan is lagging behind the SEMED average in terms of extent of disclosure, director liability, shareholder suits, and shareholders' rights. In terms of resolving insolvency, Jordan is in line with MENA average but still far behind OECD countries for recovery rate and time, and lagging behind MENA countries for costs and strength of the insolvency framework.

**Corporate governance, transparency and disclosure requirements on the Amman Stock Exchange appear to be largely adequate,** but both the number of listed firms and total market capitalisation have been decreasing for the past several years, currently at 195 firms worth over JD16 billion (US\$22.6 billion).

**Banks' business models are oriented towards public sector lending** but this is expected to decline in line with the ongoing fiscal consolidation process. This will promote credit growth while maintaining sound credit risk

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<sup>18</sup> EBRD's five-year capital market action plan is under implementation and is in its first year.

<sup>19</sup> The credit bureau has been set up and its data population is progressing well. An additional microfinance credit registry has been operational for a number of years.

underwriting standards and loan portfolio quality.

### **Access to Finance for SMEs**

#### **Access to finance is one of the key obstacles for start-ups as well as SME growth in Jordan.**

SMEs constitute more than 96 per cent of all enterprises in Jordan, but their share of lending constitutes only 10 per cent of total lending (around 40 per cent is large corporate lending, 40 per cent retail and 10 per cent government lending).

#### **Access to finance is a major challenge for female-owned businesses in particular.**

Women are more likely to seek credit from microfinance institutions (IFC, 2007). Fifty-three per cent of female-headed firms identify access to finance as a constraint, compared to 43 per cent of male-headed firms (ES, 2013). In the formal banking sector, women are generally required to provide a spousal guarantee for loans, and report being required to meet higher collateral requirements for the same loans in comparison with their male counterpart. This further increases the difficulties women face in accessing credit, as they represent only 17 per cent of landowners (World Bank, 2013). According to active players in this field in Jordan, *“women are the most likely to be often in over indebtedness, and they need literacy and awareness”*.

**Informal activities and lack of skills and knowledge are also significant barriers to financial sector access.** Lack of financial institutions' and banks' capacity and knowledge on SME lending – for example, cash flow-based analysis vs collateral-based lending – often results in increased cost of borrowing for SMEs. In addition, there is frequently a lack of skills on the part of SMEs in preparing appropriate financial papers for consideration by lenders and financial institutions. Furthermore, many SMEs prefer operating informally to avoid taxation, thus hindering their capacity to access finance.

### **The National Financial Inclusion Strategy (NFIS) 2018-20 promotes access of individuals and businesses to suitable and affordable financial services.**

As part of the strategy, the CBJ is launching a financial literacy campaign targeting SMEs, young people and rural households. Policymakers interviewed stated that *“Clients often do not know their rights; they cannot differentiate between nominal and effective interest rate, or between fixed and flexible interest rates”*.

### **Obstacles to financial inclusion**

#### **Many adults have little or no access to financial services.**

According to the NFIS 2018-20, 67 per cent of those above the age of 15 years do not have access to the formal financial system in terms of account ownership, 38 per cent of adults are excluded from any formal financial services and 24.8 per cent of adults are excluded completely from any, including informal, financial services. Within less advantaged segments, only 19 per cent of the lower 40 per cent income segments have an account, 6 per cent have borrowed from a financial institution and 5 per cent have saved at a financial institution.

#### **Women, youth and non-Jordanians face particular difficulties with opening a bank account and getting a loan.**

Only 27 per cent of women have an account, 12 per cent have borrowed and 8 per cent have saved. Women are half as likely to own an account at a formal financial institution (World Bank, Findex, 2014). Among young people, 20 per cent have an account, 4 per cent have borrowed and 5 per cent have saved. Among non-Jordanians, the share of formal account ownership is 14 per cent among those with permanent residence permits, 11 per cent among those with temporary residence permits, and 8 per cent among formal refugees.

**The NFIS 2018-20 targets an increase in the level of financial inclusion and the reduction in the gender gap.** It plans for increasing account ownership from 33 per cent to 41 per cent and reducing the gender gap from 53 per cent to 35 per cent. The strategy builds on the policy action areas of microfinance, digital financial services and SME Finance.

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## 5. Access to Markets

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### 5.1. Barriers to trade diversification limit the private sector's growth and access to markets

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**Jordan is among the most open economies in the SEMED region.** Trade, as measured by the sum of exports and imports of goods and services amounted to 90 per cent of GDP in 2017 and Jordan is part of a high number of regional trade agreements. Despite being a small open economy, Jordan had a high negative trade balance in goods of US\$ 13 billion and a small trade surplus in services of US\$ 2 billion in 2017. The country has experienced a constant increase of imports since 2000, while exports increased with a slower pace until 2008 and have stagnated since then, mainly due to the global slowdown and the disruption of key trade routes resulting from neighbouring conflicts. Service exports increased by 40 per cent between 2008 and 2017 (from US\$ 4.8 billion to US\$ 6.7 billion), mainly because of tourism, travel and transport gains. As an ex-minister and a prominent entrepreneur put it, *“the private sector is always complaining about roads infrastructure for exports. But you do not need roads to export services”*

**Jordan made major progress in moving towards liberalised and free trade markets since its WTO accession in 2000, but progress has stagnated since 2008.** Jordan reduced the applied tariff rates on all stages of processing goods. However, in 2017, Jordan's applied average weighted tariff rate on all products stood at 4.4 per cent, which is only a small decrease compared to 5.6 per cent in 2006. The tariff rate on intermediate goods stood at 1.3 per cent in 2017 and declined significantly since 2000. The applied tariff rate on intermediates was below the regional MENA average of 2.9 per cent in 2017.

**The economy mainly exports and imports consumption goods, reflecting the relatively narrow production and manufacturing base.**

The shares of capital goods and intermediates have declined or stagnated over the period between 2006 and 2016. In 2016, the export and import shares of consumption goods amounted to 48 per cent and 41 per cent, respectively. The importance of intermediates has stagnated over time, amounting for a 26-per-cent export share and 23-per-cent import share in total trade. Jordan's main imports were fuels (14.1 per cent of all imports), machinery and equipment (13.7 per cent) and transportation products (11.2 per cent). Chemicals (25.6 per cent), textiles and clothing (19.9 per cent) and agricultural and food products (16.7 per cent) were the sectors with the highest export shares in 2016.

