



Deauville Partnership

Compact for Economic Governance

Stocktaking Report: Jordan



November 2018

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Federal Republic of Germany
Foreign Office

Acknowledgements

This report falls within the framework of the country-level implementation of the Compact for Economic Governance adopted by the members of the Deauville Partnership.

This report has been prepared by the OECD with the support of the German Foreign Office and in close consultation with the Jordanian authorities.

The preparation of this report has been co-ordinated by the G20/G7 Sherpa Office and Global Governance Unit within the Cabinet of the Secretary-General of the OECD, under the strategic direction of Gabriela Ramos, Special Counsellor and Sherpa and under the responsibility of Nicolas Pinaud, Head of the Sherpa Office and Nejla Saula, Deputy Head of the Sherpa Office.

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This work has been prepared under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document and any map included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

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Acronyms

ACTs	Arab Countries in Transition
CSO	Civil Society Organisation
DEF	Development and Employment Fund
DEF	Employment and Development Fund
DOS	Department of Statistics
ECI	Economic Complexity Index
EFF	Extended Fund Facility
EIB	European Investment Bank
EPC	Economic Policy Council
ERDB	European Bank for Reconstruction and Development
E-TVET	National Employment-Technical and Vocational Education and Training Strategy
FDI	Foreign Direct Investment
GAFTA	Greater Arab Free Trade Agreement
GAM	Greater Amman Municipality
GST	General Sales Tax
IFI	International Financial Institution
ILO	International Labour Organisation
IMF	International Monetary Fund
JEDCO	Jordan Enterprise Development Corporation
JGEP	Jordanian Economic Growth Plan
JIC	Jordan Investment Commission
JLGC	Jordan Loan Guarantee Corporation
JRP	Jordan Response Plan
LNG	Liquefied Natural Gas
MENA	Middle East and North Africa
METF	Medium-Term Expenditure Framework
MIT	Ministry of Industry and Trade
MOE	Ministry of Education
MOL	Ministry of Labour
MoPIC	Ministry of Planning and International Cooperation
MOPIC	Ministry of Planning and international Co-operation
NEPCO	National Electric Power Company
NHRD	National Strategy for Human Resource Development
OGP	Open Government Partnership
PV	Photovoltaic
QRTA	Queen Rania Teacher Academy
QZI	Qualified Industrial Zones
R&D	Research and Development
RoO	Rules of Origin
SBA	Stand-By Agreement
SEZ	Special Economic Zone
SOE	State Owned Enterprise
UfM	Union for the Mediterranean

UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
VTC	Vocational Training Corporation
WB	World Bank
WGI	Worldwide Governance Indicator
WTO	World Trade Organisation

Executive Summary

Since 2011, Jordan has experienced a series of external shocks that have compounded with certain longstanding structural weaknesses. Since the implementation of liberalisation reforms in the 1990s and 2000s, Jordan has been a very open economy. The impact of the global financial crisis on trade, investment and remittance flows considerably reduced growth. Jordan's geographical position between Iraq and Syria has also had an adverse effect on the Jordanian economy, in particular since 2012, through the concurrence of three exogenous shocks: (a) a refugee crisis in Syria which has increased the Jordanian population by over 13% in a very short period of time; (b) an energy crisis resulting from interrupted access to Egyptian gas at advantageous prices; and (c) a disruption in trade routes into and through Syria and Iraq, which had been traditional export markets or important trade routes for Jordan. These exogenous shocks have amplified pre-existing structural issues, including high deficits (partly due to very limited tax revenue compared with benchmarking countries), a significant reliance on volatile foreign aid, a complex business environment, and inclusiveness challenges even during periods of growth, exemplified by low labour market participation and employment (in particular among women and youth).

As a result, growth and macroeconomic variables have deteriorated in recent years. Growth remains significantly below pre-2008 and pre-2011 levels (at about 2% compared with a 2000-2010 average of 6.1%). Unemployment has increased to about 18% in 2017 and labour market participation has continued to decline from very low levels by international standards. The fiscal costs of addressing the three exogenous shocks described above have also pushed debt stock to over 90% of GDP, while current account deficits have been putting pressures on foreign reserves in a context where the peg of the Jordanian Dinar to the US Dollar effectively reduces the policy space for Jordan to address these imbalances.

Confronted with the above challenges, the Jordanian government has accelerated the pace of reform since 2012 with the support of the international community. Despite all challenges, Jordan has been able to preserve macroeconomic stability. Fiscal consolidation, supported by two consecutive IMF programmes, has been proceeding at a steady pace, while the government launched in 2015 a 10-year socioeconomic blueprint to develop a long-term vision for the country (Jordan 2025) and promote inclusive growth (Jordan Economic Growth Plan 2018-2022). Public sector transparency and accountability, where Jordan performs above many of its peers across several dimensions, have been further enhanced through a new debt management strategy and other public financial management reforms, Jordan's participation in the Open Government Partnership since 2011 (1st Arab country to join OGP), a new anticorruption strategy and the creation of a single Integrity, Ombudsman and Anti-Corruption Commission, a more strategic approach to human resource development in the Kingdom through the adoption of an ambitious National Human Resource Development Strategy (2016-2025), or the adoption of an important decentralisation agenda since 2015. Progress with reform implementation has been slower in the area of tax policy and administration (where the tax base remains very limited) and the business enabling environment despite recent initiatives (e.g. insolvency and secured transactions legislation). Donor support in Jordan remains important, in particular to assist the government in absorbing and managing the Syrian refugee crisis through the Jordan Compact and the successive Jordan Response Plans.

The pace of reform implementation should be increased and the agenda broadened to reconcile the need for fiscal consolidation to bring public finances into a sustainable path with initiatives to re-

ignite growth and job creation. While fiscal consolidation will be necessary to preserve the sustainability of public finances, the fiscal adjustment should be carefully designed to mitigate the negative impact on growth. More generally, fiscal consolidation efforts should be combined with structural reforms aimed at boosting job creation and raising the country's growth potential. Jordan will need to accelerate the pace of reform in many of these areas and prioritise the actions that are likely to yield the biggest impact on economic output and employment, in particular for women and youth.

The Deauville Partnership Compact for Economic Governance and Jordan's Stocktaking Exercise

The **Compact on Economic Governance** is a roadmap for policy reform in the area of economic governance for Arab Countries in Transition (ACTs). The Compact was adopted under the German Deauville Partnership Presidency in May 2015 building on past action plans on topics such as open government, anti-corruption, asset recovery and SME development. The Compact provides a framework for reform efforts across ACTs aimed at promoting good governance and a sound business climate as preconditions to boost inclusive growth through four key pillars focusing on (I) economic policies for inclusive and sustainable growth, (II) public sector transparency and efficiency; (III) investment climate and private sector development; and (IV) inclusive decision-making.

The Compact is designed as an operational document to inform policy dialogue within the Deauville Partnership through a steady dialogue and consultation process. This takes the form of a peer review and peer learning mechanism supported by the OECD, the Deauville Partnership's international financial institutions (IFIs) as well as relevant coordination platforms. The Compact's priorities are to be operationalised through country-tailored implementation plans under which ACTs identify specific policy measures which could then be supported by G7 and partner countries through technical assistance other supporting measures and which can be subject to a process of progress reporting to measure and monitor policy effectiveness. A methodology for the country-level implementation of the Compact was developed by the OECD and endorsed by Deauville Partnership Senior Officials in November 2016 (see Annex II for more details).

The present report constitutes the first step of the process, aimed at taking stock of economic governance reforms since 2011 in ACTs and developing the skeleton of each ACT's implementation plan. This report has been prepared by the OECD with the support of the German Foreign Office, in consultation with the Jordanian authorities and in cooperation with Deauville Partnership International Financial Institutions.

Against this background, the implementation of the Compact of Economic Governance in Jordan should focus on promoting inclusive private-sector-led growth, while addressing the challenges of debt reduction and managing the refugee crisis. There are four key priorities (two more of a short-term nature and two more longer-term) that can be seen as cross-cutting across the Compact's different pillars (although they formally belong under Pillar I):

- **Strengthening resilience in the context of the refugee crisis**, which is perhaps the most pressing priority. This will require the continued involvement of the international community through the implementation of the Jordan Response Plans and their sectoral agendas and the continued engagement under the Jordan Compact, which could be tweaked to increase the impact of the simplification of the EU's rules of origin on Jordanian businesses. Active labour policies and entrepreneurship promotion may also help refugees to better contribute to the Jordanian economy.
- **Putting public finances in sustainable path** by continuing efforts to bring down public current expenditure (e.g. through public sector restructuring, efforts aimed at further cutting the wage

bill, or a revised debt management strategy) while increasing public revenue by broadening the tax base, increasing the fairness of the tax system and the effectiveness of tax administration, and reducing opportunities for evasion and avoidance.

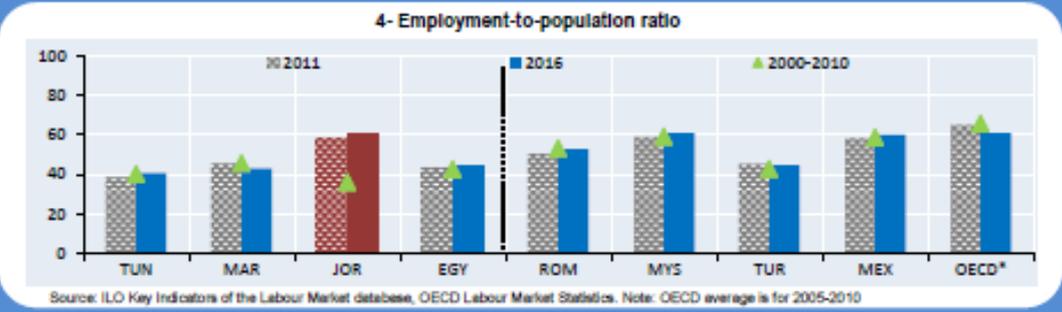
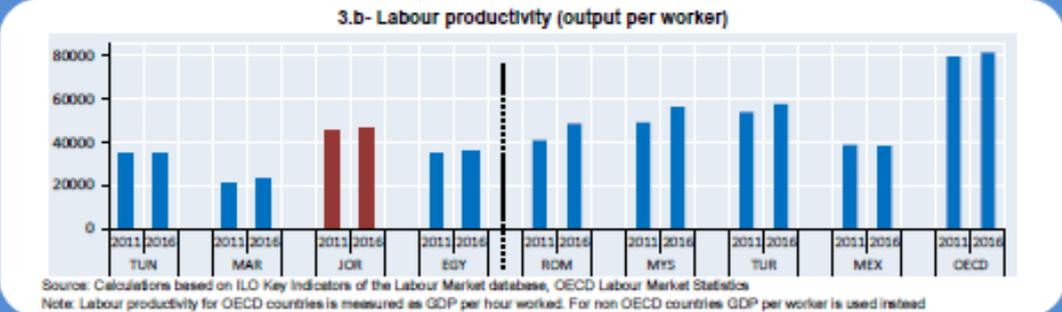
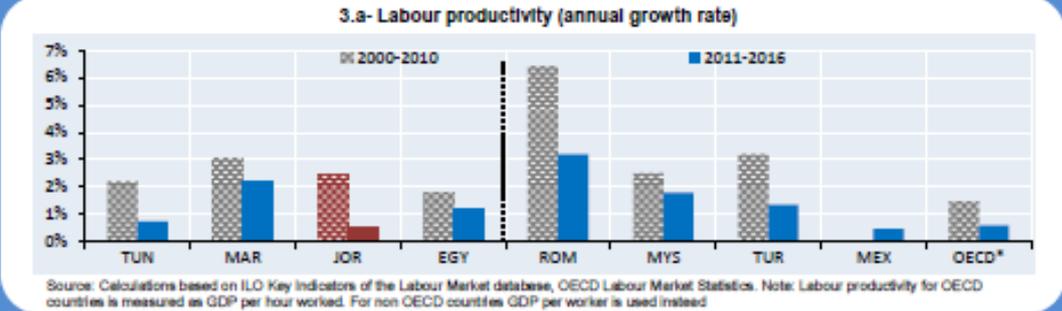
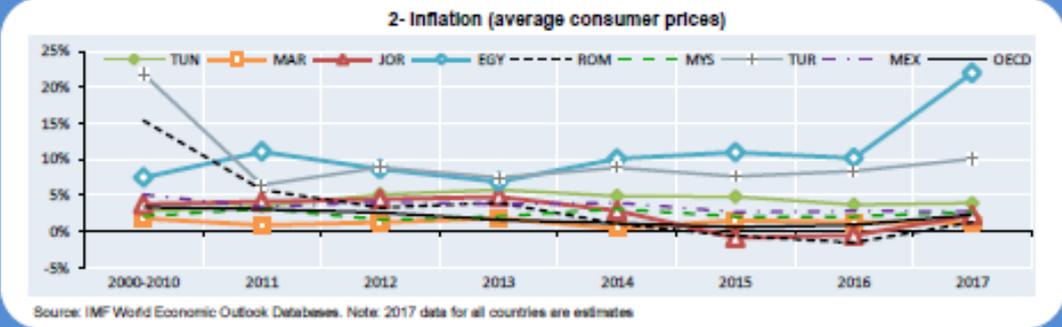
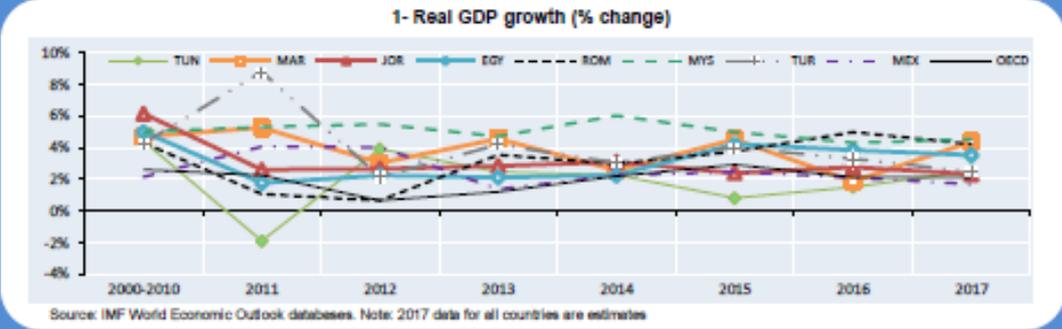
- **Enhancing economic diversification and facilitating trade** as a key priority for the structural transformation of the Jordan economy as a trade hub and an export-oriented economy. This would require different actions to increase the sophistication of the export basket and the competitiveness of Jordanian businesses, including through more effective strategies on export and innovation promotion and more new infrastructure (railroads in particular).
- **Enhancing employment and labour market participation** as a key instrument to generate inclusive growth over the long term. Greater labour market flexibility, the potential reduction of social security contributions and promoting skills development should be key components of a broader strategy to tackle unemployment and increase labour participation, in particular targeting women and youth.

These broad priorities would also need to be reinforced with further reforms across the three other Pillars of the Compact, building on the ongoing efforts made by the Jordanian government in recent years:

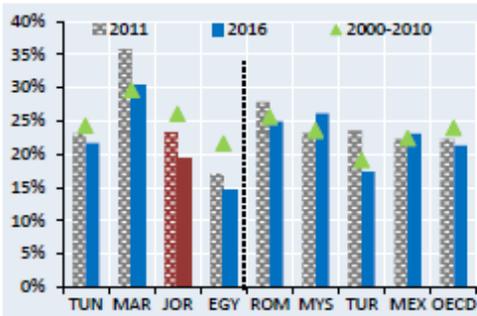
- **Reforms aimed at improving the efficiency, effectiveness, transparency and accountability of the Jordan public sector as well as at strengthening the rule of law.** Greater co-ordination of stakeholders involved in the delivery of public services would be needed to implement the objectives set by Jordan 2025 Vision. The authorities may want to continue and step up their efforts regarding public sector restructuring, debt management and other PFM reforms (e.g. procurement, public investment management), greater transparency over the government's budget, the implementation of the Open Government Plan 2016-2018 and the inclusion of all sectors in public sector reform programmes. Further progress with judicial reform and the implementation of the recent anticorruption strategy will also be important priorities.
- **An acceleration of reforms aimed at improving the business environment and the investment climate** through the adoption of a comprehensive business environment reform prioritising tax administration, cutting red tape and bureaucracy, enhancing competition, and promoting access to finance. The shift implementation of recent or ongoing legislative reforms (e.g. insolvency, secured transactions) should be prioritised. A full-fledged financial inclusion strategy should be coupled with greater efforts to promote finance for innovation and capital market development. Over the long term, it would be important to avoid making frequent legal and regulatory changes to provide a stable level playing field for businesses. Finally, a comprehensive innovation framework will be important to promote FDI-SME linkages and knowledge transfer.
- **Initiatives to further involve the public, civil society and the private sector in decision making** (including through the deepening and broadening of the decentralisation agenda or a more structured approach to private-public dialogue) as well as to **promote the political and economic empowerment of women and youth** (through the timely and effective implementation of existing strategies, the removal of discriminatory provisions in legal frameworks and a comprehensive plan aimed at increasing female labour market participation).

Compact for Economic Governance: Jordan Indicator Dashboard

ECONOMIC POLICIES FOR INCLUSIVE AND SUSTAINABLE GROWTH

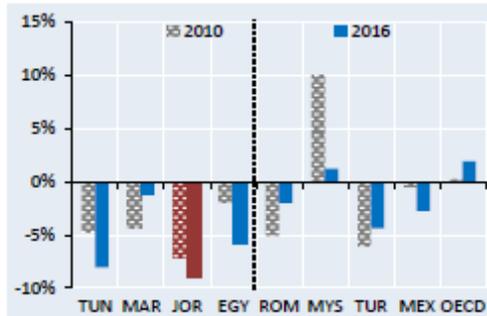


5- Total investment (% of GDP)



Source: IMF World Economic Outlook Databases

6- Current account balance (% of GDP)



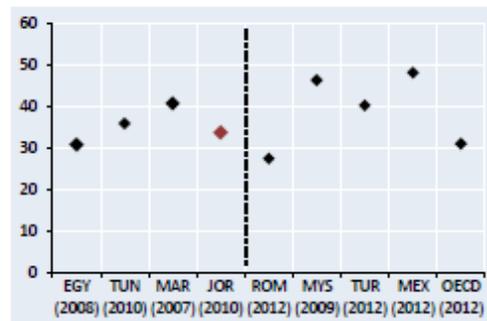
Source: IMF World Economic Outlook Databases

7- General government gross debt (% of GDP)



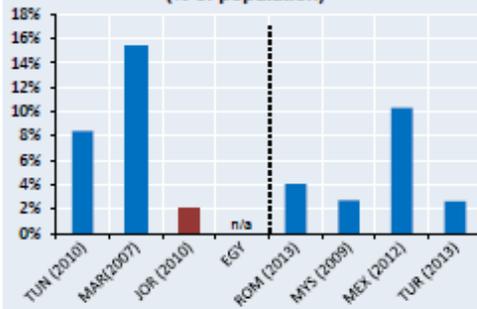
Source: IMF World Economic Outlook Databases

8.a- Gini Coefficient



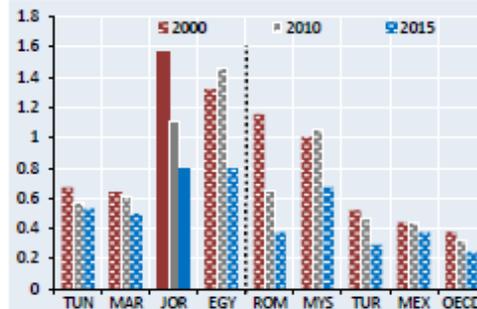
Source: World Bank World Development Indicators, OECD Social and Welfare Statistics

8.b- Poverty headcount ratio at \$3.10 a day (2011 PPP) (% of population)



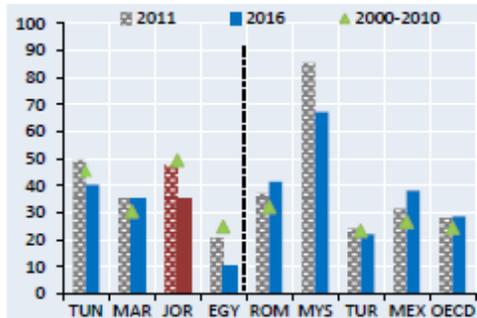
Source: World Bank World Development Indicators, OECD Social and Welfare Statistics; and the World Bank Worldwide Development

9- CO2 emissions (kg per USD 1,000 of GDP)



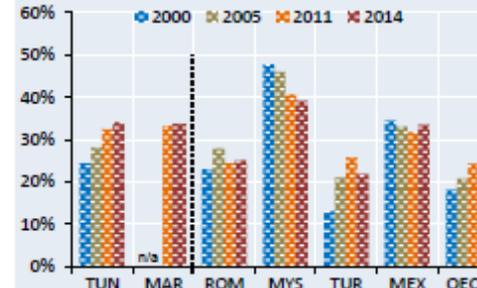
Source: International Energy Agency

10.a- Total exports of goods and services (% of GDP)



Source: World Bank World Development Indicators. For the OECD, data refer to 2016 instead of 2015

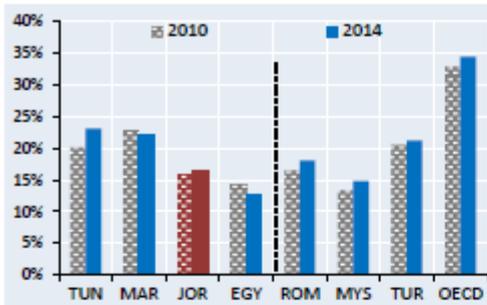
10.b- Trade in Value-Added (TiVA) (foreign value-added share of gross exports)



Source: OECD, Trade in Value Added (TiVA) database and TiVA Nowcast estimates database (2012-2014). Note: For Morocco, data refer to 2012 instead of 2011.