**Jordan's export basket is mainly composed of products with a low level of sophistication, reflecting the characteristics of its private sector.** These include textiles, agricultural products and raw materials such as phosphates and potash. Strong export-performing sectors are textiles and clothing, minerals, chemicals and vegetable products. The revealed comparative advantage scores of textiles are 7.7, and 7.3 for minerals, 3.4 for chemicals and 1.5 for vegetable products.<sup>20</sup>

**The country's performance in terms of economic complexity of export products and integration into Global Value Chains (GVCs), the worst among SEMED countries, has been declining.** In terms of economic complexity, the country ranked 55<sup>th</sup> in 2016 (out of 127). While the performance of SEMED countries stagnated over the period 2010-2017, Jordan's performance worsened.<sup>21</sup> In terms of integration into global production chains, only 39 per cent of all Jordanian exports were sold or bought

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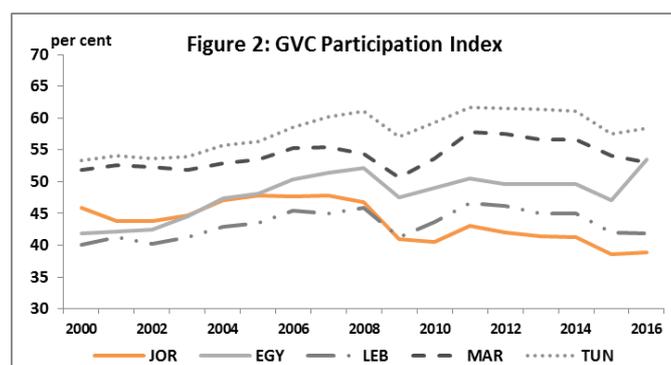
20 This indicates that Jordan exports a higher share of products in these sectors in relation to its total economy compared to the world share of those products in relation to the world economy.

21 The economic complexity index ranks countries according to the diversity and ubiquity of their export products and in this

context; Jordan's index ranking is in line with the country's dependency on exports of chemicals, agricultural and textiles products (Atlas of Economic Complexity, Harvard-CIS, 2016).

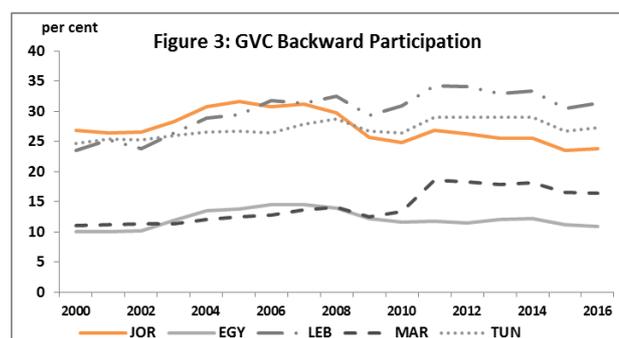
through GVC linkages in 2017 compared to 46 per cent in 2000 (Figure 11), indicating that Jordan exports mainly consist of final consumption goods. This limits the opportunities for private sector growth and development.<sup>22 23</sup> In addition, looking more closely at the type of GVC integration, it can be seen that the economy has a relatively high use of foreign value-added inputs and intermediates for its exports, despite its backward integration (“import to export”) having significantly declined after 2008 (Figure 12).

Figure 11. GVC Participation Index



Source: UNCTAD-EORA (2018)

Figure 12. GVC Backward Participation



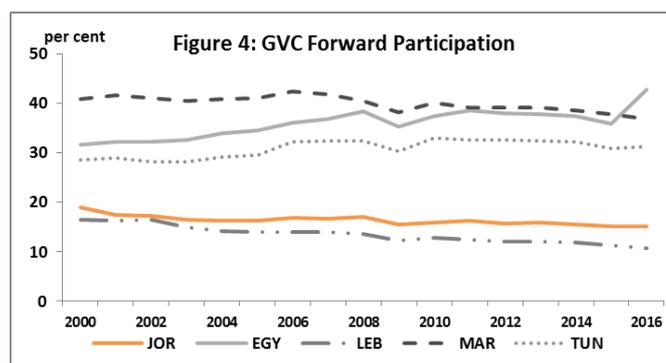
Source: UNCTAD-EORA (2018).

Jordan’s exports of intermediates for third countries’ exports (forward participation, “selling inputs for production”) remains rather low and is

22 GVC Participation Index is the sum of Foreign Value-Added (FVA) and Domestic Value Added exported to third countries (DVX) divided through gross exports. An index value of 100 per cent would indicate that all products Jordan exports are done through value chain networks by either sourcing foreign intermediates or selling domestic inputs to third countries.

below comparator countries in the region (Figure 13).

Figure 13. GVC Forward Participation



Source: UNCTAD-EORA (2018)

**Access to foreign markets is limited, affecting the private sector.** The foreign market size index in the WEF GCR is the lowest in SEMED. Exports are highly concentrated towards a limited number of destinations; GCC countries, the U.S., Iraq and India accounted for more than 60 per cent of Jordan’s total exports in 2017. Due to its geographical position, Jordan’s main trade routes have historically passed through Syria and Iraq. Lasting conflicts in the region have closed them in recent years and are possibly one of the reasons behind the sharp decline in manufacturing and total exports as a share of GDP (from 36 per cent to 18.6 per cent of GDP for manufactured exports between 2008 and 2017).

**Jordan’s trade performance is exposed significantly to regional geopolitical events and the economic performance of trade partners.** The Greater Arab Free Trade Area (GAFTA) countries are Jordan’s main export partners, accounting for 25 per cent of total exports, while GCC countries are the main source of FDI inflows. Jordan has strongly benefited from the GAFTA agreement by

23 The average GVC participation of EBRD countries was 56 per cent in 2017 (UNCTAD, 2018).

increasing its trade volumes with Saudi Arabia, UAE and Kuwait but also Syria and Iraq. Exports to all countries in the region strongly increased from US\$ 1.2 billion in 2008 to US\$ 1.9 billion in 2017, even though export volume has been on a downwards trend since 2014.<sup>24</sup> Because of the situation in Syria and Iraq, exports to these countries have decreased by 40 per cent. The regional instability has also disrupted exports that depended on Syria as a major export route to other key partner countries/regions such as Lebanon, the EU, Turkey and Central Asia. In 2016, exports to Iraq, historically Jordan's major export market and accounting for almost a fifth of domestic exports in 2014, declined by more than 50 per cent. This was the result of the closing of the Iraqi-Jordan border in 2015. The reopening of the border in August 2017 led to a moderate increase in trade volume. As a result, Jordan was mostly dependent on more expensive routes – such as the port of Aqaba in the south – and air shipments to export Jordanian merchandise. Exports to GCC countries have remained robust and helped mitigate the loss of Iraq and Syrian markets.

**Jordan's strong export relationship with the US (22 per cent of total exports) is mainly concentrated in the garment and apparel industries (and precious metals and pharmaceutical products to a lesser extent).<sup>25</sup>**

Exports of textiles have significantly increased because of the Qualified Industrial Zone (QIZ) agreement in textiles signed in 2006. The agreement grants tariff-free and quota-free access to the US market for goods produced in

QIZ zones with a small portion of Israeli input and a minimum 35 per cent value to the goods added to the finished product in Jordan.<sup>26 27</sup> This has led to an inflow of Asian multinational enterprises (MNEs) and significantly increased imports in textile yarn from China, Hong Kong and Taiwan (from US\$ 99 million in 1997 to US\$ 631 million in 2006). These MNEs rapidly turned Jordan from a country with a quasi-non-existent clothing industry into a leading regional garment exporter. However, after the global downturn in 2008, many Asian MNEs left Jordan and overall export volumes of textiles and clothing declined for several years, highlighting the vulnerability of this sector with limited added value and spill-overs to the local economy due to international suppliers and limited local job creation. In recent years, export volumes of certain apparel articles to the US picked up speed again and recovered to pre-crisis levels.