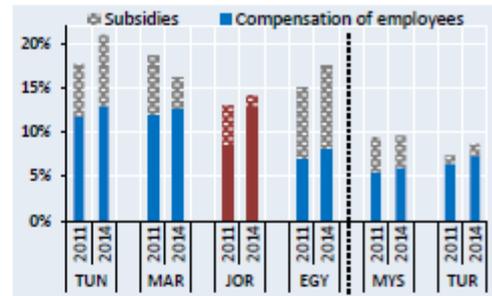
PUBLIC SECTOR TRANSPARENCY AND EFFICIENCY

11- Tax revenue (% of GDP)



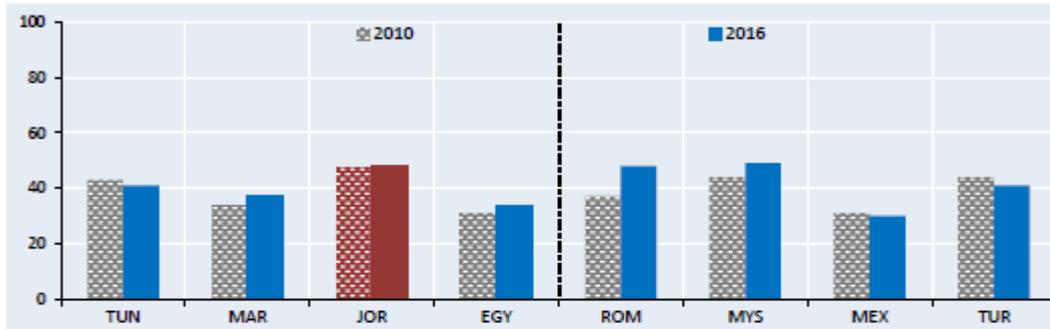
Source: Government Finance Statistics Yearbook, IMF Country Reports for Jordan, Malaysia, Morocco and Tunisia, OECD Revenue Statistics for OECD average. Note: 2014 data for Tunisia is preliminary

12- Government expenditure in (1) compensation of employees and (2) subsidies (% of GDP)



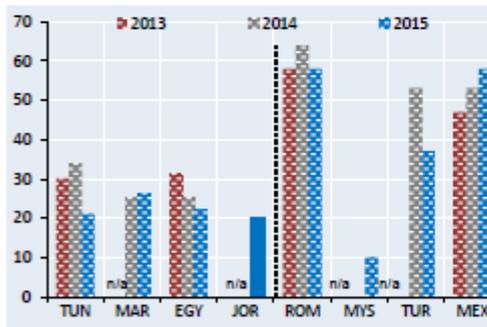
Source: IMF Government Finance Statistics database, Tunisia IMF Country Reports. Note: call figures concern budgetary central government.

13- Corruption Perception Index (0-100)



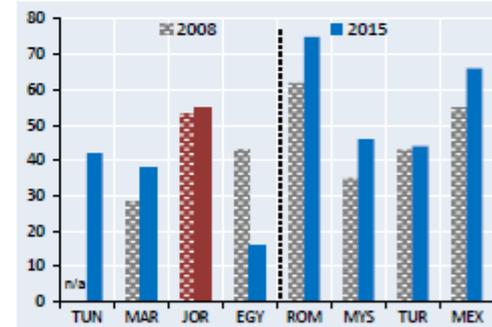
Source: Transparency International, Corruption Perceptions Index 2009-2016. Note: Score 100= very clean; 0= highly corrupt

14- Global Open Data Index score (%)



Source: Open Knowledge Global Open Data Index

15- Open Budget Index (0-100)



Source: International Budget Partnership, Open Budget Index

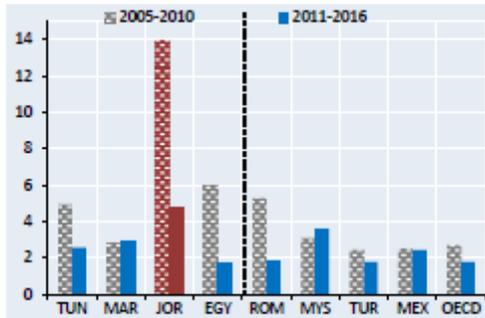
16- Worldwide Governance Indicators (percentile rank, 0-100)



Source: World Bank Worldwide Governance Indicators: (1) Government Effectiveness; (2) Regulatory Quality; and (3) Rule of Law

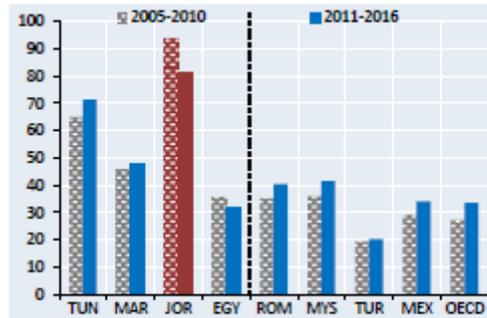
INVESTMENT CLIMATE AND PRIVATE SECTOR DEVELOPMENT

17.a- FDI flows (% of GDP)



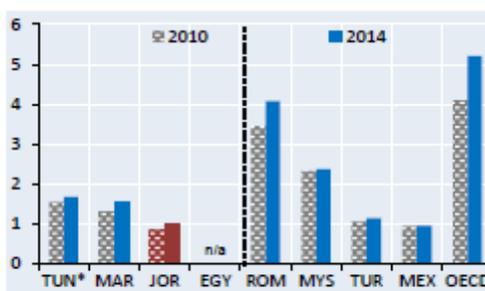
Source: UNCTAD Statistics Database

17.b- FDI stocks (% of GDP)



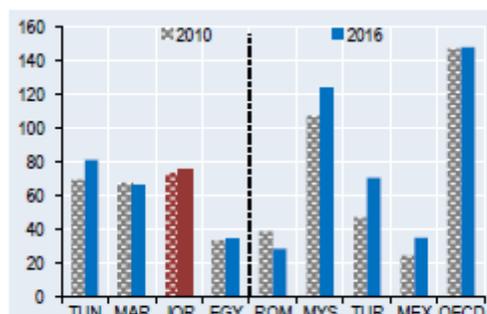
Source: UNCTAD Statistics Database

18- New business density (new limited liability firms per 1,000 working-age people)



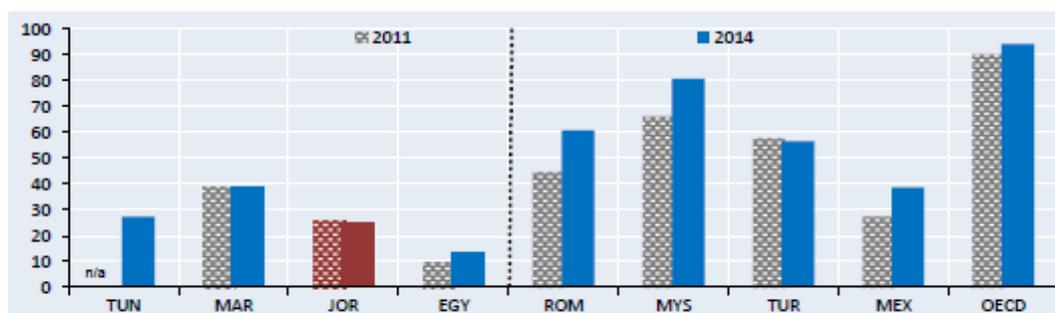
Source: World Bank Entrepreneurship Database.
Note: Data for Tunisia are for 2013 rather than 2014.

19- Domestic credit to private sector (GDP)



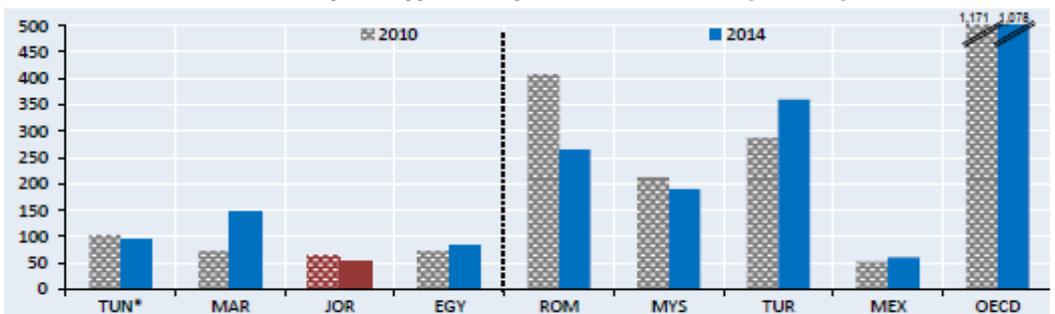
Source: IMF International Financial Statistics

20- Financial inclusion (% of adults with an account at a financial institution)



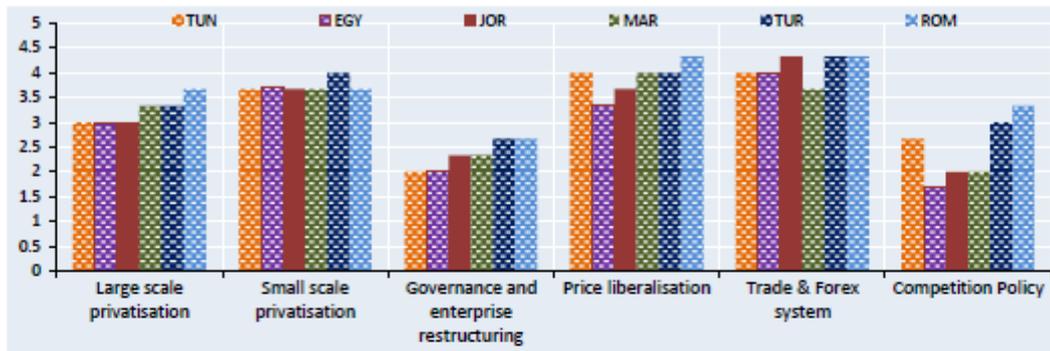
Source: World Bank Global Financial Inclusion Database. Note: Data for 2011 for Tunisia is not available

21- Resident patent applications per 100 billion USD GDP (2011 PPP)



Source: World Intellectual Property Organization Statistics Database. Note: Data for Tunisia are for 2013 rather than 2014

22 - EBRD Transition Indicators (scale from 1 to 4+)



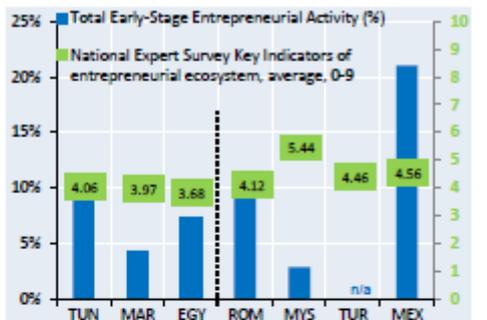
Source: EBRD Transition Indicators, 2014 Database

23- FDI Regulatory Restrictiveness Index (total FDI Index, all types of restrictions, 0-1)



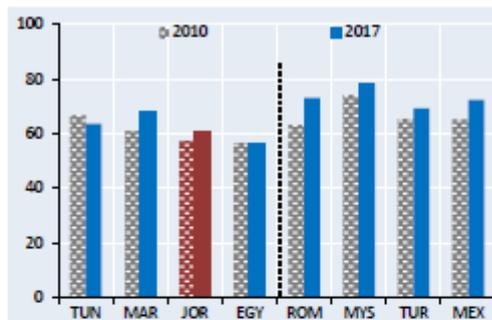
Source: OECD FDI Regulatory Restrictiveness Index. Data for 2010 and 2011 for Jordan is not available. Note: 0 = open; 1 = closed

24- Global Entrepreneurship Monitor (2015)



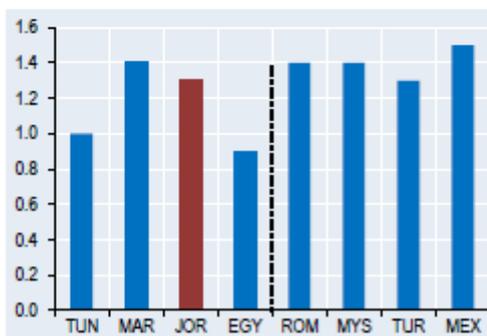
Source: Global Entrepreneurship Monitor. Note: GEM Data for Jordan is not available; TEA data is only available for the other ACTs starting in 2015

25- World Bank Doing Business, Distance to Frontier (0-100)



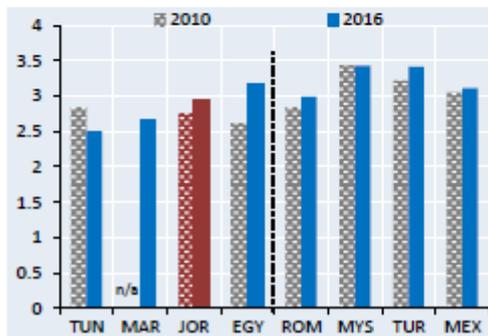
Source: World Bank, Doing Business 2018. Note: Distance to frontier covering all Doing Business dimensions

26- Average trade facilitation performance, 2016 (0-2)



Source: OECD Trade Facilitation Indicators

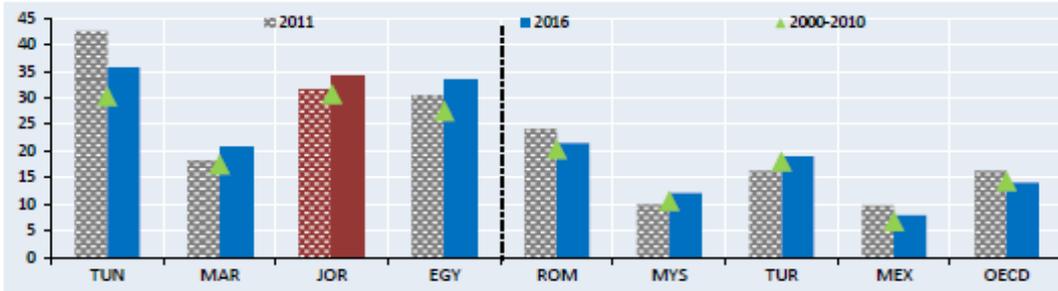
27- Logistics Performance Index (overall score 1-5)



Source: World Bank Logistics Performance Index

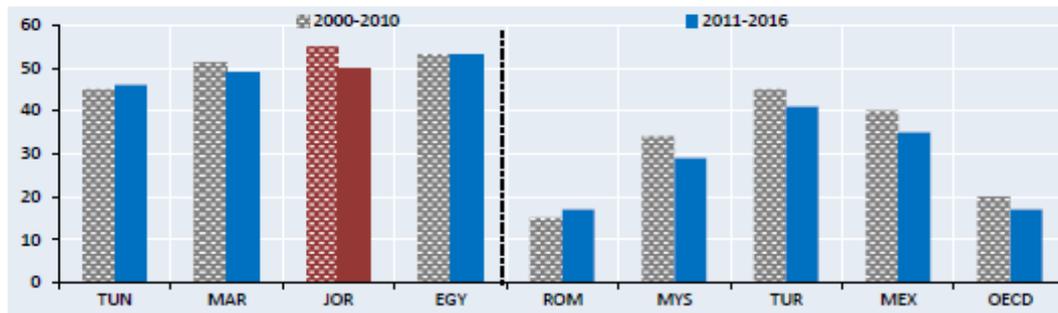
INCLUSIVE DECISION-MAKING

28- Youth unemployment rate (% of total labour force, ages 15-24)



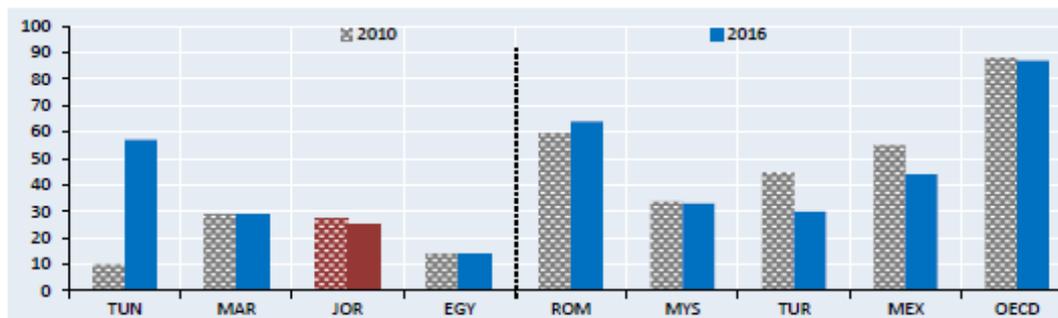
Source: ILO Key Indicators of the Labour Market database; OECD Labour Market Statistics

29- Gender labour participation gap (%)



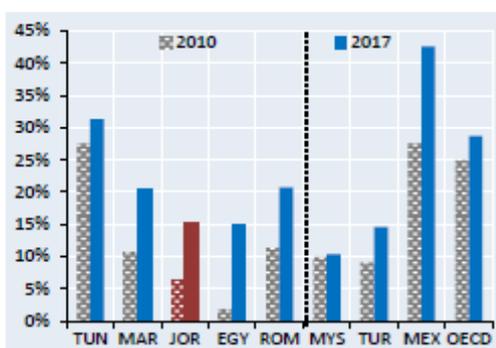
Source: ILO Key Indicators of the Labour Market database; OECD Labour Market Statistics

30- Worldwide Governance Indicator for Voice and Accountability (percentile rank, 0-100)



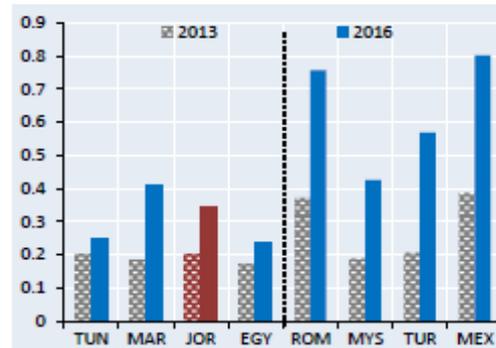
Source: World Bank's Worldwide Governance Indicators

31- Proportion of seats held by women in national parliaments (%)



Source: Inter-Parliamentary Union (figures as of January of each year for lower or single house); OECD Gender Data Portal

32- Political participation score in Commonwealth Youth (0-1)



Source: Commonwealth Youth Development Index

Country Overview

Background

The outbreak of the Arab uprisings in 2011 has affected virtually all Arab countries directly and indirectly. Jordan, which witnessed non-negligible social movements, suffered significantly due to its geographic location. The unfavourable regional environment characterised by devastating and protracted conflicts in neighbouring Syria and Iraq, has led to a number of external shocks that have had adverse effects on Jordan's economy.