**Trade relations with the EU are highly imbalanced, with exports to the EU being marginal (3 per cent of total exports) and the EU being Jordan's main import partner.** The country has not managed to exploit its trade potential fully but the revised 2018 agreement on Rules of Origin offers an opportunity.<sup>28</sup> The 2016 agreement on relaxed rules of origin<sup>29</sup> had a weak impact, with only 11 companies having registered to benefit from it (March 2018 data), exporting mainly textile products, diverse metal products (iron, steel, cement, copper), plastic and chemical products and essential oil exports. The agreement was revised in December 2018, requiring the Jordanian government to issue

24 Mineral products and fuel, plastics and precious metals are major import products, while edible vegetables, fruits, nuts, live animal and pharmaceutical products are major export products.

25 Main imports from the US are machinery and appliances, vehicles and mineral products.

26 A FTA has further developed US-Jordan trade relationship in 2010.

27 Due to flexible rules of origin of intermediates used in the production process and the permission of employing foreign workforce in the special economic zones, Jordan has been able to source inputs and labour from third countries and still benefit from duty-free access to the US.

28 Main import products from the EU are machinery and appliances, mineral products and vehicles. Main export products

to the EU are textiles and clothing, fertilisers and copper in 2017 precious stones and metals in 2017. Re-exports, indicating entrepôt trade, can be seen in the aircraft, electrical machinery and automotive industries. .

29 In 2016, the EU has agreed to simplify the rules of origin for Jordanian companies operating in seven economic sectors under the 52 HS chapters located in 18 designated development zones and industrial estates in Jordan. Until 12/2030. In order to benefit from the relaxed rules of origin, Jordanian companies are required to employ a fixed amount of Syrian refugees as a share of the workforce in the exporter production facilities (15 per cent in the first two years, and 25 per cent in the third year).

60,000 valid work permits for Syrian refugees with a particular focus on women's participation (instead of the required workforce share obligation for export companies) and is expected to be more effective at promoting EU-Jordan trade. According to the protocol of the EU-Jordan Association Committee Decision from 4/12/2018, over 120,000 work permits have been already issued to Syrian refugees, of which approximately 42,000 were active work permits during the third quarter of 2018.<sup>30</sup> Once the threshold is met, the relaxed rules of origin will allow local manufacturing firms in the economic sectors covered by the agreement to use intermediates and raw material inputs as long as the value of all the inputs used does not exceed 70 per cent of the (ex-works) price of the products.<sup>31</sup> This new rules-of-origin modification abolishes the former requirement of having at least 60 per cent of local origin in exports to the EU (which has been seen as a major constraint for the Jordanian economy).<sup>32</sup> Despite being small in absolute terms, export volumes to the EU in the chemicals, textiles and metal products sectors covered by the relaxed rules of origin agreement have increased significantly in relative terms, which might be due to the new agreement.<sup>33</sup> As highlighted by private sector players in Jordan, *"the problem with the implementation of the rules of origin is that interests are not aligned between refugees and companies employing refugees. There is a need to look at what worked and what did not work with the implementation of the rules of origin."*

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30 According to the UNHCR (2018), 96 per cent of the work permits were issued to male Syrian refugees (status in 06/2018). Furthermore, in June 2018, 2310 work permits were issued, whereas by economic activity 43 per cent were related to construction, 27 per cent to agriculture and 11 per cent to manufacturing.

31 Depending on the economic sector covered by the agreement, some manufacturing sectors are required to process further the export products in specified process stages or operations instead of meeting the material value threshold. More information can be found in the EU-Jordan Association Committee Decision No [1]/2018.

32 Furthermore, the list of products has been enlarged to the majority of economic sectors under HS 25-71 classification, with

**FDI inflows have declined between 2006 and 2010 and stagnated since then.** The decline in foreign investment has been compensated partially by bilateral aid flows (Figure 14). In 2009, Iraq, Kuwait, Lebanon, Saudi-Arabia and UAE were the main origin of investments (US\$ 11 billion out of US\$ 21 billion) while the EU and the US were significantly lower contributors (US\$ 3.3 billion and US\$ 1.6 billion respectively) (UNCTAD, 2018).

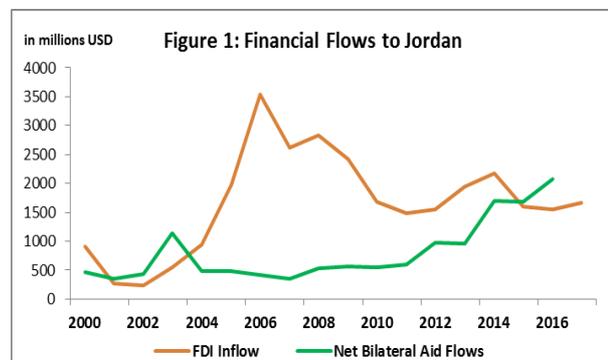
**Future growth in exports could come from diversifying products and markets, and upgrading products in existing value chains.** As one interlocutor put it, *"there is a need to upgrade standards for exports and to export to high value markets, not just those whose demand is mainly for low-standard product"*. The unused potential to develop modern, higher-technology industry for export is estimated to be the largest for chemicals (in particular in fertilisers, medicaments), followed by mineral and metal products (in particular jewellery and precious metals) and horticulture (in particular tomatoes).<sup>34</sup>

the exception of agriculture and food products (HS 1-24) and HS 26,30,36,45,46,47,48,49,50,66,67.

33 Growth rates in several export products to the EU have been quite substantial between 2016 and 2017; wood articles and wood charcoal increased by 1000 per cent, oil seeds and oleaginous fruits by 200 per cent, articles of iron or steel by 312 per cent, articles of copper by 133 per cent, miscellaneous chemical products by 74 per cent, soap and prepared waxes by 52 per cent and articles of apparel by 37 per cent.

34 ILO, ITC and Jordan Chamber of Commerce (2018), Jordan's Export and Employment Potential, Identifying Opportunities for Growth.

Figure 14. Financial flows to Jordan



Source: World Bank (2018)

The National Centre for Innovation (NCI) – recently established with EBRD support – is expected to contribute to encourage coordination of activities supporting innovation, promote knowledge transfer and ultimately result in higher-value added creation in the country. Lastly, an EBRD-commissioned report on green goods also highlights the potential for building on existing capacity and skills in terms of green/sustainable technologies adapted to the regional climate, as well as related services (installation, maintenance) of such technologies. However, in order to leverage on such competitive advantages in the region, the government could improve/facilitate access to imported inputs as well as engage in regional export promotion, notably for services<sup>35</sup>. As a chairman of one of the banks argued, “Jordan needs to have access to markets in order to be worthwhile for foreign and domestic investors to come to Jordan.”

35 ILO, ITC and Jordan Chamber of Commerce Vivid Economics (2018), Jordan’s Export and Employment Potential, Identifying Liberalisation of trade in environmental goods and services:

Opportunities for Growth EBRD countries of operation, Report prepared for EBRD, February 2018.