To give an idea of the magnitude of the impact of external shocks one only needs to look at the surge in Jordan's population due to the massive influx of refugees fleeing conflicts in neighbouring countries. According to the latest national census (Department of Statistics, 2016), the population of Jordan stood at around 9.5 million, compared to 5.1 million in 2004, indicating an increase of more than 86% over 10-year period. Out of these 9.5 million, 2.9 million (or around 30%) are non-Jordanians. By 2015, Syrian nationals constituted 13.2% of the total population. This rapid increase in the total population has severely strained the country's public finances and infrastructure, as assisting the refugee population called for immediate and costly actions. The sudden population increase has also had a distributional impact, as low-income segments of the population have been particularly affected by an increase in housing prices and intensified competition in the informal labour market (Abu-Ghazaleh and Co. Consulting, 2015).

The Jordanian authorities managed to steer the economy away from collapse and maintained resilience in a very difficult regional setting and despite the magnitude of the post-2011 shocks in particular through a number of fiscal reforms and austerity measures aimed at maintaining macro-economic stability. In parallel, authorities have sought to both enhance government transparency and improve the investment climate to attract foreign investments. The support of international partners has been instrumental in achieving these aims, especially through the adoption of the Jordan Compact and the Jordan Response Plan for the Syria Crisis, both of which seek to promote inclusive growth, job creation and sustain services to Jordanians host communities and Syrian refugees.

Despite these efforts, Jordan continues to suffer from structural weaknesses regarding both macroeconomic and economic governance which hamper inclusive economic growth, job creation and fiscal stability. Further structural and economic governance reforms need to be undertaken to foster a more inclusive growth while addressing the significant fiscal deficit through rationalizing spending, increasing the government's revenue and reducing reliance on external assistance. The continued engagement of international partners in these efforts will continue to be needed.

Table 1: The Jordanian Economy at a glance

Key economic indicators			
Population	9.523million (2015 Census) 2018 estimate: 10,142m	GDP	38.655 billion USD (2016)
Unemployment rate	18.3% (2017)	GDP per capita (PPP)	4,087 (2016)
Employment to population ratio	33% (2017)	Real GDP growth	2.0 % (2017)
Human Development Index (2015)	0.741 (80 th out of 188 countries)	Budget Balance (% of GDP) (including grants)	-2.6% (2017)
Population below poverty line	14.4% (2010)	Current account (% of GDP) (estimates)	-10.6% (2017)
Life expectancy	74.3 years (2016)	Inflation rate	4.4% (2018)
Gini Index	33.70 (2010)	Public debt	95.6% (2017)

Source: IMF, Jordanian Government (Department of Statistics), Central Bank of Jordan, UN.

Important structural reforms have been made since the 90's but significant weaknesses persisted

Economic and fiscal reform has been a continuous process in the Kingdom's recent history, being strongly interlinked with donor support. The economic and financial crisis of 1989 prompted Jordan to embark on a multitude of reforms with the support of the International Monetary Fund (IMF) and the World Bank (WB) which significantly revamped the country's tax structure, amongst other wide ranging economic reforms. Whereas 40% of governmental revenues were obtained from customs in 1985, the post-1989 reforms focused on introducing a General Sales Tax (GST) and sought to eliminate trade-related taxes (i.e. taxes incurred through customs) (Identity Center, 2015). The gradual overhaul of the tax structure led the GST to become the largest tax revenue source reaching up to 68% of total tax revenues in 2018 (Jordan Strategy Forum, 2018). Overall, these reforms contributed to improving macro-economic management.

The reforms undertaken in the 1990s were not only limited to fiscal matters, but were also related to trade, financial development and other economic areas, mainly in pursuit of economic liberalisation. The push towards liberalising the economy intensified throughout the 1990s and 2000, leading to the privatisations of a large number of state owned enterprises shifting the structure and functioning of the Jordanian economy. Privatisation measures attracted significant Foreign Direct Investment (FDI) and increased government revenues. In addition, this FDI (accounting for 11.4% of all FDI inflows of the 2000-2007 period) increased the capacities and productivity of the industrial and service sectors in Jordan (Mako, 2012). This contributed to boosting Jordan's exports. Whereas in 1990 Jordan did not export more than JD 60 (around USD 84 million), the total value of exports has not been below JD 200 million (around USD 281 million USD) starting in the year 2005 (Trading Economics, 2018). In 2015, Jordan exported around USD 9.8 billion worth of products, showcasing how radically the Jordanian economy has changed since the early 1990s (Observatory of Economic Complexity, 2016). The years 2004-2008 were particularly prosperous, as GDP growth rates did not go below the 8% mark. Following the 2008 global financial crisis the country registered growth rates of 2.35% and 3.4% in 2009 and 2010 respectively (Economy Watch, 2010).

Political reforms are now undergoing a second wave. The first set of reforms, started in 2011, led to the amendments to up to 1/3 of the Constitution, the establishment of the Constitutional Court and the Elections Commission. More recently, the drive behind political reform has been gaining momentum around the second wave of political reforms, including through the approval of the Decentralisation Law and the Municipality Law in 2015.

Three strong exogenous shocks have weakened Jordan's economy since 2008

Despite the fact that Jordan graduated with success from the IMF-supported reform programme in 2004, different internal and external factors led to the deterioration of economic conditions. While the Jordanian economy was negatively affected by the 2008-2009 financial crisis, the economic deterioration intensified beginning in 2012, following three major external shocks, namely: the Syrian refugee crisis, the energy crisis and the closure of trade routes due to regional instability and insecurity.

The severity of the refugee crisis can be illustrated by the significant number of Syrian refugees who entered the Kingdom since 2012: 661,859 refugees are currently registered with the United Nations High Commissioner for Refugees (UNHCR). The actual number of refugees in Jordan is likely to be significantly larger given the difficulty of providing an accurate number of the total number of refugees currently residing in the country, as a significant number of them are unregistered (UNHCR, 2018). The Jordan Response Plan for the Syria Crisis provides an indication that the number of refugees is around 1.3 million refugees (Ministry of Planning and International Cooperation, 2018), constituting around 13% of the total population of Jordan. This sudden surge in Jordan's population over a short period of time puts tremendous pressure on the country's infrastructure and the provision of public services such as education and healthcare or waste collection. Public expenditures therefore had to rise in tandem with the increase in population. This greatly affected the Kingdom's budget and its limited financial resources: the refugee crisis increased government spending by at least 2% of the GDP since 2013 when factoring in direct and indirect costs. The quality of services provided, such as health and education, has also been negatively affected and bringing it back to pre-crisis levels would incur significant costs (International Monetary Fund, 2017). Furthermore, this population surge has led to increases in food imports which, coupled with the disruption of the traditional trade routes of Jordanian exports, has increased Jordan's trade deficit,

The second factor behind the deterioration in economic conditions beginning in 2012 was the energy crisis. In the period between 2003 and 2011, most of Jordan's electricity generation needs were met by importing Egyptian natural gas at discounted prices. Following the overthrow of Egyptian president Hosni Mubarak in 2011, the security situation in the country worsened and Egyptian pipelines in the Sinai Peninsula were subjected to repeated attacks. This disrupted the flow of gas and forced Jordan to rely more on expensive fuels for its electricity generation which translated into a 60% increase in the import bill (Al-Khalidi, 2012) and significantly worsened the country's fiscal balance. The costs of energy subsidies also surged. Only recently was Jordan able to recover from the crisis through the elimination of most energy subsidies, and the inauguration of a liquefied natural gas (LNG) port in Aqaba, enabling the Kingdom to order LNG shipments from global suppliers.

The third main factor was the disruption in trade routes that began in 2014 with the rise of extremist groups in the neighbouring countries of Syria and Iraq. The spiralling insecurity and instability prevented Jordan from exporting goods to Syria or Iraq, which has strongly harmed the Kingdom's various export sectors. In 2010, exports to these two countries amounted to USD 256 million and USD 1.2 billion respectively; while in 2017, the share of exports had fell to USD 65 million and USD 541

million respectively (UN Comtrade, 2018). The closure of borders with these two countries also meant that Jordan was unable to rely on its traditional land trade routes to export to other countries nearby.

These external factors, coupled with already existing economic weaknesses, led to the deterioration of macroeconomic stability. The Jordanian authorities resorted to IMF assistance in 2012, through a Stand-By Agreement (SBA). From 2012 to 2015, Jordan implemented and successfully completed an ambitious and challenging economic reform programme with the support of the IMF. In August 2016, a new agreement was signed with the IMF to make use of its Extended Fund Facility (EFF) in support of the Kingdom's economic reform process, focusing in particular on fiscal consolidation to gradually lower the public debt; and structural reforms to improve competitiveness and job prospects, to achieve more inclusive growth. Overall, with these two plans, the Government of Jordan has undertaken fiscal measures of about US\$5 billion since 2012 (i.e., about 10% of GDP). Although Jordan maintained macroeconomic stability during the period 2012-2015 and a significant fiscal adjustment was achieved through reforms in the fuel subsidy and electricity sectors, the Syrian refugee crisis continued to pose severe strains on governmental resources. The state-owned electricity company NEPCO and the Water Authority of Jordan registered significant losses due to the high increase in demand for services, and the gross public debt reached 93.4% of the GDP by the end of 2015 (International Monetary Fund, 2016). The shortcomings of the Jordanian tax system did not help in achieving fiscal consolidation either: tax revenues in Jordan account for only 15.5% of the GDP, and self-employed individuals (such as doctors, lawyers, carpenters etc.) contribute very little taxes (only 0.27% of the GDP). Tax evasion and public administration efficiency in tax collection remain important challenges for public finances in Jordan (Jordan Strategy Forum, 2018).

Evolution of Key Macroeconomic Variables

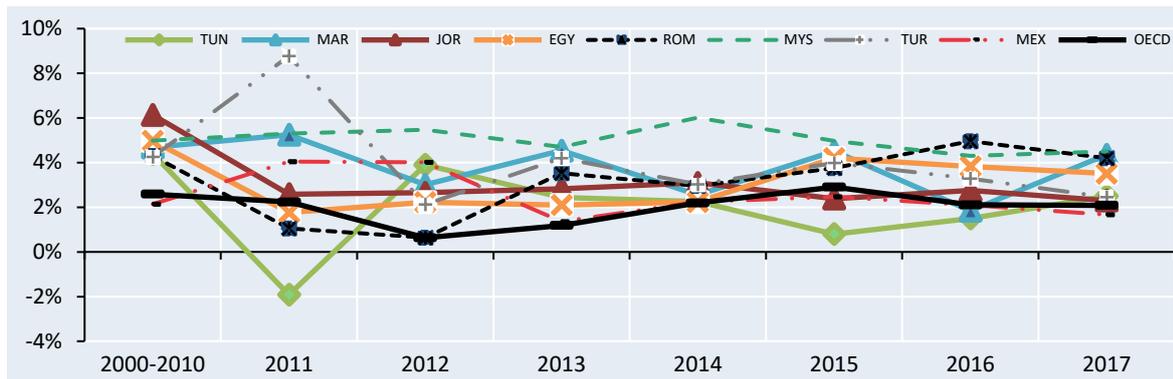
Growth remains below pre-2008 and pre-2011 levels. The financial crisis marked a turning point in Jordan's economic growth, which was further hit by the advent of the Arab uprisings and the shocks associated with them. Prior to his period, economic growth was high, indeed over the 2000-2010, annual GDP growth reached 6.1% on average, well above the growth rate of other Arab Countries in Transition. The 2008 global financial crisis severely impacted Jordan and GDP growth fell from 7.2% in 2008 to 2.35% in 2009.

Growth did not pick up again, and the outbreak of the Arab uprisings in 2011 did not help in this regard. In 2011, growth was at 2.6% and stagnated around that level until 2014, when the economy seemed to pick up steam, reaching growth rate levels above 3% (3.1%). Since then, economic growth fell back to levels closer to those of 2011 (2.4% in 2015, 2.0% in 2016 and 2% in 2017).

The economy is currently finding it very difficult to return to pre-2008 growth. The regional context also continues to affect the recovery, investments have remained low, tourism has decreased, and exports levels have suffered due to the closure of trade routes with Iraq (recently reopened on 30 August 2017, yet trade flows have been slow to pick up) and Syria (both as final destinations and transit routes).

Finding the right balance between the need for fiscal consolidation and sustaining economic recovery has been particularly hard in the past years. The impact of the ongoing fiscal consolidation programme on growth has not been quantified but a number of studies suggest that it has had a negative effect (Identity Center 2015).

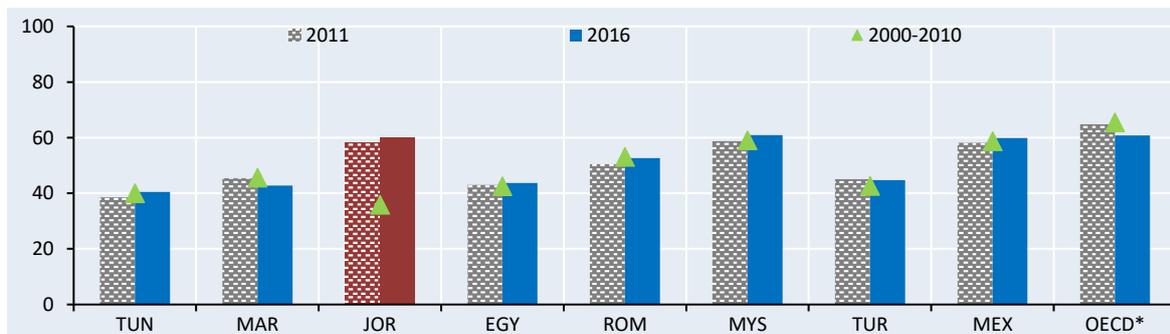
Figure 1. Real GDP (percent change) 2000-2017



Source: IMF World Economic Outlook Databases.

The Jordanian economy suffers from very low labour participation rates, especially amongst women, and stubbornly high levels of unemployment, especially amongst women and the youth. In the period between 2002 and 2010, the unemployment rate averaged 13.6%. Since then, unemployment has been fluctuating around 12-13%, until 2016 when it increased significantly to reach 15.3% and further 18.3% in 2017¹ (although this last significant upsurge can partly be explained by a new methodology used to measure unemployment based on the International Labour Organisation (ILO) recommendations used to measure unemployment). Unemployment levels amongst youth and women are particularly high; youth unemployment (aged 15-24) stood at 39.8% while female unemployment reached 26.2% in 2017 (World Bank, 2017). The other group particularly affected by unemployment are the high skilled workers due to mismatches in the labour market. Indeed, the highest unemployment rate by level of education is among those who have a university degree or higher (21%).

Figure 2. Employment-to-population ratio (%)



Note: OECD average is for 2005-2010.

Source: ILO Key Indicators of the Labour Market database, OECD Labour Market Statistics.

Inflation in Jordan is strongly related to the price of energy/oil and other international commodities, due to its dependency on imports to meet most of its energy and food needs. In 2008, the inflation rate spiked to 14%, largely due to an unprecedented surge in international oil prices and food prices during that year which led to a spike in the value of Jordan's imports. After a drop in 2009, the inflation rate has been maintained between 4 to 5% during 2010-2013, despite the energy crisis that resulted from the disruption of gas flows from Egypt. Beginning in 2014 however, the inflation rate became

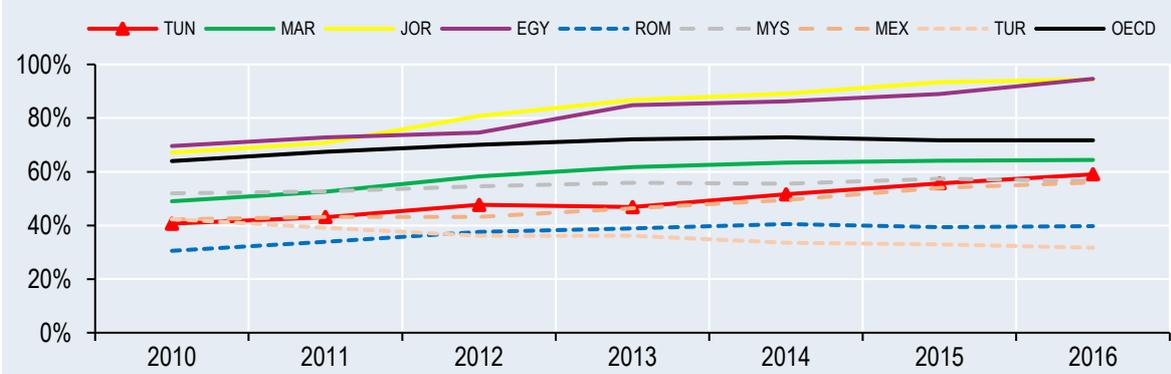
¹ The last change in unemployment rates can be partially explained by a methodological change in the measurement of employment based on the ILO recommendations t

negative amounting to -0.9% and -0.8% in 2015 and 2016, following the plummeting in oil prices and slowdown in economic activity.

Balancing public finances remains a major challenge for Jordan. Deteriorating public finances have been the main economic challenge for successive governments since 2011. Increased expenditures on energy and on accommodating the needs of more than 660,000 registered Syrian refugees, combined with a lower revenue growth, led to an increased budget deficit. The budget deficit grew significantly after 2010, as the refugee crisis, alongside the disruption of trade routes and the flow of gas from Egypt, put significant strains on the government’s resources. NEPCO and the Water Authority of Jordan struggled to keep up with the large increase in demand, (International Monetary Fund, 2016). The deficit excluding grants reached a high of 12.7% of GDP in 2011 before declining to 9.7% in 2012 (World Bank, 2013) and 2.6% in 2017 as a result of the significant fiscal consolidation efforts. While increasing spending needs is part of the explanation for the persistent deficits, there are structural issues on the revenue side as well. In particular, the current tax base remains fairly thin as wage earners and private sector enterprises contribute very little to overall tax revenues (the taxes that salaried individuals and SMEs pay contributed only 0.43% and 0.27% of the GDP respectively) (Jordan Strategy Forum, 2018).