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## 6. Infrastructure Challenges

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### 6.1. Water scarcity is a crucial barrier to private sector growth and development in the agriculture sector

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**Jordan is one of the most water-scarce countries in the world, with a limited amount of renewable internal freshwater resources.<sup>36</sup>**

<sup>37</sup> Water scarcity is driven primarily by the arid to semi-arid climatic regime – 80 per cent of the country receives average precipitation of less than 100 mm/year – and by population increases experienced in recent decades because of both natural growth and immigration/refugee intake. At present, total water use exceeds renewable supply, with the balance being met mostly by groundwater over-abstraction and reclaimed wastewater, and to a lesser extent by small-scale desalination.

**The special geographical and hydro geological conditions in Jordan create an extremely difficult operating environment for provision of water supply and wastewater disposal services.** Water has to be transported over long distances and pumped over extreme elevational differences of more than 1,300 metres with high-energy inputs. The fact that Jordan is downstream from neighbouring Israel and Syria, with whom most surface water resources are shared, further complicates the situation.

**Climate change is projected to lead to significant adverse effects on temperatures, humidity and extreme weather events, all of which will exacerbate water scarcity.<sup>38</sup>** The forecasted substantial water deficits will be made worse by the projected 43 per cent population increase between 2015 and 2050.<sup>39,40,41</sup>

**The agriculture and food industry is the main water consumer.** Irrigation alone contributes to about 60 per cent of the total water usage in Jordan.<sup>42</sup> Production of high value crops, in particular fruits and vegetables, is increasing in Jordan and is expected to take up even more of the water resources. In addition, the agriculture sector consumes around 14 per cent of total electricity consumed in Jordan<sup>43</sup> but provides only 19 per cent of the country's food requirements.<sup>44</sup>

**Water tariffs are significantly lower than in regional peers.** They do not cover operation and maintenance costs (O&M),<sup>45</sup> and it is estimated that an average of 50 per cent of the water supply is lost because of Non-Revenue Water ("NRW")<sup>46</sup> in municipal networks.<sup>47</sup> This is largely due to leaks in the system caused by poor-quality equipment and pipes, inadequate maintenance, and non-working meters or unauthorised connections, which will be addressed by the revised "Action Plan to Reduce Water Sector Losses", the National Strategy for

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<sup>36</sup><https://data.worldbank.org/indicator/ER.H2O.INTR.K3?contextual=min&locations=JO&view=chart>

<sup>37</sup> USAID, "Water Resources and Environment", Link: <https://www.usaid.gov/jordan/water-and-wastewater-infrastructure>

<sup>38</sup> UNFCCC Jordan INDC

<sup>39</sup><http://www.undp.org/content/dam/jordan/docs/Publications/Enviro/TNCpercent20jordanpercent20pdf.pdf>

<sup>40</sup> Yorke V. (2016), Jordan's Shadow State and Water Management: Prospects for Water Security Will Depend on Politics and Regional Cooperation. In: Hüttl R., Bens O., Bismuth C., Hoehstetter S. (eds) Society - Water - Technology. Water Resources Development and Management. Springer, Cham

<sup>41</sup> "Population Projections for the Kingdom's Residents during the Period 2015-2050", Jordan Department of Statistics, 2015

<sup>42</sup> "Water Sector Capital Investment Plan 2016-2025", (Jordan Ministry of Water and Irrigation, 2016)

<sup>43</sup> "National Water Strategy 2016-2025" (Jordan Ministry of Water and Irrigation, 2016)

<sup>44</sup> USAID, "Water Resources and Environment", Link: <https://www.usaid.gov/jordan/water-and-wastewater-infrastructure>

<sup>45</sup> "Structural Benchmark Action Plan to Reduce Water Sector Losses", (Jordan Ministry of Water and Irrigation, 2016)

<sup>46</sup> USAID, "Water Resources and Environment", Link: <https://www.usaid.gov/jordan/water-and-wastewater-infrastructure>

<sup>47</sup> "National Water Strategy 2016-2025" (Jordan Ministry of Water and Irrigation, 2016)

Jordan 2025 (“Vision 2025”) as well as the National Agenda of Government of Jordan. <sup>48, 49</sup>

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48 “Structural Benchmark Action Plan to Reduce Water Sector Losses” (Jordan Ministry of Water and Irrigation, 2016)

49 “Water Sector Capital Investment Plan 2016-2025”, (Jordan Ministry of Water and Irrigation, 2016)

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## 6.2. Challenges facing the transport sector hamper private sector development

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### National Level

**The Transport sector is considered the backbone of the economy.** Transport made up for an estimated 9 per cent of GDP in 2016 and employment in transport and communications was roughly 9 per cent as well.

**Investments in Jordan's transport infrastructure would have major effects on employment and growth.** A study by the World Bank on infrastructure and employment creation in the MENA estimated that in the short run, every US\$ 1 billion invested in infrastructure in the region would create 185,000 jobs, more than twice as many jobs than if it were invested in any other infrastructure sector.

**The importance of the transport sector transcends domestic needs.** Jordan serves as an important regional transport hub between the GCC countries, Turkey and Europe, and between Iraq, the Red Sea and the Mediterranean Sea. The volume of transiting commodities passing through the country reached a peak of 83.6 million tons in 2011 and is expected to pick up again once the conflict in neighbouring Syria subsides.

**The quality of roads was ranked 68<sup>th</sup> out of 137 countries in WEF GCR 2017-2018.** Experts estimate that 60 per cent of Jordan's road network is in good condition and only 12 per cent in poor condition. However, there is a clear imbalance of expenditures in favour of costly reconstructions over regular maintenance.

**The quality of air transport infrastructure is relatively high in absolute terms and when compared to other MENA countries,<sup>50</sup> and was ranked 33<sup>rd</sup> in the WEF GCR 2017-2018.**

According to the International Air Transport Association (IATA), in 2014, air transport and foreign tourists arriving in the country supported 6.6 per cent of Jordan's GDP.

### Urban Level

**Jordan is characterised by high urbanisation.** Ninety-one per cent of the population lives in densely populated territories within or close to major cities.

**Congestion is increasing, with little apparent impact from higher retail fuel prices.<sup>51</sup>** Road traffic growth is forecast to continue through 2030 with an average annual increase of 5-6 per cent, outpacing projected GDP growth.

**Low capacity vehicles, increasing cost and congestion and affecting private sector operations, dominate public transportation.** The vehicles in use for public transportation, including taxis, totalled 35,252 at the end of 2011. Of these, only 2,382 were high capacity vehicles (buses), contributing to a high cost per trip.

**Transport costs have a disproportionate impact on the poor and limit their mobility and access to markets.** The lack of appropriate public transport is considered a major impediment affecting the decision of many young people, notably the more disadvantaged, to reject job offers or leave work. Transportation is an even bigger obstacle to employment for women, due to the sociocultural limitations they face.

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50 MENA Countries – Mena Transport Report 2016 – Centre for Transport Excellence (CTE)

51 The government's decision to stop subsidising gasoline in November 2012 led to the increase in the cost of daily transportation given the absence of alternatives. The price

increases ranged from more than 33 per cent for diesel and kerosene for transport and heating and a 14 per cent on lower grade petrol which makes owning and operating a vehicle particularly expensive

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### 6.3. Energy sector challenges dampen private sector activity

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**The Jordanian energy sector has faced significant challenges in the past decade on both the supply and demand levels.** Energy demand grew rapidly between 2012 and 2017 because of structural demand growth in Jordan and the regional refugee crisis, although preliminary data suggest a trend reversal in 2018. A corresponding expansion of competitively priced supply did not accompany this growth. Indeed, during the same period, Jordan experienced disruptions in the flow of low-cost pipeline gas from Egypt, forcing it to switch to more expensive and polluting heavy fuel oil and diesel for its power generation needs. These high fuel costs, coupled with concurrent below-cost electricity tariffs, put significant pressures on the budget and undermined the sustainability of state-owned NEPCO, which remains burdened by the losses of this period.

**The re-introduction of gas in the form of Liquefied natural gas (LNG) in 2015 was a major contributor to reversing this trend, and supply options for Jordan are now set to improve further.** The government took advantage of the flexibility and CAPEX-light nature of Floating Supply and Regasification Units (FSRUs) for deploying one at the port of Aqaba and unblocking competitive LNG imports from the international market. The move proved a success, leading to a rapid and near full substitution of oil products in power generation and significant savings in generation costs. Gas supply optionality for Jordan is to receive another boost over the coming two years, with commercial pipeline gas imports from Egypt expected to resume in 2019 and NEPCO having signed a 15-year contract to import gas from Israel's offshore fields from 2020 onwards, at prices that are competitive compared to current LNG price levels.

**During the same period Jordan moved swiftly to take advantage of its significant renewable energy potential, accruing large environmental and economic benefits.** In recent years, the Jordanian government succeeded in establishing a balanced, transparent and stable regulatory framework for the development of renewable energy; attracting international private capital and expertise through two successful rounds of tenders. Jordan met its renewable targets for 2020 ahead of schedule and now targets as much as 30 per cent of its electricity generation from renewables by 2022. Through its competitive tenders, Jordan has also seen an impressive 85 per cent drop in renewable energy costs, from USDc 16.9/kWh in the first round for solar photovoltaic (PV) in 2011 to bids as low as USDc 2.45/kWh in the third round in 2019. According to prominent stakeholders in Jordan, *"2.4 cents is not a rational price. It is rather a result of the tensions between the U.S. and China"*

**The main challenge for renewables will be to deal with a generation surplus, absorb larger shares of intermittent generation, and protect economic efficiency.** The rapid development of thermal and renewable generation capacities in recent years is expected to result in a generation surplus and involuntary curtailments for renewables of as much as 6.5 per cent by 2020; and to inflict financial costs on NEPCO through its take-or-pay commitments (in NEPCO's capacity as Jordan's single buyer) across thermal and renewable units. Additionally, the government's recent introduction of local content requirements of a minimum 35 per cent for solar PVs and 20 per cent for wind in the third renewable round are misaligned with the relatively limited manufacturing capacity currently available in Jordan.<sup>52</sup> As such, it could, in certain cases, discourage investors, weaken competition, and increase prices for local consumers, thereby reversing some of the significant earlier gains.

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52 Under revision in MEMR.

### **The energy system is increasingly complex.<sup>53</sup>**

Generation capacity in Jordan is overwhelmingly fossil-fuelled and privately owned and more than 1,000 MW of similarly privately owned renewable capacity and 3 private distribution companies complement it. However, state-owned NEPCO retains a number of fundamental responsibilities, including, *inter alia*: power transmission system owner and operator; market operator, single wholesale buyer and seller of power; single importer of hydrocarbons for power generation; balancing and grid management...etc. These diverse functions increasingly require specialised know-how and also present NEPCO with different sets of risks and challenges, impacting on the company's – and, ultimately, the whole system's – financial sustainability. As the Jordanian system transitions to accommodate larger shares of intermittent and decentralised renewable energy, these challenges are set to grow.

### **The targeted regulatory interventions by the government can help resolve current practical market issues and unlock Jordan's full energy potential.**

An example is the establishing of a non-discriminatory regulatory regime for electricity storage to back-up generation from intermittent renewable sources and reduce their curtailment. Moreover, the possible relaxation of NEPCO's current single-buyer model, reduction of consequent take-or-pay liabilities for the company, and removal of any export restrictions; to allow tapping into the potential expertise of the private sector and access to export markets for trading away surplus electricity.

**Tariff reform has made important progress in recent years.** There have been no fuel subsidies since 2014 while a decade of reform has also brought electricity tariffs closer to cost-recovery levels, including through the introduction of an automatic indexation mechanism. However, end-user tariffs continue to be regulated, cross-subsidies persist, and cost-recovery has not yet been attained fully, leading to sectoral inefficiencies and sustainability risks.

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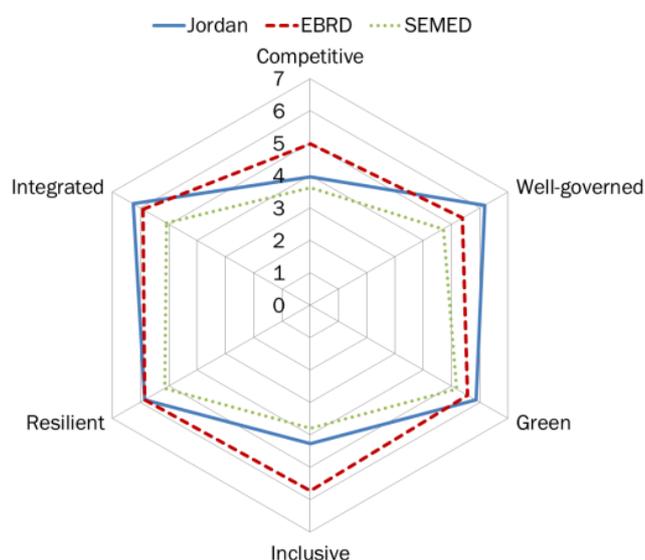
<sup>53</sup> EBRD has a comprehensive reform road map for NEPCO that is underway.

# 7. Qualities of a sustainable market economy

**The Assessment of Transition Qualities (ATQs) scores are based on a distance to frontier approach**, with best performing countries used as benchmark. Resulting scores are rescaled to 1 – 10, where 1 represents little or no progress and 10 represents the frontier. The following six qualities of an economy are considered: competitive, well-governed, green, inclusive, resilient, and integrated. Further details on the elements considered under each quality can be found in Annex 1.

**Jordan's scores 21st on the overall ATQ score among the 38 EBRD Countries of operation, the first in SEMED, with an average score of 5.40.** The best scores are in Integrated (6.27) and Well-governed (6.18) qualities, while the lowest scores are in Competitive (3.97) and Inclusive (4.28) qualities, where there are significant gaps.

**Figure A.1. Assessment of Transition Qualities**



The level of development within each of the qualities is measured from 1 to 10, with 1 meaning little or no progress and 10 representing the frontier.