The expanding budget deficits translated into a higher level of public debt. As can be seen in the chart below, Jordan's gross public debt began to increase significantly in 2012, climbing over the levels of other comparable economies. Gross debt increased from a low of 60.2% in 2008 to 95% in 2016. The most significant annual increase took place in 2012, when gross debt increased by more than 10 percentage points of GDP, from 70.7% of GDP in 2011 to 80.7% of GDP in 2012. Under the economic reform programme implemented with the support of the IMF, authorities are seeking to bring down debt to 77% of GDP.

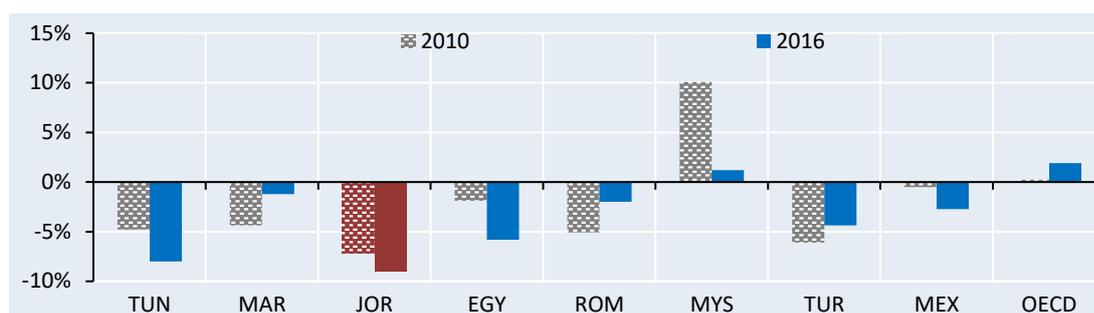
Figure 3. General government gross debt (percent of GDP)



Source: IMF World Economic Outlook Databases.

Widening current account deficits have been putting pressures on foreign reserves. Jordan's current account deficit climbed significantly in 2005 to 2007 before dropping slightly after that. The current account deficit then expanded again after 2011. This unstable and widening deficit is due to the deterioration in Jordan's net financial inflows, especially with regards financial assistance and investments. The current account deficit expanded from 7.3% of GDP in 2014 to 10.6% of GDP in 2017. In addition, Jordan's imports are on an upward long term trend. As can be seen from the chart below, Jordan's current account deficit is significantly higher than that of comparable countries. By 2016, the current account deficit reached -9% of GDP, the largest among benchmarking countries.

Figure 4. Current account balance 2010-2016 (percent of GDP)



Note: 2015 data are estimates except for Mexico and Romania.

Source: IMF World Economic Outlook Databases.

Expanding current account deficits means that the Jordanian economy faces significant and increasing exchange rate pressures. In order to maintain its peg to the US dollar, the Jordanian Central Bank has been using its available foreign currency reserves to defend the local currency in times of economic instability. This has led to a fall in foreign currency reserves to their lowest in recent times in 2012, along with the significant expansion in the current account deficit. Foreign reserves fell from a high of USD 12,2 billion in 2010 to a low of USD 6,6 billion in 2012 (a drop of almost 46% in a two year period). The agreement signed with the IMF in late 2012 helped boost the level of foreign assistance provided to Jordan and enabled reserves to recover, leading them to grow from USD 8,5 billion in early 2013 to USD 12 billion by the end of that same year. Since 2013, reserves continued to increase until a recent decline in 2016 and in the first half of 2017. The most recent decline is due to lower tourism activity, lower foreign investments, and lower export levels; which have strongly been impacted by the regional instability. Nonetheless, signs of improvement are beginning to appear since mid-2017 with positive trends on the three indicators. More recently, the Central Bank of Jordan has been following a very prudent and successful monetary policy to maintain and enhance the attractiveness of the Jordanian Dinar.

Investment has also been declining. Total investment in Jordan was on the rise during the 2000s: it represented an annual average of 26% of GDP in the decade between 2000 and 2010. Following this period, investment levels deteriorated to an annual average of 20% of GDP. Moreover, a comprehensive review of Jordan's investment framework carried out in 2013 found that Jordan suffers from a complex investment framework that limited the attractiveness of investing in the Kingdom (OECD, 2013). However, the 2014 investment law and further reforms to the business environment and related legislation are expected to boost Jordan's business environment. The investment law (2014) aimed at streamlining all investment-related procedures and putting in place a single investment window to facilitate investor procedures. It also restructured the institutional landscape for investment by merging all investment related institutions under a newly formed Jordan Investment Commission. Despite the efforts from the Jordanian authorities, political instability in the region continues to be an important constraint for investment in the country.

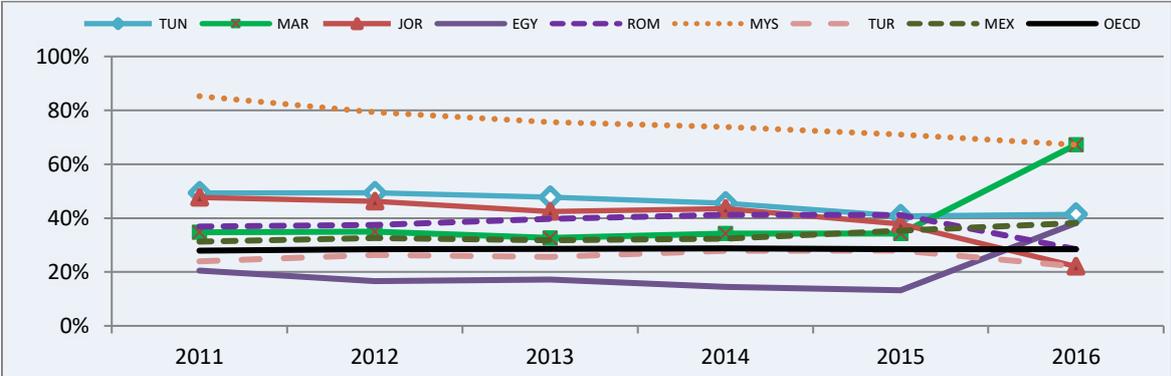
Jordan is an open economy with a large trade sector but trade has been negatively affected by a decline in competitiveness and more recently, trade route disruptions.

Trade is a large component of the Jordanian economy. As can be seen from the chart below, Jordan's exports, as a share of GDP, are among the highest of its peers. The Kingdom is considered to be an

open economy that is well integrated into the global economy, especially after the liberalisation reforms implemented during the 1990s and 2000s. During this time, Jordan signed an important number of free trade agreements with countries from all over the world. In 1997, Jordan signed the Greater Arab Free Trade Agreement (GAFTA), paving the way for other bilateral and multilateral trade agreements. One of the most recent and most important free trade agreements was signed with the US, and became fully operational in 2010. Jordan became a member of the World Trade Organisation in 2000.

However, exports have been deteriorating over the past five years mainly due to the regional instability which has closed traditional export markets for Jordan as well as trade routes. Exports declined from 48% of GDP in 2011 to 22% of GDP in 2016. This deterioration in exports has prompted Jordan to seek alternative markets, especially in Africa (Al-Da’ja, 2018). Moreover, Jordanian authorities are in the process of reviewing main trade deals signed with other countries, including Turkey, to improve the terms of trade and boost the trade balance.

Figure 5. Total exports of goods and services (value, percent of GDP)



Source: World Bank World Development Indicators

The main trading partners of Jordan still are the Arab countries, which receive almost half of Jordan's exports. The top exporting Arab country is Saudi Arabia, which receives 13% of Jordan’s exports, followed by Sudan and Iraq which receive 8% and 7.6% respectively (Observatory of Economic Complexity, 2016). Exports to the North American market surged during the 2000s due to increasing exports from Jordan's qualified industrial zones (QIZ's) which receive preferential treatment for accessing US markets. Jordan's main export commodities include textiles, mining products (i.e. potash and phosphates), pharmaceuticals, and fruits and vegetables. On the import side, Jordan relies heavily on energy imports as well as the imports of machinery, vehicles, grains and electronics.

Government Strategies

Since the 2011 crisis, Jordan has made considerable strides in economic governance reforms, including by moving towards decentralisation and more inclusive decision making. Jordan has historically been a highly centralised country, although this is starting to change. Local elections were held for the first time in August 2017 to establish local governorate councils with devolved powers. While Jordan is still in the early stages of decentralisation, concrete efforts have been made in this direction: as part of the broader Jordan 2025 Vision, the 2015 Decentralisation and Municipality laws have sought to create a more responsive and efficient state, and to empower local actors by giving them a say in the decision-making process at the local and regional levels through locally elected councils. Through the new law, governorates and municipalities will actively take part in designing and

implementing Governorate Development Plans through close collaboration with the Ministry of Planning and International Cooperation (MoPIC) (OECD, 2017). The Jordanian authorities have also established platforms to enhance public private dialogue, but the process of consultations with the private sector remains unsystematic and could benefit from more transparency.

Jordan's demographic dividend is a unique opportunity for the country, which could turn into a challenge if the country doesn't manage to politically socially and economically integrate the large share of its young population. The authorities are aware of the challenges that are associated with such a demographic structure, and are therefore focusing on engaging youth to participate in public life and facilitating their employability.

Despite growing efforts in this area, gender gaps in the Jordanian economy and society remain large and progress has been slow. Despite being well educated, the female labour force participation rate in Jordan is among the lowest in the world, whereas female unemployment is on a rising trend. Even though Jordan's constitution was amended in 2011 to promote greater gender equality, discriminatory provisions continue to exist in several pieces of legislation (OECD 2017). More progress has been achieved in terms of the political participation of women, given the steady increase in the share of women occupying parliamentary seats. The 2016 parliamentary elections, under the new and more representative electoral law, led to an increase of women representation in congress beyond their quota: 20 women were elected MPs while the quota was set at 15 seats (Cuthbert, 2016). Also worth noting, the aforementioned 2015 Decentralization and Municipalities laws have placed quotas for women in the locally elected councils (10% in the governorate councils and 25% in the municipal councils), thus further showcasing Jordanian authorities' efforts towards reducing gender gaps (OECD, 2017).

The Jordanian authorities have developed, through a wide consultative process, a comprehensive new model of development for the Kingdom, embodied in the Jordan 2025 vision Strategy. The document lays out the way forward for Jordan's development across different spheres including political, economic, and social development dimensions. The vision includes over 400 policies and measures to be implemented by the government, private sector and civil society to support development in the coming decade. The plan is based on four main pillars:

- Citizens motivated to participate in the political process;
- A secure and stable society ;
- A dynamic private sector that is able to compete internationally;
- A competent and effective government sector.

The implementation of the vision will take place through three consecutive Executive Development Plans (EDPs) as rolling plans. The first of these, EDP 2016-2018, was developed based on the Jordan 2025 vision following a participatory approach: a total of more than JD 10 million was allocated for implementing the plan. Every strategy or plan, whether on a sectoral or national level, has been based on the Jordan 2025 vision which aims to act as an anchor for coordination between various government bodies in planning and implementation.

Box 1. The Jordan Economic Growth Plan 2018-2022

Intended to serve as a complement to the Jordan 2025 Vision, the Jordanian Economic Growth Plan (JEGP) 2018-2022 comprises a series of economic, fiscal, and sectoral strategies that the government of Jordan plans to adopt in order to achieve macroeconomic stability, sustainable economic growth and reach the objectives set out in the Jordan 2025 Vision. Among the many policy priorities listed, the JEGP 2018-2022 calls for enhancing Jordan's competitiveness and investment environment by easing bureaucratic and administrative red tape through digitising government, focusing on the important sectors of Jordan's economy (tourism, agriculture, manufacturing etc.), and improving existing infrastructure (such as schools, transportation) which would create employment opportunities and enhance Jordan's overall economic conditions. The JEGP includes both policy measures as well as a list of investment projects per sector and the related funding needs

Pillar I: Designing sound economic policies for an Inclusive and Sustainable Market Economy

Under this pillar, four key structural challenges have been identified as the main constraints for Jordan's drive towards a more inclusive and sustainable economy. The four challenges are addressed to help enable Jordan to achieve higher rates of more inclusive and sustainable growth. The four priorities are strongly interlinked, where progress in one area feeds into the progress of another.

- A. **Enhancing economic diversification and facilitating trade;**
- B. **Strengthening resilience in the context of a major refugee crisis;**
- C. **Putting public finances on a sustainable path; and**
- D. **Enhancing employment and labour market participation**

A. Enhancing economic diversification and facilitating trade

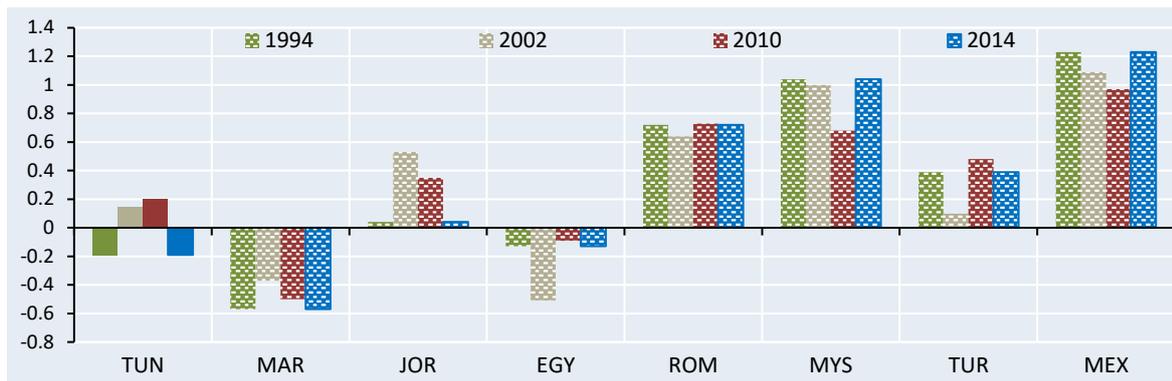
Current situation

The general decline in economic growth, beginning in 2008, was driven by a combination of both internal and external factors but limited economic diversification and sophistication is one of them.

The global financial crisis coupled with the low levels of economic competitiveness and diversification (or complexity) led to an initial decrease in growth which was further aggravated by the regional crisis. Over the past ten years, economic complexity, measured by the Economic Complexity Index (ECI)² has declined in Jordan from a high 0.53 in 2002 to a low of 0.04 in 2014. In relative terms, Jordan's ECI ranking decreased from 20th in 1980, to 29th in 1990, to 43rd in 2000, and to 47th and 48th in 2010 and 2015 respectively (Observatory of Economic Complexity, 2016).

² Economic Complexity measures the accumulated productive knowledge a country possesses, which is reflected in the goods it manufactures. The diversification and sophistication of products indicates the number of products being exported by the country as well as the ubiquity of a product in global markets

Figure 6a. Economic complexity index (1994-2014)



Note: Economic complexity is expressed in the composition of a country's productive output and reflects the structures that emerge to hold and combine knowledge. Best performer is Japan with a score of 2.25 in 2014.

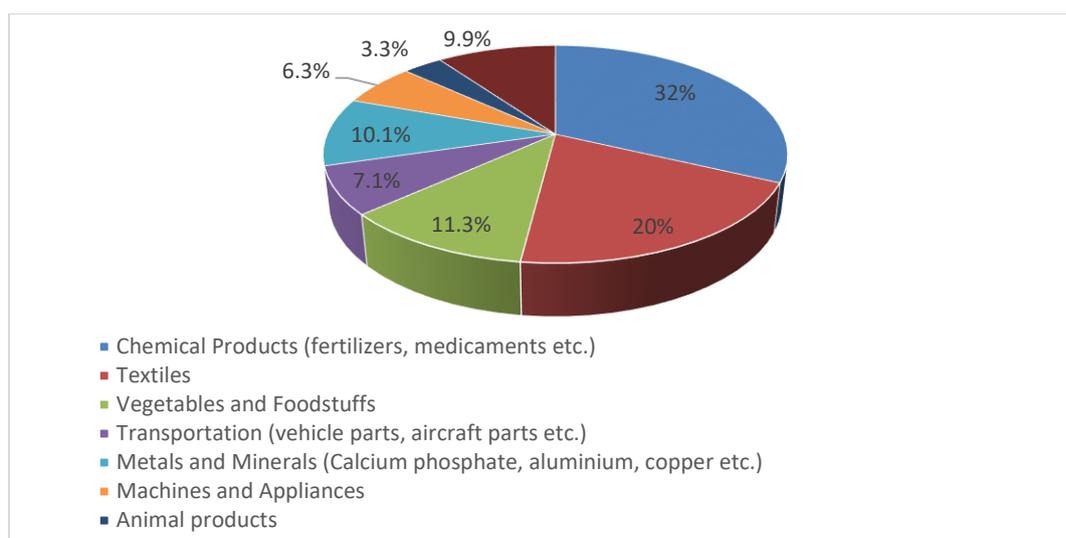
Source: The Observatory of Economic Complexity – MIT.

The current level of sophistication of exports has also dropped. Despite the fact that Jordan has better integrated in global value chains over the past decade, the economic sophistication of the economy and its complexity have declined over time. A recent study by the Jordan Strategy Forum (2017) attempted to analyse the current Jordanian export basket, including 20 industries in the industrial sector, and 581 exported products (Jordan Strategy Forum, 2017). The average level of sophistication for the Jordanian export basket amounted to 9,610 in 2014, a low score by international standards. The study found that the preponderance of products with low level of sophistication, namely textiles and vegetables, tends to drag down the sophistication of the overall export basket.

Increasing economic diversification is instrumental in boosting inclusiveness and reducing inequalities. Economies with higher levels of sophistication tend to have more inclusive growth as economic complexity significantly reduces income inequality (Hartmann 2016). This may partially explain Jordan's difficulties to improve its performance in inclusiveness related indicators.

Jordan's economic growth had fallen short of being inclusive. Between 2000 and 2010, despite the high levels of growth witnessed during the decade, the unemployment rate remained relatively high, fluctuating between a low 12.5% in 2004 to a high 15.3% in 2002 (International Monetary Fund, 2018). While the country's Gini coefficient decreased from 37 in 2002 to 33.7 in 2010 (latest year available), the poverty rate in 2008 stood at 13.3% and rose to 14.4% in 2010 (World Bank, 2010). The high growth rates witnessed in the 2000-2010 decade were driven by the real estate sector, which explains why growth was not inclusive and unemployment rates remained high.

Figure 6b. Share of Jordan's exports (2015)



Source: Observatory of Economic Complexity

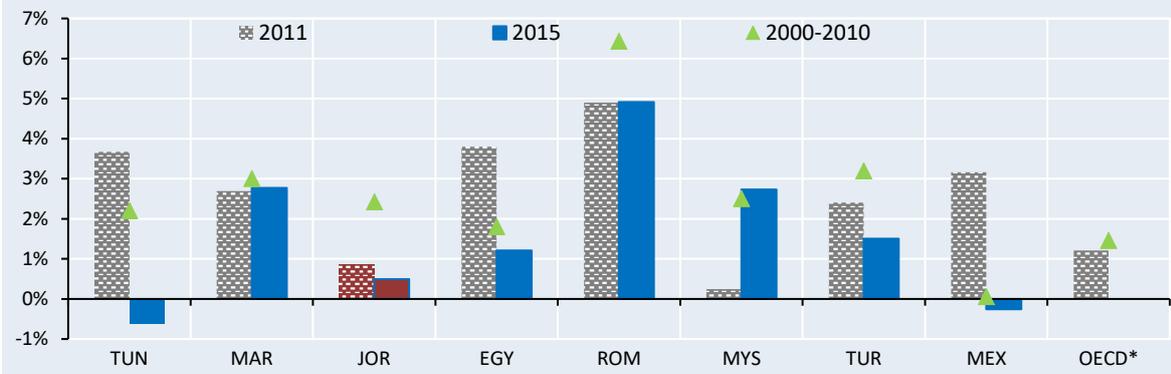
Without increasing sophistication and diversifying the basket of goods, the country's competitiveness and potential export revenues may be at risk because of increasingly high price competition on low-value-added products. The strategy consisting in signing an important number of FTAs with other countries has allowed Jordan to navigate this challenge for the time being with, for example, textile –Jordan's top export-exports increasing from as little as JD 96 million in 2000 to over JD 1 billion in 2016 thanks to a preferential agreement with the US. While Jordanian exports consist largely of low sophistication goods such as textiles, vegetables, and chemical products, other sectors may offer better value for Jordan's economic complexity. The exports of pharmaceuticals and some manufactured goods, for example, increase the level of Jordan's economic complexity, in relation to other peer countries.

Limited spillovers from FDI further hamper economic complexity. Since 2000, Jordan aimed at attracting foreign investments through privatisation and liberalisation policies. While this succeeded in boosting FDI flows into Jordan, the success was short lived and no significant knowledge and technology transfers to local firms. Most of the FDI was directed at 'special zones' (Industrial Estates, Free Zones and Special Economic Zones) which provided tax incentives and facilitated administrative procedures (Identity Center, 2015). Given that these zones were designed more or less as enclaves separate from the local economy, it is not surprising to see that spillover effects from foreign investment to local firms in Jordan were limited and transitory.

A weak innovation performance has been an obstacle to economic diversification and complexity in the Kingdom. Jordan lacks a comprehensive innovation framework. Despite the fact that Jordan is starting to witness the emergence of a promising innovation eco-system, innovation policy is too narrowly cast as a science and technology policy (World Bank, 2013). In 2015, only 0.34% of the GDP was spent on research and development (R&D), while research at Jordanian universities remains basic and does not focus on the development of industrial or commercial products due to the fact that academics are prohibited by law to receive payments for R&D work (USAID, 2015). Funding constraints and a shortage of innovation-related skills and entrepreneurial training in the economy as a whole represent additional hurdles.

The decline in economic complexity has run in parallel to a decline in labour productivity growth over the years. The growth in labour productivity (defined as GDP/worker) fell from an annual average of 2.5% between 2000 and 2010, to 0.5% in the 2011-2016 period.

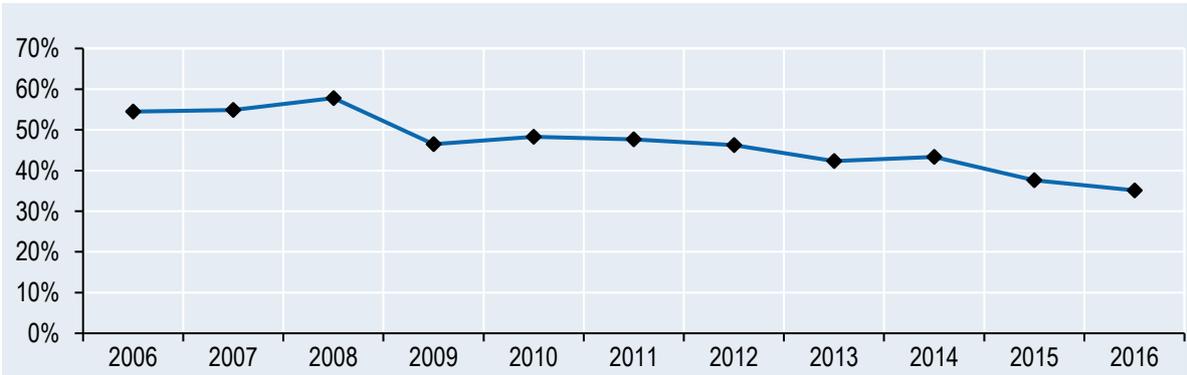
Figure 7. Labour productivity (GDP at PPP exchange rates per employed person; annual growth rate)



Note: Labour productivity for OECD countries is measured as GDP per hour worked. For non-OECD countries GDP per worker is used instead.
 Source: Calculations based on ILO Key Indicators of the Labour Market database, OECD Labour Market Statistics.

Access to external markets will be instrumental both for sustaining growth and enhancing economic diversification and complexity due to the small size of Jordan’s internal market. Trade activities represent a significant proportion of Jordan's GDP, but exports have been falling over time. Exports and imports constitute more than 91% of the Jordanian economy, illustrating the extent to which Jordan is integrated into the global economy. Jordanian exports of goods and services amounted to more than 57% of GDP in 2008, before declining steadily towards 35.12% of GDP in 2016 (World Integrated Trade Solution, 2016). The implications of the global economic crisis coupled with the repercussions of regional instability beginning in 2011 have limited the growth of Jordanian exports. Competition in Jordan’s main export products (e.g. textiles) is particularly challenging, making integration in GVCs and upscaling production essential policy priorities to sustain medium and long term growth.

Figure 8. Jordan’s exports (% of GDP)

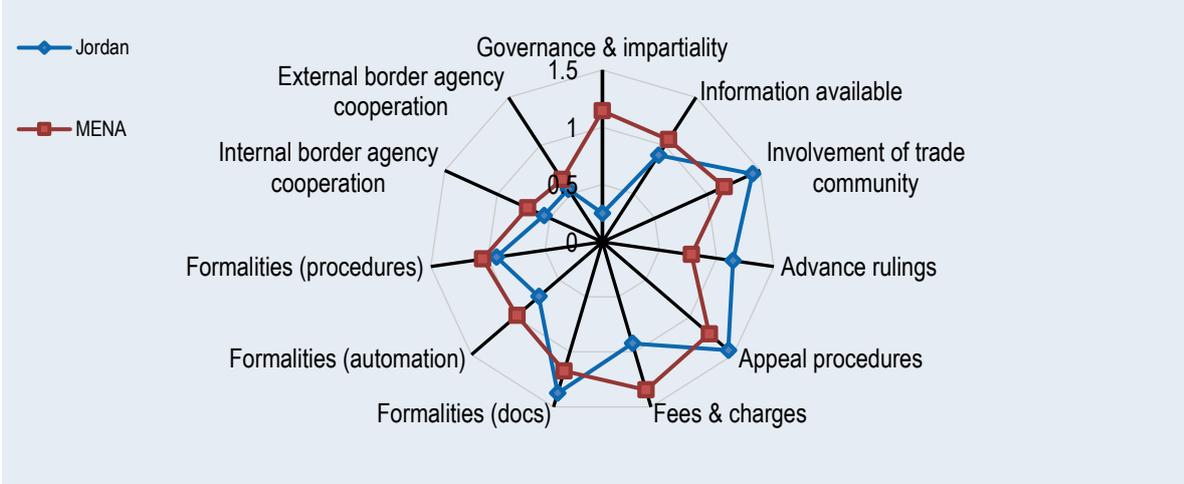


Source: Department of Statistics.

Jordan performs well in international benchmarking reports on trade facilitation and regulation. Jordan has a good policy framework for trade activities compared to other countries in the MENA region. For instance, according to the OECD's Trade Facilitation Indicators, Jordan performs strongly in

terms of 'involvement of trade community' and 'appeal procedures'. Jordan's performance matches or exceeds the average performance of upper middle income countries in the areas of 'information availability', 'involvement of trade community', 'advance rulings', 'appeal procedures', 'documents', 'streamlining procedures' and border agency cooperation. Between 2015 and 2017, Jordan's performance improved in the area of documents and automation, but declined slightly in terms of the involvement of the trade community. 'Fees and charges' in Jordan is significantly higher than MENA and upper middle income averages. The below charts Jordan's performance against the MENA average, where 2 is the best possible score.

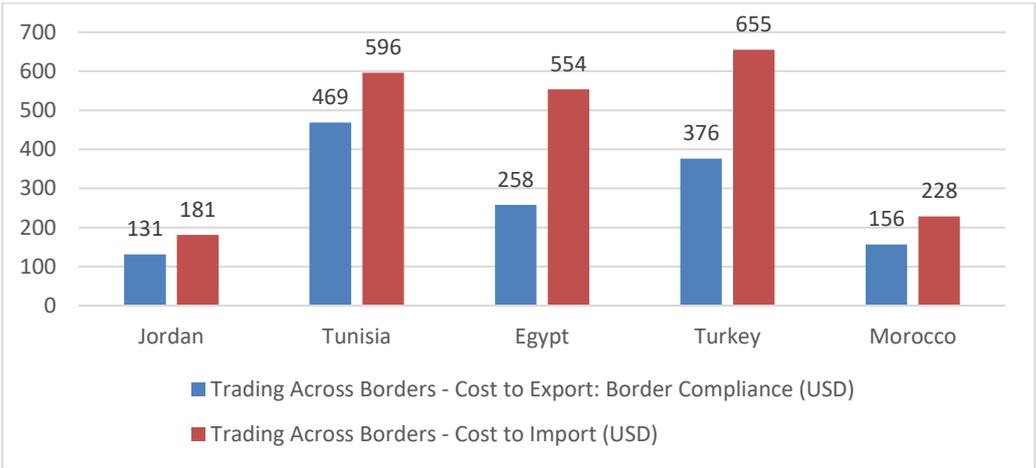
Figure 9. OECD Trade Facilitation Indicators - Jordan (2017)



Source: OECD

In 2018, Jordan ranked 53rd in the Doing Business Trading across Borders indicator, performing better than other countries in the region, including Turkey. Jordan offers an environment where the cost to import and export is lower than other countries in the region.

Figure 10. Doing Business: Trading across borders and Exporting and importing costs, 2018



Source: World Bank

This is also mirrored Jordan's positive performance in the World Bank's Logistics Performance Index, which ranked Jordan 67th among 160 countries in 2016 based on a score of 2.96. Jordan's logistical performance deteriorated between 2007 and 2012, which was attributed to inadequate policies regarding cargo services (Obeidat, 2010) but performance improved gradually since then.

Figure 11. Logistics Performance Index



Source: World Bank

Jordan has the potential of becoming a trade hub in the region. The Kingdom is strategically located between Asia, Africa and Europe, offering a geographical advantage for international business and trade. Jordan also boasts relatively well-developed road and maritime infrastructure. Its energy supply system, although very dependent on imports, is reliable. Nonetheless, the absence of a railroad infrastructure network may hamper the development of Jordan as a regional logistics hub. Indeed, under the Infrastructure pillar of the Global Competitiveness Index, Jordan scored 3.5 in ‘transport infrastructure’ ranking 75th globally. The relatively low position of Jordan under this pillar could be primarily attributed to its bad score on railroad infrastructure.

The regional instability and insecurity has shed light on some of the limitations of the current infrastructure system and logistics sector. Land trade routes (via Iraq and Syria) have been closed in 2014, forcing trades to resort to alternative routes, mainly maritime and air shipping, creating pressures on the shipping prices as well as logistical challenges, especially for perishable exports. For example, truckers have significantly increased their prices in all transport routes connecting to the port of Aqaba.

Reform efforts

Structural reforms to enhance growth and promote high-value-added sectors have progressed slowly as the focus has been put on short-term economic stabilisation over long term structural transformation. The economic reform programme implemented by the government in the since 2011 has primarily focused on fiscal consolidation and public financial management. The economic reform programme which was initiated in 2012 with the support of the IMF aimed at fixing Jordan’s budget imbalances through boosting revenue mobilisation and curtailing expenditures, which have contributed to Jordan’s resilience in a very difficult regional setting.

Faced with this situation, Jordan embarked on preparing a national document providing a renewed economic model: ‘Jordan 2025’. This document seeks to establish the basis of Jordan’s future sustainable growth based on an enhanced competitiveness with reforms going from market liberalisation and improvement of investor procedures; to the identification of clusters that could boost the country’s development. The clusters were developed based on a number of criteria including having domestic and regional demand for products, with a high export potential based on a sustainable competitive advantage in the medium and long term. The clusters include: construction and

engineering, transport and logistics, tourism, healthcare, life sciences, digital & business services, educational services, and financial services.

In June 2016, the King ordered the creation of the Economic Policy Council (EPC) with a mandate to discuss economic policies, programmes and development plans within the framework of the Jordan 2025 vision. The Council is also tasked with identifying the main constraints holding back economic growth and proposes solutions to overcome them. It is comprised of both public and private sector representatives.

Based on the Jordan 2025 vision, the Economic Policy Council developed the Jordan Economic Growth Plan 2018-2022 which aims at doubling Jordan's economic growth over the next five years and placing the country on the path of sustainable development. The plan seeks to build a strong economy that is able to remain resilient in the face of regional and international challenges and minimise Jordan's dependence of foreign support by expanding and multiplying economic and investment opportunities. Under the 5 main pillars of Public Policy, Macroeconomic Stability, Competitiveness and Investment, Infrastructure and Economic sectors, and social development, the plan targets 19 sectors through 95 economic reform procedures and 85 government projects with a total cost of JD 6.9 billion. The plan also contains 27 private sector investment projects worth JD 9.5 billion.

The Jordan 2025 blueprint envisions Jordan as an export-oriented economy regional economic gateway to regional markets. The blueprint focuses on maximising the benefits of Jordan's existing free trade agreements and the development of economic clusters. For the latter, the blueprint includes an analysis of Jordan's economy, its exports and priority markets. The identification of clusters was based on a number of criteria including having domestic and regional demand for products, with a high export potential based on a sustainable competitive advantage in the medium and long term. The clusters include: construction and engineering, transport and logistics, tourism, healthcare, life sciences, digital and business services, educational services, and financial services. After the closure of key trade routes, Jordanian authorities stepped up efforts to try and penetrate new markets, including in Africa and Asia. Some of the measures adopted recently or ongoing to implement the Jordan 2025 vision include:

- Increasing cooperation between the Ministry of Agriculture and the private sector in order to facilitate and boost exports of Jordanian agricultural products (Mustafa, 2017).
- Undertaking the 'Jordan Compact' agreement with development partners, including the joint decision reached with the EU on simplification of the rules of origin requirements which facilitates Jordanian exports to Europe all the while providing employment opportunities for Syrian refugees in manufacturing sector in 18 designated development and industrial zone (Ministry of Planning and International Cooperation, 2016). It should be noted in this respect that further simplification may be necessary as of May 2018, only eleven firms had reportedly met the criteria to benefit from the relaxed rules of origin, and only four had actually exported a total worth EUR2.4 million.
- Building a new port in Aqaba designed to meet international standards and contribute to the facilitating Jordanian exports while managing to compete with other Red Sea ports (Jordan Times, 2018).

- Adopting the Industrial Policy Document 2017-2021 which aims at enhancing the competitiveness of the country's industrial sector and to increase its export potentials to traditional and new markets.

Key priorities

A continued implementation of Jordan's Vision 2025 as a national agenda as well as the structural transformations envisaged in the Jordan Economic Growth Plan 2018-2022 should be the cornerstone of the government's efforts to diversify the Jordanian economy. Specific focus should be put on:

- **Addressing the urgent need to increase the competitiveness of Jordanian producers and diversify the basket of goods manufactured in Jordan**, and to increase the sophistication of these products. According to a study prepared by the Jordan Strategy Forum, this can be done through (1) reducing energy costs of factories by setting up renewable energy sources; (2) easing manufacturers' access to finance, especially those seeking to expand their businesses; and (3) taking advantage of the skills of refugees, as many are skilled labourers who have expertise in certain sectors (Jordan Strategy Forum, 2017).
- **Increasing the level of integration in GVCs and the level of exports** by: (1) continue opening markets through FTAs and reviewing the impact of existing agreements; (2) adopting measures to increase the quality and quality control of national production, including through enhanced quality infrastructure; (3) establish a full-fledged export promotion agency and strategy and, (3) develop a plan to attract FDI with strong spillover potential lined to the selected clusters.
- **Exploiting the potential to position itself as a trade hub in the region** since it is strategically located between Asia, Africa and Europe, offering a geographical advantage for international business and trade.

Developing a modern railroad infrastructure across the country should be a key priority as it has the potential to improve land transport, labour mobility and socioeconomic development across all the governorates of Jordan. In 2012, the Union for the Mediterranean (UfM) announced that it will support Jordan's National Railway Networks Project. The project aims at building Jordan's railway networks, most notably the North-South Corridor stretching from the Syrian border to Aqaba, which will serve as a key link of commerce between the GCC states on one hand and Europe and Turkey on the other (Union for the Mediterranean, 2012). More broadly, investments in infrastructure should be encouraged to allow for a better degree of connectivity between regions.

There is a need to develop and implement a comprehensive innovation framework in the country. This should include securing sufficient funding for R&D and innovation-related investment as well as enhancing innovation-related skills and entrepreneurial training in the economy as a whole. The National Committee for Human Resources Development and the National Strategy for Human Resource Development, both established and launched in 2016, are a positive step towards enhancing the education system across the country which could be leveraged to strengthen innovation.

B. Strengthening resilience in the context of a major refugee crisis

Current situation

Jordan has historically been the main recipient of refugees from various nationalities, the most recent being Syrian nationals fleeing war in their country. According to the UNHCR, there are 44 nationalities of refugees in Jordan as of 2014. Since 2012 in particular, Jordan began receiving a large number of Syrian refugees through its open door policy. According to the most recent census conducted by authorities in late 2015, a total of 1.264 million Syrian nationals live in Jordan, making up 13.1% of the overall population, and constituting 46% of non-Jordanians living in the Kingdom.

The protracted nature of the crisis in Syria translated into significant challenges for the Jordanian economy. The estimated direct cost of hosting Syrian refugees (about 1.3 million) on average has been about US\$1.5 billion annually which is 4 percent of annual GDP and about 16 percent of government annual revenues. The Economic and Social Council conducted a study and estimated that the costs of the Syrian crisis amounted to JD 590 million in both 2011 and 2012, making up around 3% of GDP (Jordan Economic and Social Council, 2012). Moreover, the IMF estimates that, since the outbreak of the Syrian crisis in mid-2012, losses of real GDP growth were on average approximately 1% per year due to the negative impacts that the crisis has had on exports, investments and tourism (IMF, 2017). A more recent statement made by the Minister of Planning and International Cooperation indicated that the costs associated with the Syrian refugee crisis represents 5% of Jordan's annual GDP.

The refugee crisis has impacted Jordan across a number of different dimensions, including policy making. A joint MoPIC and United Nations (UN) study illustrated how the large costs involved in hosting Syrian refugees has forced the government to shift expenditures from capital investment to current spending, thereby limiting the extent of future economic growth. The presence of refugees has also led to large increases in the value of government subsidies. Therefore, one of the main impacts of the Syrian refugee crisis has been a shift in expenditure policies.

The refugee crisis has also added to the already existing pressures on the Jordanian labour market. Labour market pressures increased as of 2016 since authorities made it easier for Syrian refugees to obtain work permits in specific sectors, as part of the 'Jordan Compact' between authorities and the international community. Between January 2016 and June 2018, more than 104 000 work permits have been issued (free of charge) to Syrian Refugees to work in different sectors, including agriculture, construction, manufacturing and trade activities open to non-Jordanians. Given that the Jordanian labour market suffers from labour demand and supply mismatches, these sectors have traditionally employed migrant workers (Identity Center, 2015).

Box 2. The 'Jordan Compact'

A holistic agreement between Jordan and the International Community (namely the EU) signed in early 2016, the Jordan Compact provides for financial support in the form of grants and preferential trade relations with the EU (relaxing rules of origins) in exchange for opening up the labour market in certain sectors for Syrian refugees. The agreement envisages the creation of 200,000 jobs for Syrian refugees in the formal Jordan economy, which would ideally allow them to earn an income, send their children to school and contribute both to the Jordanian economy and eventually to reconstruction in post-war Syria (Ministry of Planning and International Cooperation, 2016).