## 7.1. EBRD calculations

### Competitive [ATQ = 3.97]

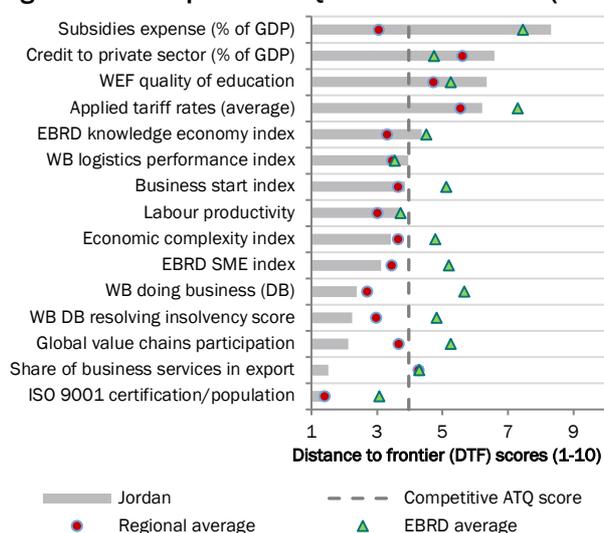
**Jordan ranks 29th out of 38 EBRD countries of operation in the Competitive quality index.**

Although Jordan stands out within the SEMED region in many regards, it still underperforms compared to the EBRD region. Jordan's efforts in reforming education and moving towards more trade openness translate into a relatively good performance in relation to many underlying indicators of the index. Nevertheless, some obstacles to the existence of a strong competitive economy continue to exist.

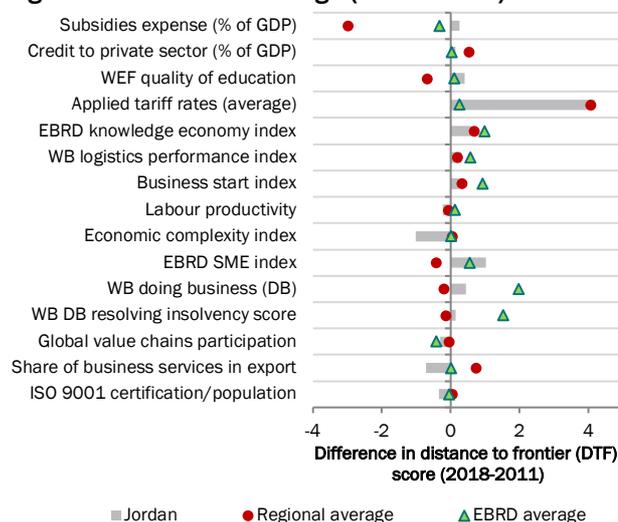
### Market structures and institutions for competition

- Jordan's trade policy regime is particularly open, as evidenced by the good score on tariff rates applied (6.21 vs. 5.56 in SEMED). Over the period 2011-2018, tariff rates decreased from a weighted average of 8.36 per cent in 2010 to 4.32 per cent in 2016, indicating increasing openness of markets to foreign competition. In fact, Jordan has been strengthening its bilateral and regional relationships with its closest trade partners by concluding free trade agreements; with the EU and some Arab countries, among others. This tendency towards more liberalisation is observable across the SEMED region, while in general in the EBRD region the improvement has been weaker.
- The score in relation to subsidies to business enterprises, public corporations and other sectors is relatively good and generally in line with the EBRD region. This suggests that the state has a low propensity to intervene in the economy through subsidies. The respective score for Jordan in 2018 stands at 8.3 (where 10 is the theoretical best/maximum). In addition, the volume of subsidies to the private sector has exhibited a declining trend in recent years – in contrast to SEMED and

**Figure A.2. Competitive ATQ indicators' scores (2018)**



**Figure A.3. Historical change (2018-2011)**



EBRD region trends, where state interventions have become more prevalent.

- Despite a slight improvement over the period 2011-2018, the existence of obstacles to daily business activities continues to hamper the business environment. As evidenced by the score in relation to the WB DBR (2.38 vs. 5.68 in the EBRD region), in Jordan and in the wider SEMED region doing business appears much more challenging than in other areas where EBRD operates.

the positive change in the overall KEI index score over the period 2011-2018.

- Although Jordan is a service-oriented economy, the share of advanced business services (for instance, business and financial consulting) in total services exported is particularly low and lags behind SEMED and EBRD average. The score of the indicator has also been decreasing over the period 2011-2018, while a positive change can be observed in the SEMED region.

## Capacity to generate value added and to innovate

- The quality of education in Jordan, as measured by the World Economic Forum, is particularly high and exceeds SEMED and EBRD average. Nevertheless, EBRD's adjusted knowledge economy index indicates that Jordan still underperforms compared to other countries in relation to the existence of those skills that favour innovation in the economy (this corresponds to Pillar 2 of the index) – especially compared to CEB and SEE countries. Nonetheless, the country is progressively moving towards a stronger knowledge-based economy, as evidenced by

## Well governed [ATQ = 6.18]

### National Level Governance

#### Quality of Public Governance

Regulatory quality has slightly worsened in the last decade, while government effectiveness has steadily, albeit quite marginally, begun to improve. Perceived transparency of government policy-making by business leaders in Jordan, and in particular the perception of how easy it is for companies to obtain information about changes in government policies and regulations affecting their activities, has been steadily decreasing in the last five years. Similar

perception is registered for property rights protection, while efforts to protect intellectual property rights seem to be maintained. Businesses have been complaining of a perceived increase of the regulatory burden consistently since 2015. Political instability clearly represents a severe obstacle for Jordanian businesses. This is in part due to security challenges because of spill overs of regional turmoil and external shocks faced by the country. Freedom of media has been steadily worsening according to Freedom House and Reporters without Borders.

### *Integrity and Control of Corruption*

Perceived corruption remains at constant levels over the past years. Informality in the economy seems to be of sizeable proportions. Although there are no official figures, economists believe that it generates about 20 per cent of GDP and employs 25 per cent of workers in the country. Implementation of Anti-Money Laundering/Counter-Terrorist Financing/tax exchange standards has been improving steadily.

### *Rule of Law*

Quality of contracts' enforcement, intended as the time and cost to resolve a commercial dispute as well as the quality of judicial processes, is above the regional average but worse than comparator countries such as Tunisia and Morocco. Perceived judicial independence has improved. However, overall rule of law indicators have decreased.

### **Corporate level governance**

There is a fair level of transparency and disclosure in companies. Similarly, rights of shareholders are guaranteed fairly and minority investor protections have been extended. Overall, the institutional environment promoting corporate governance in Jordan seems to be fairly developed, but key reforms would benefit the advancement of current efforts.

54 IEA Statistics for Jordan, accessed 9 January 2019  
55 <https://www4.unfccc.int/sites/ndcstaging/Pages/Home.aspx>  
56 IEA World Energy Statistics 2017 (link: <https://www.iea.org/classicstats/relateddatabases/worldenergystatistics/> )

However, structure and functioning of companies' boards is assessed to be weak and so appear to be internal control systems. Financial auditing and reporting standards have weakened since 2007. No improvement has been registered on the level of corporate ethics in Jordanian companies.