Although considerable progress has been made, some challenges remain, as large numbers of children remain out of school (either due to financial barriers or due to the poor quality of education provided) and the agreement was made without integrating refugees' perspectives from the outset, which has meant that refugees' daily lives have not improved much (Overseas Development Institute, 2018).

The refugee crisis has pushed up housing prices in Jordan. Although the costs of food and other commodities did not substantially change, the sudden and drastic population increase has driven up the demand for housing, thereby significantly raising rental and property prices (International Monetary Fund, 2017). In a context where the inflation rate has remained under 5% throughout the past five years, housing prices and rents climbed by as much as 300% in some areas, according to Department of Statistics.

The Syrian refugee crisis has also impacted a number of other vital sectors in Jordan, especially public services and infrastructure. The public education and public health services have been under enormous pressure to respond to the sudden surge in demand. The quality of education and healthcare provision has been greatly affected: Teachers and hospital staff are overworked, as the former found themselves working in two-shift systems in order to teach Jordanian and Syrian children (130,668 Syrian students were enrolled in Jordanian schools in the 2017/2018 academic year), while the latter had to cope with much higher numbers of patients which shortened the time doctors could devote to patients (Abu-Ghazaleh and Co. Consulting, 2015). Given the fact that over 80% of Syrian refugees have settled in urban areas, this has put significant pressure on municipalities and sub-national governance systems hosting them. At the municipal level (especially in Irbid and Mafraq), the sudden increase population (almost doubled in Mafraq) has created challenges for public services such as waste management, water and sanitation, or infrastructure. For instance, water demand has increased by 40% in the northern governorates most affected by the Syrian crisis, compared to 21% in the rest of the country (MoPIC 2017).

Reform efforts

The authorities have put in place a framework to manage the refugee crisis well through successive Jordan Response Plans (JRPs), based on a vulnerability assessment conducted with the UN. The JRPs act as calls for collective action to better support Syrian refugees. The JRP 2015 represented a paradigm shift from a purely humanitarian approach towards a resilience-based comprehensive framework that bridges the divide between short-term humanitarian responses and longer-term development response. The JRP 2018-2020 further integrates refugee and resilience responses into one single plan for each sector and places the resilience of national systems and institutions at the core of response. This plan seeks to address the needs and vulnerabilities of Syrian refugees, Jordanians, communities, and institutions affected by the crisis. The JRP 2018-2020 includes projects worth USD 7.312 billion for three years, broken down into USD 2.761 billion for subsidy, security, income losses and infrastructure depreciation, USD 2.126 billion for refugee-related interventions and USD 2.425 billion for resilience-strengthening for host and refugee communities, as well as service delivery systems and public

authorities (Ministry of Planning and International Cooperation, 2018). All these priorities are distilled in 12 sector response plans.

Donor support to Jordan has fallen short of needs described in previous JRPs, but there is a positive trend. Whereas in 2015, Jordan secured only 36% of funding needs for the JRP, around 59% of the needs were secured for the year 2017 (USD 1.7 billion) (Middle East Monitor, 2018). Despite this increase in donor support, Jordan is still in need of substantial assistance in order to see the JRP 2018-2020 implemented successfully (Husseini, 2018) and finance public service provision to Syrian refugees and host communities.

Alongside the JRP, Jordan adopted a new approach in dealing with the Syrian refugee crisis in 2016, facilitating the entry of Syrians into the labour market. The new approach, embodied by the "Jordan Compact", is based on a *quid pro quo* whereby the international community supports Jordan's economic development through new investments, open market policies and the provision of grants and concessional financing, while the Jordanian government puts in place targeted policies to better integrate refugees. Commitments from donors with this regard reached USD 700 million annually over the 3 year period between 2016 and 2018. The government is expecting increased foreign investments and an enhanced access to EU markets to achieve this ambitious goal. New investments in the eighteen designated zones under the simplified Rules of Origin (RoO) were expected to create 200 000 jobs, including 50 000 in sectors opened to non-Jordanians such as construction and agriculture. Its approach is to substitute foreign workers currently working in Jordan with Syrians looking for work.

The government has taken measures to ease the integration of Syrians in the labour market. Requirements for Syrians to obtain work permits were relaxed, especially in the agriculture and construction sectors, whereby Syrians are no longer required to have only one single employer. Although reaching the 200,000 job employed Syrians is a daunting task, employment centres have been set up in refugee camps and in governorates, in a bid to facilitate Syrian refugees' and Jordanians' access to formal work opportunities through matchmaking assistance in the designated development and industrial zones under the Simplification of RoO Joint Decision and job fairs in refugee camps, held to inform the refugees of available opportunities.

Key priorities

The continued support of the international community, combined with the implementation of the measures and projects laid down in the JRP will be needed to successfully tackle the refugee crisis. Financial support will continue to be important to help cover the incremental costs for public services associated with the crisis. This will help the authorities shifting expenditures from current spending back to much-needed capital investment in order to deliver on the Jordan's Growth Plan. In addition, the following actions should be prioritised:

- **Ensuring the implementation of the Jordan Compact from both the government and the international community**, so as to enable new investments into Jordan to generate additional jobs for both Syrians and Jordanians. Improving refugees' living conditions should be at the heart of the implementation of the Jordan Compact. Also, financial support to increase school enrolment is a necessity, as large numbers of children remain out of school, and the emergence of a 'lost generation' of Syrian youth would pose tremendous societal problems in both Jordan and post-war Syria (Overseas Development Institute, 2018).

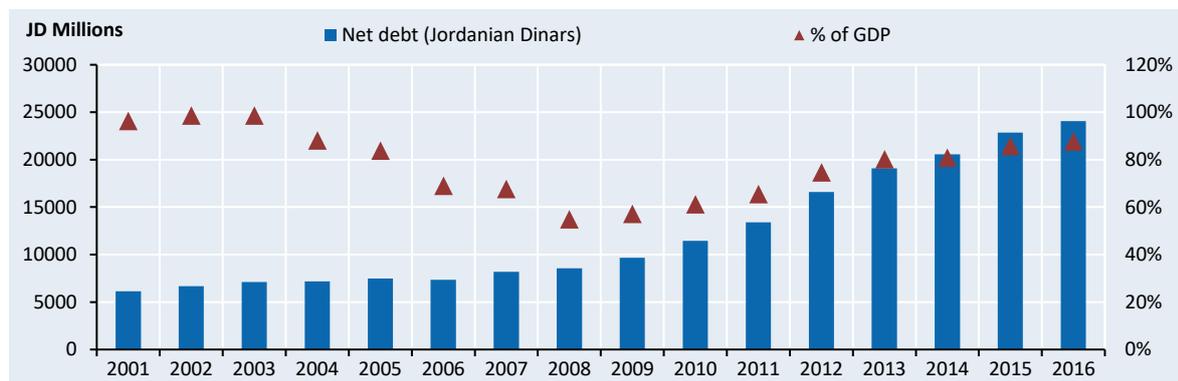
- **Promoting active labour market policies to better integrate refugees into the economy.** Such policies couple with mechanisms recognising skills and education abroad could help integrate refugees into the formal economy and leverage their human capital.
- **Promoting economic activity in refugee camps.** Evidence shows that opening up economic activity in refugee camps gives an opportunity for entrepreneurs to become successful (International Rescue Committee, 2017).
- **Ensuring that investments within Special Economic Zones (SEZs) are paired with measures to mitigate potential harms to ensure better outcomes for workers,** as SEZs in general tend to have a mixed record when it comes to workers' rights.

C. Putting Public Finances on a Sustainable Path

Current situation

Jordan suffers from critical and structural fiscal imbalances. Historical challenges regarding weak domestic resource mobilisation and a loose fiscal policy, coupled, most recently, with expanding public spending to respond to external shocks have put the Jordanian budget on an unsustainable path. Between 2010 and 2016, net debt public debt more than doubled in value to reach JD 24,079 million. As a share of GDP, net debt increased from 54.8% of GDP in 2008 to 88.9% of GDP in 2017.

Figure 12. Net Public Debt in Jordan (2001-2016)



Source: Ministry of Finance.

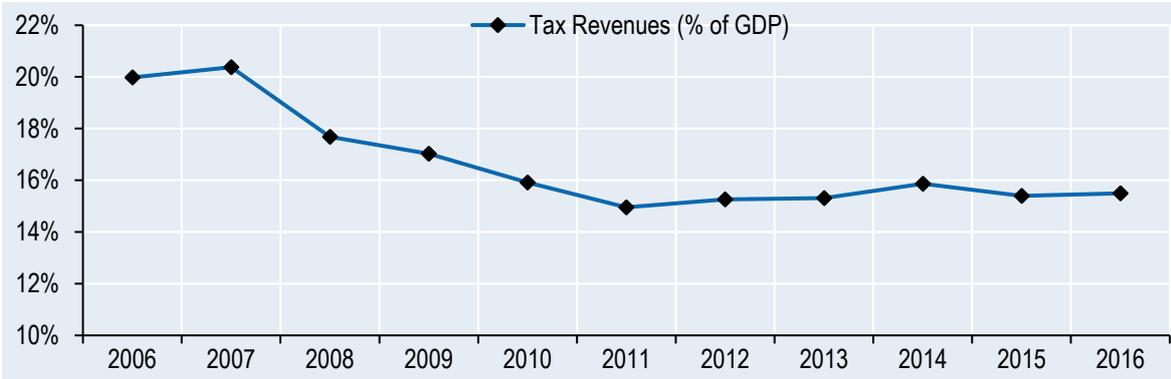
The accumulation of a large amount of debt in a short period of time was driven by a number of external and internal factors. The cumulative effect of these factors has been to reverse the trend towards debt reduction observed in the period 2003-2008.

Internal factors are mostly related to the weak level of tax collection, partly as a result of various changes to taxation and investment laws and regulations which offered a wide range of incentives representing missed revenues, and provided a fertile ground for tax evasion and avoidance. Forgone revenues from tax incentives and exemptions (i.e. tax expenditures) were estimated at around JD 1,556 million in 2012, or almost 7% of the Kingdom's GDP (USAID, 2013). Together with a narrow tax base, these tax expenditures explain the decline in government tax revenue as a share of GDP over the past decade. Public revenue fell from around 20.4% of GDP in 2007 to 15.5% of GDP in 2016³. Moreover, the number of active taxpayers in Jordan dropped from almost 293,000 in 2009 to around 208,271 in 2012. This shows how the multiplicity of tax exemptions and constant changes in legislation

³ Ministry of Finance – Monthly Bulletin.

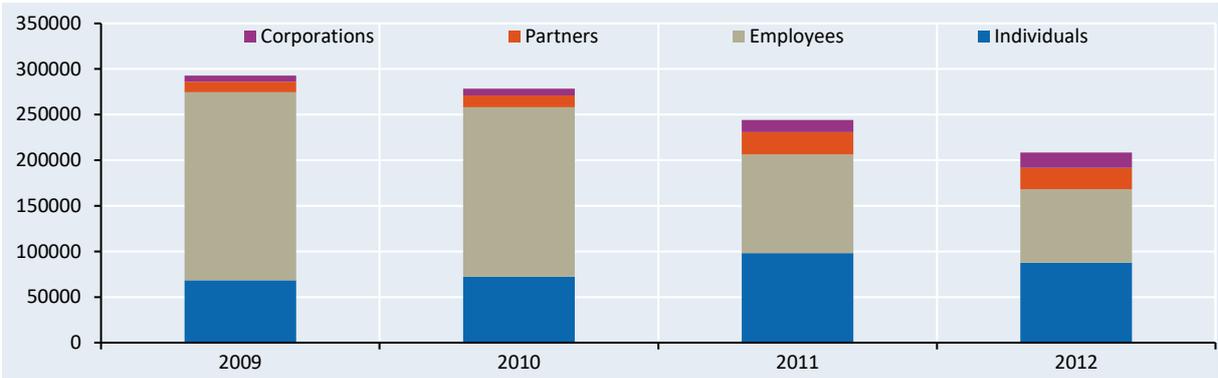
contributed to the erosion of the tax base and limit potential revenues. It also points towards an increase in tax evasion and avoidance.

Figure 13. Tax Revenue (% of GDP)



Source: Ministry of Finance.

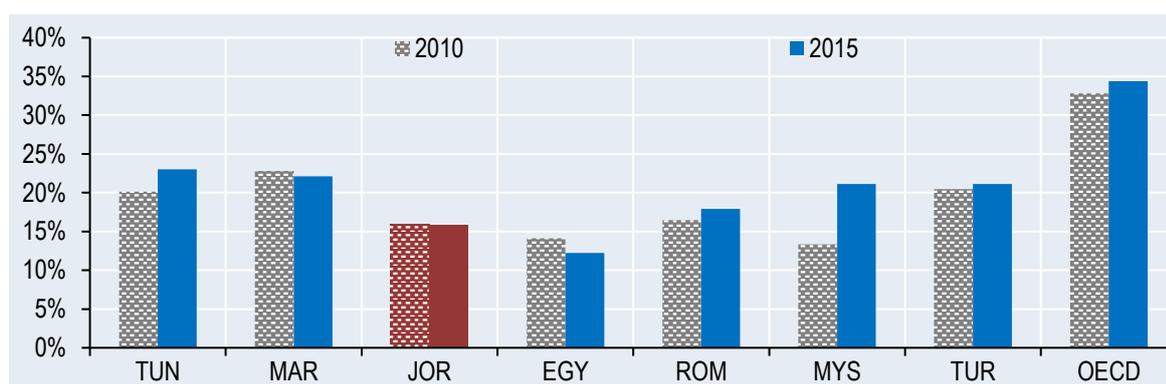
Figure 14. Number of Active Taxpayers in Jordan



Source: USAID's Fiscal Reform Project in Jordan.

Jordan suffers from a very low tax base and significant tax evasion. Recent estimates indicate that around 95% of the population are not paying income taxes under the amended income tax law of 2014 (International Monetary Fund, 2017). The decline in the number of employees paying income taxes has been sharper after 2010 with the introduction of a number of amendments to the tax law that narrowed the tax base. Moreover, tax evasion is considered to be high in Jordan due to the existence of many loopholes in the tax system and that government agencies are not very efficient when it comes to tax collection (Prieto, 2018). While it is difficult to make an accurate estimate, an official study carried out by the Economic and Social Council estimated the size of tax evasion to be between JD 1,126 million and JD 1,900 million in 2012 (Jordan Economic and Social Council, 2014), which represents between 5% to 8.6% of GDP. Jordan's tax system is further hampered by weak tax management, administration and collection. Overall, Jordan's tax revenue as a share of its GDP is lower than in benchmarking countries, except Egypt.

Figure 15: Tax revenue (percentage of GDP in 2015)



Notes: 2015 data for Jordan, Egypt and Romania is preliminary

Source: Government Finance Statistics Yearbook, IMF Country Reports for Jordan, Malaysia, Morocco and Tunisia.

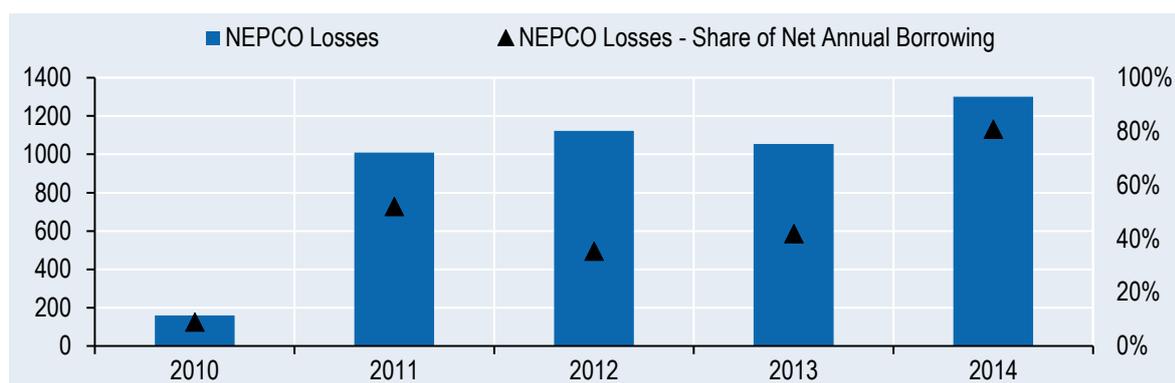
Jordan's tax structure is also skewed toward indirect taxes (mainly general sales tax), which is considerably easier to collect but also more regressive. In 2016, sales tax revenues made up almost 67.8% of total tax revenues generated during that year, and around 46% of total domestic revenues. In contrast, income tax revenues (direct taxes) only accounted for around 22.3% of tax revenues, well below the level of regional peers. For instance, indirect taxes in Tunisia contributed only 35.3% of the total tax revenues generated in 2014 (OECD, 2017).

As domestic resource mobilisation remains limited, the Jordanian government's budget remains largely reliant on foreign aid. The flow of foreign aid to Jordan has fluctuated widely in the past decade; aid levels fell sharply from around JD 1,215 million in 2011 (5.9% of GDP) to around JD 327 million in 2012 (1.5% of GDP), affecting public finances in 2012, which contributed to a near crisis during that year. It is worth noting that foreign aid in 2011 was particularly high due to the significant amount of aid Jordan received from Gulf states in order to assist the country in dealing with the Arab Spring-inspired protests (Yom, 2012). Given that the Syrian crisis deteriorated dramatically the following year, the level of aid received by Jordan was reduced significantly as donor states were more preoccupied with dealing with the then-nascent refugee crisis. However, foreign aid inflows continued rising after Jordan started its programme with the IMF, which enabled the country to receive an increased level of bilateral aid following the commitments of the international community made at the London and Brussels Conferences in February 2016 and April 2017, respectively. In 2017, total foreign aid committed to Jordan (excluding support to refugees) reached about USD2.9 billion, including concessional financing of USD 1.08 billion mostly as budget support.

In addition to limited revenue raising capacity, increased public spending has created further budget pressures. In 2011, the government resorted to additional spending to face a number of growing domestic challenges. As Jordanians took to the streets to protest chronic unemployment and endemic corruption during the onset on the Arab Spring, the Jordanian authorities increased civil servants' salaries to avert potential social unrest. This, in addition to the substantial subsidies that the government provided at the time (such as fuel and electricity subsidies), placed a major burden on public finances.

External shocks have further taken a toll on public finances. One of the most significant exogenous factors has been an energy crisis. The disruptions in Egypt's gas supply to Jordan meant that the government had to purchase more expensive fuels for its electricity generation. In order not transfer the spike in costs onto consumers, the government, through the National Electric Power Company, assumed the surge in expenses, represented by losses incurred by NEPCO.

Figure 16. NEPCO Annual Losses

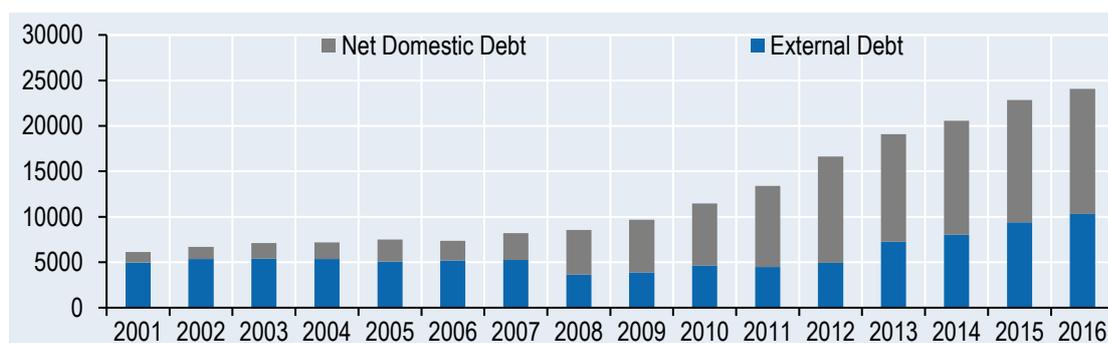


Source: NEPCO annual report

Furthermore, the above mentioned refugee crisis has put pressure on the budget through an increase in demand for basic services and infrastructure. The economic impact of the crisis is estimated to have cost 3% to 5% of GDP. A recent ministerial statement indicated that incremental costs dealing with the Syrian refugee crisis are costing 20% of domestic revenues annually (Al-Ghad, 2017).