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## **Green [ATQ = 5.86]**

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**70<sup>th</sup> in carbon intensity (CO<sub>2</sub>/GDP at PPP) among 138 countries**

**106<sup>th</sup> in energy intensity (primary energy consumption/GDP) among 196 countries**

**47 per cent of final energy consumption is from transport and 23 per cent from electricity production**

**50 per cent of the water supply in municipal connections is lost due to misuse or theft**

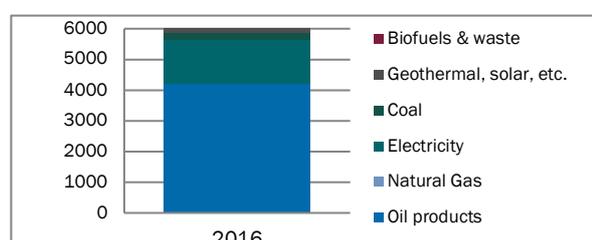
**The country has the highest energy intensity in the SEMED region<sup>54</sup>.** Its projected annual growth rates for energy demand (around 5 per cent) for the period 2015-2025 remains one of the highest in the world<sup>55</sup>. The residential sector consumes approximately 60 per cent of total electricity<sup>56</sup> and is seen as having the most potential for energy savings<sup>57</sup>. While progress has been made in terms of electricity tariff rates, and full cost recovery is endorsed under Vision 2025<sup>58</sup>, energy prices remain subsidised due to social reasons.

**Renewable Energy (RE) is seen as another crucial area to ease the burden of the energy sector.** The potential for solar and wind energy is promising and

57 [http://www.rcreee.org/sites/default/files/plans\\_neeap\\_jordan\\_2013\\_en.pdf](http://www.rcreee.org/sites/default/files/plans_neeap_jordan_2013_en.pdf)  
58 <http://inform.gov.jo/en-us/By-Date/Report-Details/ArticleId/247/Jordan-2025>

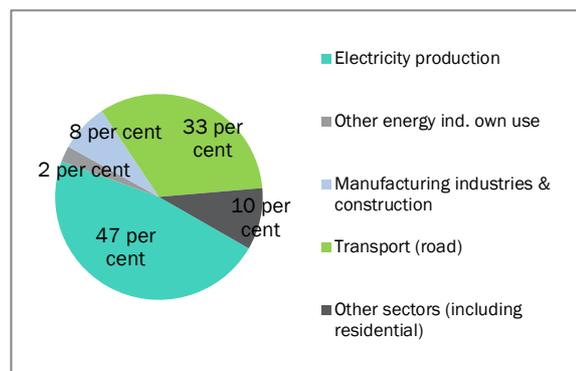
has seen important progress in the last few years<sup>59</sup>. Further investment will be needed to increase grid capacity to meet the extra-generated power including those from RE sources. Under the National Energy Strategy 2011-2020, Jordan seeks to increase RE share from 3 per cent of overall energy in 2016 to 10 per cent in 2020 and reducing energy consumption by 20 per cent by 2020<sup>60</sup>.

**Figure A.4. Total final consumption by source (Ktoe)**



Source: IEA (2016)

**Figure A.5. CO2 emissions by sector (mil tonnes)**



Source: IEA (2016)

The Energy Efficiency and Renewable Energy Law provides incentives for sustainable energy solutions, such as tenders for RE and exemption of sales tax and customs duties for RE and EE equipment. Jordan's submitted INDC is comprehensive but needs further ambition and international support to keep emissions in line with the Paris Agreement<sup>61</sup>.

**Jordan is one of the most water scarce countries in the world due to low natural supply and persistent droughts, overconsumption, over pumping and losses during distribution<sup>62</sup>.** Precipitation has already

decreased by 20 per cent over the last eight decades<sup>63</sup>, and climate change scenarios all predict a further decline of water resources<sup>64</sup>. More than half of Jordan's water is used for agricultural irrigation and is highly subsidised. Vision 2025 highlights the water sector as a crucial sector for economic growth and development and there is a body of legislature around water to augment, conserve, reuse and recycle all available freshwater for the sustainable development and management of water resources.

## Inclusive [ATQ = 4.28]

**Jordan is characterised by large Youth and Gender economic inclusion gaps.**

Unemployment is estimated at 18.5 per cent and exceeds 33 per cent among Youth; with women's labour force participation rate at 17.7 per cent (among the lowest rate of EBRD country of operations). Other than the main cities of Amman, Irbid and Zarqa, economic activity is low in other cities and rural areas, particularly in southern Jordan. The majority of the population in those areas are either employed or awaiting employment by the government, local governing bodies (municipalities) or the military.

**Staff turnover is generally high for firms because competition for skilled labour is high.**

Employers find it hard to retain qualified labour especially at entry level; thus, employers are discouraged from investing in skills development of their staff, worsening the overall skills situation. Due to women's childcare responsibilities, as stipulated in the Personal

59 <http://inform.gov.jo/en-us/By-Date/Report-Details/ArticleId/247/Jordan-2025>

60 <https://www.iea.org/policiesandmeasures/pams/jordan/name-24769-en.php>

61 <http://www.greengrowthknowledge.org/sites/default/files/Apercent20Nationalpercent20Greenpercent20Growthpercent20Planpercent20forpercent20Jordan.pdf>

62 <https://www4.unfccc.int/sites/ndcstaging/Pages/Home.aspx>

63 "Water Substitution and Reuse Policy", (Jordan Ministry of Water and Irrigation, 2016)

64 "Jordan: Water along the food chain", (EBRD FAO 2015)

Status codes, they are de facto more likely to leave jobs for childbearing.

**Geo-political dynamics and challenging economic conditions limit the creation of job opportunities for new labour market entrants.**

Unemployment is particularly high among high-skilled workers, with 75 per cent of new graduates unable to find employment within one year of completing their studies. With its fast-growing population, it is estimated that 70,000 Jordanians join the labour market each year. Meanwhile, fewer than 30,000 jobs are created annually. Additionally, it is estimated that 425,000 Jordanians work in the Gulf countries (though many have also returned permanently to Jordan in recent years, bringing relatively high levels of education, work experience and skills).

**The Jordanian labour force has significant horizontal and vertical gender segregation,**

mainly due to social norms and women and men's educational choices. Men outnumber women in all economic sectors, except for education, health and social work. The public sector is widely perceived as the only socially acceptable employer for women.

**Competition with Syrian refugees for available jobs, skills mismatches and poor working conditions are among the main factors contributing to high youth unemployment in Jordan.**

A comprehensive TVET reform process is underway led by the Ministry of Labour with special attention to the role of the private sector in defining occupational skills standards. The private sector should further give more attention to improving the work package and working environment to attract Jordanians who refrain from taking up certain jobs currently predominantly occupied by non-nationals including Syrian refugees.

**Schools in Jordan are unable to meet the increased demand caused by the rapid population growth experienced since 2003 that was intensified further with the influx of Syrian refugees since 2011.**

More investments are needed to improve education system physical infrastructure as well as the quality of teachers and trainers plus standards of curricula.

**Access to finance is one of the key obstacles for the growth of start-ups and SMEs in Jordan;**

around 67 per cent of people above 15 years do not have access to the formal financial system while 38 per cent of adults are excluded from access to formal financial services. While access to financial services for individuals has progressively improved over the last few years, it remains challenging for SMEs. While SMEs constitute more than 96 per cent of all enterprises in Jordan, their share of lending amounts to only 10 per cent<sup>65</sup> of the total.

**In addition to high collateral requirements, lack of financial institutions' and banks' capacity and knowledge on SME lending result in higher borrowing costs for SMEs.**

Furthermore, SMEs also lack the capacity to prepare competitive funding proposals for lenders and financial institutions.

**Access to finance is a major challenge for female-owned businesses in particular.** Women are half as likely to have a formal bank account (World Bank, Findex, 2014) and are more likely to seek microfinance (IFC, 2007). The fact that women represent only 17 per cent of landowners further compounds the difficulties they face in accessing credit is (World Bank, 2013).

<sup>65</sup> With around 40 per cent large corporate lending, 40 per cent retail, and 10 per cent government

**Unequal treatment of men and women also remains in some areas of legislation.** Social and cultural perceptions and practices also continue to influence women's ability to participate in the economy. Furthermore, gender based violence is also high and is conditioned by cultural perceptions.

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## Resilient [ATQ = 5.86]

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### Financial Resilience

- The resilience of the financial sector depends on the stability of the banking system, as alternative sources of capital are not well developed.
- The banking sector ownership is largely private even though the government-administered pension scheme maintains stakes in most banks.
- The system has remained well capitalised and profitable in a challenging environment; sector-wide capital adequacy ratio (CAR) stood at 19.0 per cent as of YE 2016, ROA at 1.1 per cent and ROE at 8.4 per cent as of Q3 2018.
- The ratio of non-performing loans (excluding interest-in-suspense) increased to reach 5.6 per cent as at Q3 2018 compared to 4.2 per cent in 2017 while provision coverage has increased to 93.8 per cent as at Q3 2018 compared to 75.4 per cent in 2017.
- Credit to private sector, as percentage of GDP, was at 75.1 per cent as of YE 2016, while banks assets-to-GDP has decreased over time to 160 per cent as of Q1 2018. The share of foreign currency loans has increased over time reaching 28 per cent while the share of foreign currency liabilities has moved in the opposite direction to 26 per cent as of 2Q 2018.
- The low loan to deposit ratio, which stood at 78 per cent as of 2Q 2018, suggests that banks have the capacity to increase lending without relying on more volatile and costly external funding.

- Conversely, the high exposure of banks to the government sovereign debt links the credit risk of the sector to that of the sovereign issues.

At the macro-economic level, the IMF has supported a structural adjustment and fiscal consolidation programme. The currency peg with the US dollar limits the level of liquidity that the government can inject.

### Energy resilience

- **Jordan suffered an acute energy crisis in the first half of this decade, which saw the supply of cheap Egyptian gas disrupted and substituted with expensive oil against a backdrop of rapidly growing demand.** The re-introduction of gas in the form of LNG in 2015 was a key contributor to system resilience, enhancing security of supply and helping drive down costs Jordan's supply optionality is set to receive another boost through resumption of Egyptian imports and new piped gas supply from Israel. Jordan has also moved swiftly to take advantage of its significant renewable potential through effective regulation, with costs dropping 85 per cent. The country is accordingly now targeting as much as 30 per cent of its electricity generation to come from renewables by 2022.
- **Jordan now needs to transition to an increasingly complex energy system which will include high shares of intermittent and decentralised renewable generation.** Responding to this new context will require, among other needs:
  - a corporatized and substantially unbundled National Electric Power Company with strong technical expertise, commercial mind-set, and independence to be able to perform sustainably and in line with best international standards;
  - a fully independent and significantly strengthened regulator to help embed competition and strike the right balance between maximising overall system welfare

and consumer equity in this complex new framework; and

- An updated regulatory tool-kit to meet these new challenges, primarily in the areas of renewables integration, private sector participation, tariff reform, and downstream gas market design.

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## Integrated [ATQ = 6.27]

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**Trade as a share of GDP:** 101.9 per cent compared to OECD comparator average of 71.4 per cent

**FDI inflows as a share of GDP:** 4.9 per cent, compared to OECD comparator average of 2.1 per cent

**Portfolio inflows as a share of GDP:** 3.5 per cent, compared to OECD comparator average of 3.0 per cent

Jordan ranks 15<sup>th</sup> among the 38 EBRD countries in the integrated dimension and is the best performer in the SEMED region.

### External integration

- **Trade environment:** Jordan has joined the WTO in 2000 and participates in eight regional trade agreements, which is below EBRD and OECD comparator averages (18 and 31), but above the SEMED region. The country's binding overhang ratio is high, implying high unpredictability of trade policies.
- **Investment environment:** Net FDI inflows as a percentage of GDP are shrinking, although they remain above EBRD and OECD comparator averages. The FDI Regulatory Restrictiveness Index of the country is the highest among EBRD countries, indicating

entry barriers for FDI. The number of bilateral investment agreements is below EBRD and OECD comparator averages.

- **Non-FDI environment:** Jordan's capital account openness is at the same level as in the OECD countries and considerably surpasses the regional and EBRD averages. Portfolio inflows as a percentage of GDP are third largest in the EBRD region.

### Internal integration

- **Domestic transport:** Jordan performs well in terms of quality of infrastructure, especially regarding the quality of air transport. The quality of railways is below the EBRD average. The quality of logistics services is lagging behind.
- **Cross-border integration:** Jordan's logistic performance score has decreased in 2018; the country fell from rank 67 to 84. More specifically, the country ranks poorly across a number of logistic quality indicators: 88<sup>th</sup> in customs and border efficiency, 119<sup>th</sup> in ease of arranging shipments, and 93<sup>rd</sup> in logistics quality and competence.
- **Energy and ICT:** The quality of electricity in Jordan is good, in line with EBRD and OECD averages and losses due to electrical outages are below SEMED and EBRD level. 62.3 per cent of the Jordanian population are using the internet (OECD comparators: 86.9 per cent, SEMED: 58.1 per cent, EBRD: 62.5 per cent).

**Quality of infrastructure:** ranked 86th out of 140 countries (WEF GCR, 2017)

**Logistics performance (international) index:** ranked 84th out of 160 countries (WB, LPI database, 2018)

# Annex 1: ATQ scores methodology

	Components	Sub-Components
Competitive	Market structure that supports competition and incentives for sound decision making	Openness
		Dynamic structures
		Institutions
		Business skills
	Capacity to add value and innovate	Value chains
		Knowledge / ICT
		ICT infrastructure
		Infrastructure
Well-governed	National-level governance	Human capital
		Finance
		Quality of public governance
	Corporate-level governance	Integrity and control of corruption
		Rule of law
		Corporate governance frameworks and practices
		Integrity and other governance-related business standards and practices
Green	Climate Change Mitigation	Physical indicators
		Structural indicators
	Climate Change Adaptation	Physical indicators
		Structural indicators
	Other environmental areas	Physical indicators
		Structural indicators
Inclusive	Gender	Legal regulations and social norms
		Access to health services
		Education and training
		Labour policy
		Labour practices
		Employment and business
	Youth	Access to finance
		Labour market structure
		Youth employment
		Quantity of education
		Quality of education
	Regions	Skills mismatch
		Financial inclusion
		Institutions
		Access to services
Resilient	Financial stability	Labour markets
	Energy sector resilience	Education
		Financial sector
		Liberalisation & market liquidity
Integrated	Trade (external dimension)	System connectivity
		Regulation and legal framework
		Trade
	Infrastructure (internal dimension)	FDI
		Balance of payments openness
		Cross-border infrastructure
		Domestic infrastructure quality
	Energy	



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