As a result of the above domestic issues and external shocks the debt stock has experienced a rapid increase. While Jordan's net domestic debt began to grow following the global financial crisis of 2008, debt grew exponentially following the outbreak of the Arab uprisings and the subsequent Syrian crisis in 2011. The immediate post-2008 period made it harder for Jordan to access foreign borrowing, which prompted the country to depend primarily on more expensive domestic debt with shorter maturity. As Jordan began to feel the shock of external factors, such as the disruption of gas flows from Egypt or the advent of the refugee crisis, interest payments more than doubled from around JD 430 million in 2011 to JD 926 million in 2014.

Figure 17. Government Borrowing



Source: Ministry of Finance

Reform efforts

Fiscal consolidation has been at the centre of the government's reform efforts since 2012. Since energy subsidies were a main driver behind the increased level of borrowing in 2011 and 2012, the first step that the government took towards fiscal consolidation was to eliminate most of the costly and wasteful energy subsidies, replacing them by a cash transfer scheme for the poorest households. Jordan's subsidy reform was considered a successful process by international partners. The government instituted a number of other measures primarily aimed at boosting revenues, both tax and non-tax. The government also began to contain the public wage bill, focusing in particular on the

salaries of top-ranking civil servants, deducting 10% off any sum above JD 2,000 of civil servants' monthly salaries, and setting a cap of JD 3,500 on all public sector salaries (Jordan Times, 2017).

By the end of 2012, Jordan resorted to the IMF for needed foreign reserve liquidity and support for a comprehensive reform programme focused on fiscal sustainability. Jordan embarked on a 3-year economic reform programme with the support of the IMF under a Stand-By Agreement (SBA) in an amount of approximately USD 2 billion. The main goal of the programme was to achieve fiscal stability and mobilise additional external financing, lowering borrowing costs and reducing the dependence on more expensive domestic borrowing. The programme supported a comprehensive reform agenda focusing in particular on fiscal and energy policies aimed at stabilising the budget. For instance, the government increased electricity tariffs and began the import of Liquefied Natural Gas (LNG) which allowed a shift in electricity generation from fuel oils and diesel to LNG in mid-2015, allowing the NEPCO to maintain a positive balance. A new mechanism expected to shield NEPCO's operating balance from volatile oil prices, the 'Automatic Electricity Tariff Adjustment Mechanism', was adopted. Regarding water resources, the government adopted the 'Action Plan to Reduce Water Sector Loss' in 2013 which aimed at increasing efficiency gains and shifting to renewable energy. However, the aforementioned surge in electricity tariffs as well as the increase in demand for water resources due to the refugee crisis hampered the application of the plan, and the Water Authority of Jordan continued to suffer losses (International Monetary Fund, 2017). The government gradually eliminated electricity subsidies in 2013, 2014, and 2015 which, along with the recent drop in oil prices, helped bring NEPCO back to profitability and eliminated this leakage from the budget.

Partial tax reforms have also tried to broaden the tax base and increase tax collection. In 2015, the government also introduced a new income tax law to boost domestic revenues, which raised withholding taxes and raised income taxes in certain sectors, namely the banking sector and partly-owned government entities (Dabit, 2015). While the law was successfully passed, its results fell below expectations, with some observers noting that it exempts over 97% of the population (Fanek, 2017). This prompted the government to work on introducing a new income tax law aimed at combating tax evasion and improving tax collection mechanisms, which is yet to be announced and adopted. There were a number of other measures introduced by the government during the course of the programme, such as increasing a number of different fees and special taxes (International Monetary Fund, 2015).

The government continues to make progress with the implementation of its fiscal consolidation agenda with renewed support from the IMF under the 'Extended Fund Facility', which focuses on a gradual and steady consolidation process while stimulating inclusive growth. The three-year extended agreement was initiated in 2016 with a financial envelope of around USD 723 million. The government has since then continued with the pace of reform, with the most recent reform being the elimination of sales tax exemptions and customs exemptions on a large number of goods and services. Despite some promising results, IMF monitoring has identified some delays in the timing of the implementation of certain business environment reforms adopted under the Structural Reform component of the EFF, as well as regional political and security developments which continue to hinder investors' confidence. The objective of lowering public debt to 88.8% of the GDP (from around 95% as of end-2016) was postponed to 2022, as opposed to the original 2021 timeframe. The programme is also expected to introduce measures that address tax evasion, and reduce Jordan's dependence on foreign aid (International Monetary Fund, 2016).

In 2017, the government adopted a medium term debt strategy (2017-2021) that provides general directions for the government's borrowing approach in the years to come. The strategy calls for a continued reliance on external sources of financing, especially in USD, in order to further reduce the reliance domestic debt. The strategy also incorporates Islamic Sukuk, which are Islamic financial

certificates (similar to bonds in non-Islamic finance) compliant with the Sharia, into the government's borrowing strategy. Nonetheless, the 7-page document remains too high-level and does not provide enough analysis to support the directions identified in the strategy. Surprisingly, the Ministry of Finance's 2017 Medium-term debt management strategy targets a gross debt of 81.7% of GDP in 2021, whereas the IMF programme and the Jordan Economic Growth Plan 2018-2022 both target 77% of GDP by 2021. This inconsistency raises doubts on the effectiveness of government's debt management efforts.

Key priorities

Jordan is confronted with the dual challenge of increasing growth levels and continuing making progress to reduce its debt burden while strengthening its resilience and reducing reliance on support from development partners. A steady and growth-friendly fiscal consolidation strategy should be pursued with the support of the international community. The priorities in this regard are:

- **Implementing a carefully planned and detailed debt management strategy.** While the Ministry of Finance prepared a medium term debt strategy, a more thorough analysis is needed. Given Jordan's continued exposure of external shocks, the strategy should contain a more analytical and multidimensional risk assessment of different scenarios. The strategy should also contain contingency plans in case a future external shock affects the budget.
- **Undertaking a comprehensive reform of the tax system to enhance domestic resource mobilisation.** The current tax framework is overly skewed towards indirect taxes, which are considered to be regressive in nature. Tax avoidance and evasion should also be tackled. Therefore, authorities may reform the tax framework in a way that makes evasion difficult and risky, and to expand the tax base and increase the reliance on direct taxes (more progressive) as a main source of tax revenue. The adoption of the new Income Tax Law should be coupled with greater efforts aimed at strengthening the efficiency of tax administration.
- **Improving the efficiency of public spending.** Greater attention to public financial management systems is needed, including through the implementation of the new PFM strategy (building on ongoing support from the European Union) and the development of a medium-term expenditure framework (METF). The government should evaluate undertaking a thorough evaluation of public expenditure analysing both the efficiency of different spending categories and the quality of public investment. This could be done through a functional review of public expenditure, the development of robust cost-benefit analysis mechanisms and the establishment of a modern Public Investment Management framework. Finally, the public procurement law could be updated to ensure value-for-money and alignment with international best practices.

D. Enhancing employment and labour market participation

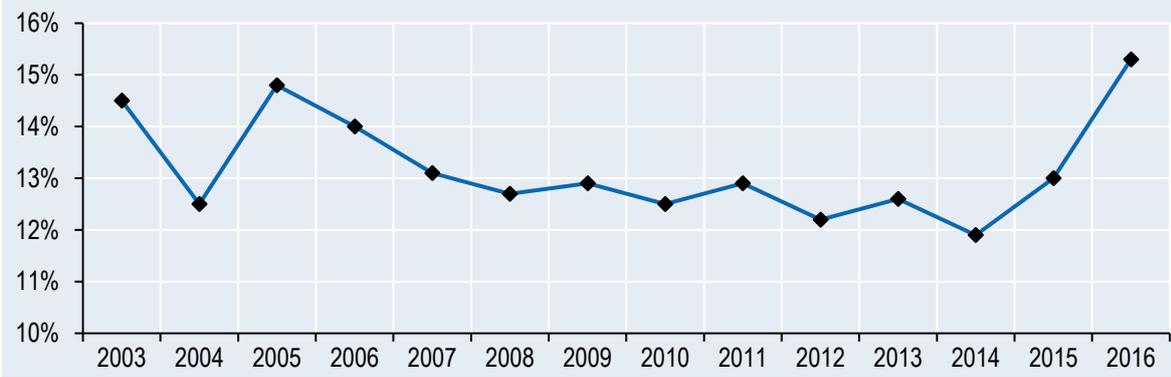
Current situation

Creating quality jobs and reversing the rise in unemployment is a major development challenge for Jordan. Unemployment has increased steadily over the past three years from 11.9% in 2014 to 15.3% in 2016. Following the adoption of an improved methodology by the Department of Statistics,

unemployment was estimated to have reached 18.3% in 2017. Women unemployment stands out, having climbed from 20.7% in 2013 to 24.1% in 2016 and 31.3% in 2017 under the new methodology.

Slower economic growth rates coupled with the arrival on the labour market of the generation of the “demographic dividend”, hinders the ability of the Jordanian economy to generate enough jobs for new entrants in the labour market.

Figure 18. Unemployment rate



Source: Department of Statistics (DOS).

The labour force participation rate is very low in comparison to benchmarking countries. In 2016, only 34.8% of working-age Jordanians were active in the labour market, either employed or looking for work. This low rate has been driven by a historically low female labour force participation rate, which was only 13% in 2016, one of the lowest levels worldwide.

Jordan also suffers from the presence of a large informal sector. While accurate and periodic information on informality in Jordan is scarce, a comprehensive study was undertaken recently suggesting that 44% of total employment in Jordan is informal, revealing a large and increasing rate of informal employment (Ministry of Planning and International Cooperation et. al., 2012).

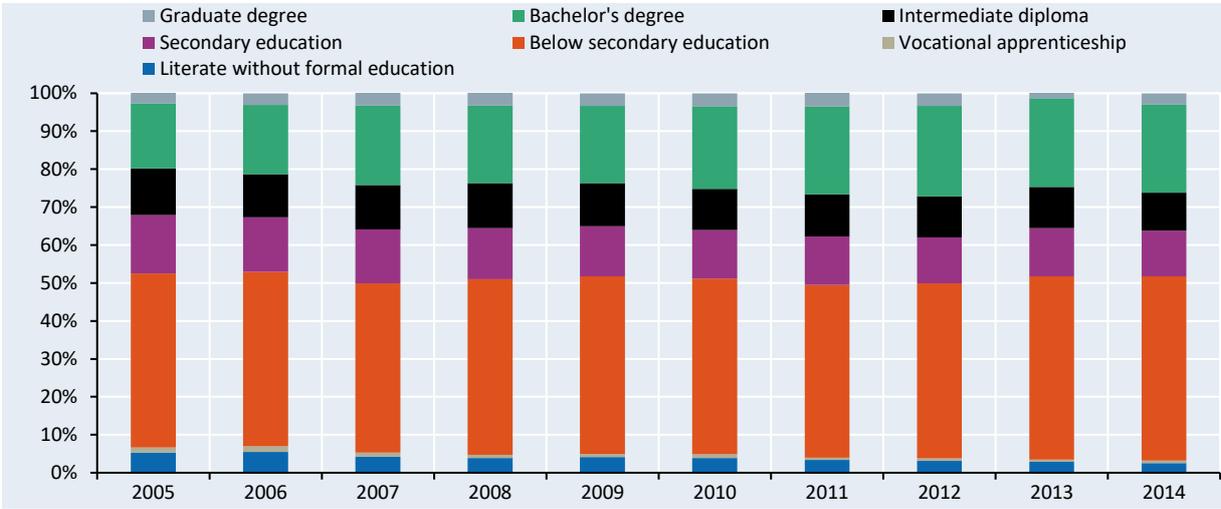
Skills mismatches and job quality also constitute important challenges. This is illustrated by the high rate of unemployment among university graduates, which is about 21%. University graduates is the most affected group by unemployment. Furthermore, large part of available jobs have poor working conditions and are poorly paid which make them unattractive to a large segment of Jordanian workers, especially for university graduates This has reduced incentives for the population to invest in education and skills development, maintaining a low skilled workforce, where the majority of workers has a level of educational attainment lower than secondary education (Department of Statistics, 2016).

Low skilled positions tend to be less attractive for Jordanian workers and vacancies are mostly filled by migrant workers (International Labour Organization, 2017). Although precise numbers are not available, estimates point towards 1.4 million non-Jordanians working legally or illegally in the country, almost the same number of Jordanian workers. Some sectors (e.g. agriculture) are dominated by foreign labourers, while others (e.g. engineering) are restricted only to Jordanians.

Enrolment in vocational training and education in Jordan remains very low despite various efforts to reform the sector. Adequate implementation of the National Strategy for Human Resource Development 2016-2025 should contribute to improving this situation. In 2013, the share of students enrolled in Technical and Vocational Education (TVET) reached 10.3% of the total number of same level students enrolled in the education system (vocational training, secondary education, technical education, and undergraduate education) (Higher Population Council, 2016). According to the

Department of Statistics, only 0.7% of all employed Jordanians in 2014 had a vocational educational or training background, nearly half compared to 1.5% in 2006.

Figure 19. Employed Jordanians According to Education Level (2005-2014)



Source: AL Manar Human Resources Indicators Database, based on DOS

Moreover, in a context of fiscal consolidation, the state, a traditionally large employer, has frozen public sector hiring, impacting labour demand. Historically, many Jordanians have long opted for working in the public sector; as such jobs provide decent incomes and job stability. The private sector’s lack of job creation capacity given its limited dynamism, has also contributed to this bias in favour of public sector employment.

A significant effort has been made to provide employment opportunities for refugees, while trying not to crowd out employment by Jordanians. As mentioned above, since the London Conference in February 2016 and the associated 'Jordan Compact', Jordan has pledged to integrate 200,000 Syrian refugees in the labour market. Since the adoption of the 'Jordan Compact', over 104,000 work permits have been issued, mainly in the agriculture and construction sectors. Although considerable progress has been made in this regard, critical sectors and self-employment remain closed to refugees and the refugees’ perspectives were not integrated in the design of the framework, which has made progress slow (Overseas Development Institute, 2018).

Reform efforts

The National Employment Strategy (2011-2020) was a major government initiative aimed at addressing unemployment. Drafted in 2009, the Strategy outlines a three-pronged approach to increasing employment: (i) making jobs more desirable for Jordanians, (ii) lessen the economy's dependence on migrant workers, and (iii) preparing Jordanians for available jobs (Ministry of Labour, 2010).

The strategy’s three interlinked goals aim at enhancing the employability of Jordanians, especially in the tradable sector. Despite the great effort and timeliness in preparing the strategy, implementation lagged behind due to institutional constraints and the overall context of the Jordanian labour marker has significantly changed since then. In 2015, the Ministry of Labour updated the strategy to better take into account those changes, including demographic dynamics and the Syrian crisis. (Namrouqa, 2015).

The Jordan National Employment-Technical and Vocational Education and Training (E-TVET) Strategy 2014-2020 was adopted to boost TVET occupations among Jordanians. The strategy identified five main strategic directions for further work including governance, relevance of education and training for employability, inclusiveness of the TVET system, especially for women and people with disability, performance measurement, and sustainable and effective funding. The strategy acknowledged that previous efforts to reform the sector had not succeeded, mainly due to a lack of coordination between different stakeholders in the sector as well as a weak representation by the private sector in the TVET architecture (National E-TVET Council, 2014).

More recently, the National Strategy for Human Resource Development (NHRD) 2016-2025 was developed in response to the King's call for a clear framework to govern all sectors concerned with education and skills development. The National Strategy offers a holistic approach at improving the performance of the Jordanian education sector. The strategy focuses on early childhood, elementary education, higher education, technical education and vocational training with the purpose of achieving a qualitative leap in human resources (National Committee on Human Resource Development, 2016).

The government has committed to implementing this strategy and has already undertaken key and bold steps to that end. For instance, all across the country, kindergarten classrooms have been modernised, new primary and secondary schools have been built, teachers have received further training as part of the Queen Rania Teacher Academy (QRTA), and schoolchildren have benefitted from nutrition programmes and summer programmes to become more engaged as citizens (Jordan Times, 2018).

In 2017, the government launched the National Employment Programme to stimulate job creation over the next five years. The Programme consists of two sub-programmes: (1) one focusing on substituting foreign workers with Jordanian workers and reducing the number of foreign workers in targeted sectors by 10 to 25% over a five-year period, and (2) another programme aimed at generating new jobs exclusively for Jordanians. The programme aims at empowering Jordanians to work in key sectors of the economy (tourism, agriculture, industry, construction, services, etc.). Alongside this, the programme aims to train and qualify Jordanians through the TVET sector, and provide funding for self-employment.

The government's labour policy is currently shifting towards self-employment as a vehicle to address rising unemployment. New labour policies have been designed to extend small credit to those who are unemployed and seeking self-employment. In 2016, the government launched a self-employment programme through allocating JD 25 million to the Development and Employment Fund (DEF) to provide loans with advantageous terms for self-employment projects. In parallel, the government launched promotional campaigns in the governorates explaining and promoting the concept of self-employment to the public. However, these entrepreneurship programmes would require greater attention to project development.

A set of regulatory instruments has been put in place to favour access to employment by Jordanian citizens. For example, there are professions and occupations reserved to Jordanian workers. In other sectors, the government established quotas for hiring Jordanians; for example, a minimum of 50% of employment in construction must be of Jordanians. This restrictive policy has negative implications for migrants, refugees, and host communities. Deprived from finding employment legally, refugees are forced to find jobs in the informal sector and for lower wages. This tends to contribute to an increase in the informal sector and leads to downward pressures on wages. The World Bank recommends the removal of barriers to employment that refugees face, in order to allow them to become self-reliant and contribute to host communities (Schuettler, 2017).

Key priorities

In addition to broader measures to increase economic diversification and growth, Jordan needs to step up its efforts to promote the employability of its population and promote job creation, in particular among women and youth. The following priorities could be considered:

- **Breaking the silos in the labour market and promoting flexibility.** Currently hiring Jordanian workers costs significantly more than hiring non-Jordanian. Levelling the playing field through, for example, the gradual unification of the minimum wage or active employment promotion policies among Jordanian citizens could contribute to reducing this. Meanwhile, the incentives to hire Jordanians should be rationalised to avoid the creation of market distortions.
- **Developing targeted policies to better include women and youth in the labour market.** Policies, such as the establishment of sanctions for harassment in the work place or the development of affordable childcare, could contribute to providing women safer working environments and reducing the barriers to access the labour market. As far as young people are concerned, policies reducing the initial cost of hiring and social security contributions could incentivise firms to higher younger workers. These types of policies would have to phase out over the term of the contract and policy tailoring will be essential to avoid deadweight effects.
- **Evaluating options to lower employment costs.** This could include a temporary or permanent adjustment of social security contributions which are currently at high levels, 21.75%, and represent a significant barrier to formal employment (International Monetary Fund, 2017). Lowering these contributions, in particular for women and youth, is likely to have a positive impact on the economy as it will create employment opportunities and encourage formalisation.
- **Prioritise the implementation of the different strategies seeking to upskill the labour force and reform the education system, especially the TVET sector.** This can be done through ensuring an effective and speedy implementation of the National Human Resource Development Strategy and putting in place a monitoring mechanism to follow up on progress. Reforms of the TVET system should be prioritised.
- **Enhancing decent work principles across all sectors in Jordan.** In spite of Jordan's adherence to a number of ILO instruments, decent work is not a reality for many workers in Jordan (Prieto, 2017). In addition to a continued focus on illegal employment, labour inspection services should also focus on decent work conditions.
- **Ensuring that the results of the government's recent National Employment Programme are sustained well beyond the end of the programme by formulating a phase-out strategy.** The government should introduce a monitoring and evaluation framework to recalibrate this policy along the way as well as to try to ensure that the Jordanians employed under this programme do not lose their jobs after the incentive scheme is over. A gradual phasing out should be explored.
- **Ensure the policy coherence of mechanisms seeking to reduce unemployment amongst Jordanians and those seeking to better integrate non-Jordanians into the labour market.** The adoption of a clear action plan to increase labour participation and employment could be considered, in particular focusing on women and youth.

Pillar II. Enhancing the transparency and efficiency of public institutions and processes

Public sector reform aimed at improving effectiveness and efficiency has been part of the policy agenda of the Jordanian government since the 1990s. While progress has been slow, significant steps have been taken towards that end. Most recently, Jordan has been striving to enhance the rule of law, promote transparency in public policy making in the Kingdom, and fight corruption. Concrete steps have been taken on the legislative and institutional levels for this purpose. Finally, the promotion of digital government is one of the flagship reforms to improve governance, reduce corruption, improve public service provision and enhance accountability.

This pillar discusses two interlinked issues identified as being key for Jordan in its path to a more transparent and efficient public sector. These issues are:

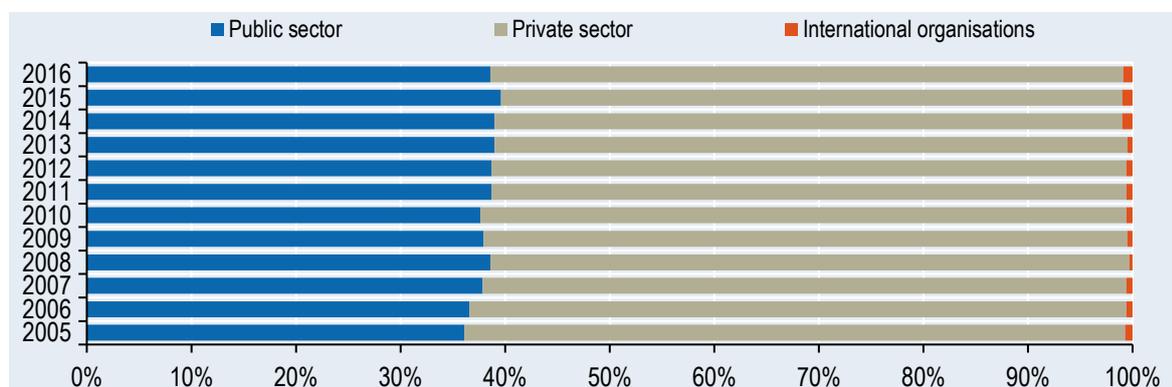
- A. **Reforming the public sector for greater efficiency and effectiveness.**
- B. **Enhancing rule of law, transparency and the fight against corruption**

A. Public sector efficiency and reform

Current situation

Jordan has been struggling to implement effective public sector reforms aimed at creating a lighter and more flexible public sector that is able to provide high quality services. The Jordan 2025 Vision acknowledges these shortcomings, and one of its key objectives is to bring about a more efficient, effective and responsive state that can empower citizens in the decision making process (OECD, 2017). Jordan's public sector is considered to be quite large, employing more than 38% of the Jordanian labour force, well above benchmarking countries. The total number of public sector employees grew gradually over the past decade, although this trend has been less pronounced over the past five years. Within the public service, the military is by far the biggest employer as it accounts for 55% of the overall public sector payroll.

Figure 20. Employment by main sector

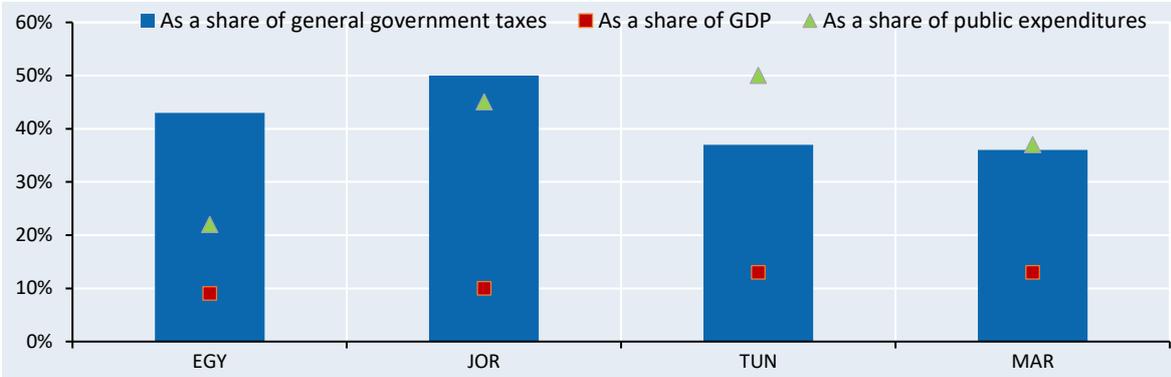


Source: Department of Statistics (DOS).

As a result of large public service employment, Jordan's public wage bill is significantly higher than that of its peers. Increases in public wages since 2011 and early retirement schemes have led the public wage bill to increase proportionally faster than public sector employment. Despite this increase, the

share of overall public sector wages has slightly decreased as a share of GDP (Al Ghad, 2017). Public sector wages amounted to around 10% of the GDP in 2014. This represents approximately 50% of general government tax revenues and 45% of total expenditures. These numbers are high when compared to other countries in the region, such as Egypt, whose wage bill accounted to about 20% of public expenditure and 40% of general government taxes.

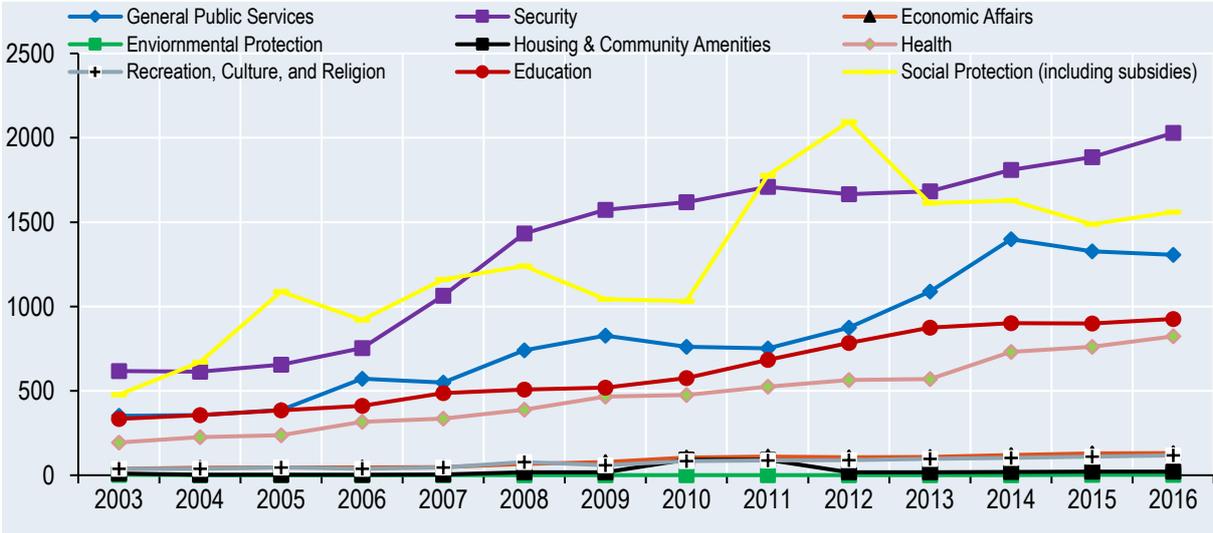
Figure 21. Wage Bill



Source: IMF.

The consistent increase in the number of public sector employees and in the wage bill have distorted Jordan's budget. Budget allocations to the security sector and the general public services sector grew at the highest rate over the past decade, while allocations to the social protection sector experienced the most fluctuations and allocations to other sectors grew modestly. The majority of current expenditures by the 'general public services sector' and the 'security sector' are spent in the form of wages and pensions, reducing the fiscal space for capital expenditure.

Figure 22. Sectoral Distribution of General Budget



Source: Department of Statistics (DOS)

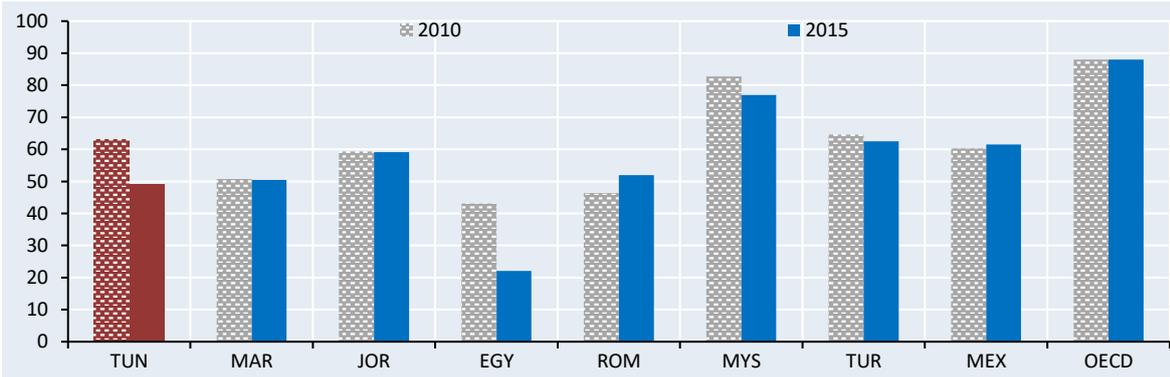
The largest growth in public expenditure can be seen in the security sector (defence and public order and safety sectors) and in the General Public Services sector. Between 2006 and 2009, military expenditures more than doubled, going from USD 934.42 million to USD 1,901.95 million, fluctuating over the next years to reach USD 1,877.18 million in 2017 (Ministry of Finance). While this evolution can be explained by the political dynamics in the region, this significant increase over the past decade

has limited public funds available for other vital sectors. The share of funds allocated to the security sector grew from 23% of total current expenditures in 2005 to 34.4% in 2009, before dropping down to 29.3% in 2016. In absolute terms, funds allocated for military current expenditure almost tripled over the past decade.

Funds allocated to general public services increased substantially beginning in 2012, growing by almost 60% from 2012 to 2014. This was mainly due to the high growth in the government's energy bill, as well as additional costs incurred from hosting a large number of refugees. Funds allocated to the education and health sectors grew at a modest rate, with a higher rate of increase beginning in 2012, when the influx of Syrian refugees began.

These constraints on public finances leave the government with limited fiscal space to undertake investment in priority sectors and have an impact on overall public sector efficiency and public service delivery. According to the Government Effectiveness Index of the World Governance Indicators, Jordan's government effectiveness declined sharply in 2012 and 2013 during the time when Jordan was experiencing severe budget imbalances. Government effectiveness rose back up again in 2014 and 2015 in parallel with the implementation of governance reforms increased the government's effectiveness. Regionally, Jordan ranks better than most its peers in government effectiveness.

Figure 23. Worldwide Governance Indicator for Government Effectiveness



Source: World Bank Global Governance Indicator

Jordan's bureaucracy suffers from overlapping mandates and the duplication of efforts of various public sector bodies. The structure of the government has become cumbersome with around 145 government institutions with 17 different typologies, which inevitably leads to an overlap in mandates and a decline in overall efficiency (USAID, 2010). Reporting and oversight mechanisms were also found to be complex and not systematic.

Despite an extensive privatisation process, the Jordanian public sector encompasses a large number of State Owned Enterprises (SOEs) and independent government units. While the government embarked on a large privatisation programme in the late 1990s and 2000s, there still remains a number of SOEs in Jordan, especially in strategic sectors, such as the National Electric Power Company (NEPCO), and the Yarmouk Water Company. These companies benefit from government support through for example the issuing and guaranteeing corporate bonds for NEPCO. There is no preferential treatment provided to SOEs under law, and they undergo an annual audit every year like other government department. Nevertheless, one of the major concerns regarding SOEs has been their hiring and recruitment policies.

Reform efforts

Reforming the public sector has been on authorities' agenda for a large part of Jordan's modern history and economic reform efforts. Successive public reform strategies have been prepared over the past two decades; yet implementation has produced mixed results. Since 2011 however, the government took important steps towards increasing the pace of public sector reform in Jordan.

The authorities have been consistently seeking to put the brakes on the government's growing wage bill. One of the most important measures taken is putting a freeze on public sector hiring, which has controlled the growth of the public sector in Jordan. In fact, after a steady increase, the wage bill as a share of public expenditures started falling beginning in 2013. Another main step forward has been the restructuring of the public sector salary framework. While the direct costs of the restructuring process amounted to around JD 254 million, the restructuring plan aims at reducing the salary gap between employees of independent public sector agencies and employees of ministries and government departments, with the overall goal of lowering the long term growth of salaries. Recent measures enacted under the ongoing economic reform programme should further reduce the growth in the wage bill. Measures include deducting 10% of any sum above JD 2,000 in monthly salaries of civil servants (for the 2018 year), set a cap of JD 3,500 on public sector salaries, and reduce by 10% the wages of the Cabinet Ministers (from June to December 2018).

Furthermore, the Civil Service Bylaw has been continuously amended to improve public sector productivity. The 30 amendments made in 2017 aimed at enhancing values of work, productivity and employees' empowerment. Also in 2017, the Jordan Armed Forces adopted a professional code of conduct for its senior officers, aiming to achieve more transparency, good governance and integrity.

One of the major achievements regarding public sector reform was the 2014 public sector restructuring law. This law aimed at merging certain public institutions together and dissolving others. Prior to this, initiatives and plans towards restructuring were prepared by cabinet in 2010 but implementation was weak. The Restructuring Pillar of the Government Performance Development Programme (2014-2016) proposes restructuring two sectors every two years. The government began the restructuring process with the energy sector, merging 3 independent public institutions under an "Energy and Mineral Resources Commission". This was coupled with the promotion of renewable energy resources (solar energy, waste-to-energy projects etc.) which it is estimated will contribute about 15% of Jordan's energy needs by 2020 (Shadow Governance Intel, 2017). A similar restructuring process was implemented in the investment sector.

In 2016, the Ministry of Public Sector Development launched an implementation plan (2016-2019) for public sector development. The plan is based on 6 pillars including:

- Developing government services and simplifying procedures
- Human resource development
- Government streamlining
- Support policy and decision making process
- Reinforcing a culture of excellence
- Communication and media.

In line with this plan, the government has intensified the drive to promote digital government, pressing ahead with replacing some traditional government services to become offered online. In 2017, the Ministry of Information and Technology announced that it is working towards a completely paperless government by the year 2020. A large number of public institutions have begun delivering some of their services online, including for example the Tax Department and the Social Security Corporation. One of the main institutions carrying out an electronic transformation is the Greater Amman Municipality where, by 2018, e-services will become mandatory. Such a transformation would allow citizens and personnel to make significant savings when it comes to time and money (Mohammad et. al., 2009). **An advanced e-payment system 'E-Fawateer' via the Central Bank has been put in place to serve as the main online payment platform for government services.** In the two and half years following its launch in 2015, payments through the system grew incrementally and exceeded JD 2 billion.

Jordan has the necessary infrastructures to fully transition to an e-government enabling a more efficient provision of public services. Although Internet penetration and mobile subscription rates in Jordan were among the lowest in the region in 2008 (OECD, 2017), both figures now stand ahead of most countries in the region. Estimates show that in 2017, 87.8% of the population were Internet users (Internet World Stats, 2017), and that 95% of Jordanians in 2014 owned a mobile phone (Ghazal, 2014). However, the shift to exclusive online services needs to be accompanied by complementary policies aimed at further reducing the digital divide, particularly in terms of digital skills, as well as to increase communication and outreach efforts.

Regarding SOEs, the overall privatisation process yielded positive results including strengthening Jordan's fiscal position and macroeconomic stability. Privatised firms have also seen considerable gains in performance and productivity benefitting consumers through better services and lower prices in some cases. Moreover, Jordan's experience in privatisation avoided the retrenchments of workers, where privatised companies witnessed only a 2% loss in employment, which was more than offset from new jobs in the privatised sectors. Although the SOEs were considered to be inefficient and squandered public funds, their employees benefitted from training opportunities following privatisation, while redundant staff members were given voluntary early-retirement packages (Mako, 2012).

SOEs still under public control have undergone some reforms. For instance, the Cabinet recently demanded SOEs to bring in more transparency and clarity to their hiring policies. SOEs were also required to prepare balanced score cards and a job description and career ladder for each job opening. The authorities are now working to include all SOEs under its civil service bylaw to bring their recruitment under the scope of the Civil Service Bureau regulations, according to a statement made by the Prime Minister in 2017.

Key priorities

The government needs to deepen and broaden recent efforts in the area of public sector reform with a view to increasing the effectiveness and efficiency of the Jordanian public administration. The following priorities could be given special attention:

- **Keeping up the pace of public sector restructuring reforms putting particular emphasis in implementation of the recent regulations.** These reforms should also include SOEs. The restructuring process needs to continue building on carefully planned mergers and elimination of redundancies in order to avoid any duplication in roles and at the same time, to ensure that there are no gaps in roles and responsibilities. Under future restructuring plans, the government may consider adopting a complementary programme to encourage public sector servants to move to the private sector.
- **Developing a results-based budgeting framework based on outcomes rather than outputs.** This could include a functional approach to allocation of competencies built in the budgeting instruments to reduce overlaps and duplication of tasks in the administration.
- **Conducting a review of the shift in government expenditures over the past decade to identify saving opportunities and re-evaluate policy arbitrages in the allocation of funds.** This review could pave the way for a more strategic analysis on the role that the Jordanian government should play in economic activities.
- **Increasing the availability and publication of government statistics and developing strong ex-ante assessment and ex-post monitoring and evaluation systems for public policy-making.**
- **Redoubling efforts to develop and simplify government services and procedures across all Jordan to eliminate government bureaucracy and red tape.** Improving Government services in the health sector across Jordan should attract specific attention as per the priority actions described in the 3rd OGP plan (2016-2018). A major part of this process is the promotion of continuous innovation in the public sector, with the government's drive towards e-government and the provision of e-services. However, the shift to exclusive online services needs to be implemented in tandem with a well-prepared communication and outreach strategy aimed at creating public awareness. Cost charged for e-services should be adjusted in order to avoid additional costs on citizens, the private sector, and investors.
- **Incorporating all government sectors in public sector reform strategies and plans.** While all past and current public sector reform programmes have focused exclusively on the civil sector, the high and increasing share in defence spending warrants greater attention to spending effectiveness and efficiency in this sector.

B. Enhancing rule of law, transparency and the fight against corruption

Current situation

Perception of corruption is high in Jordan and is increasing particularly in terms of petty corruption and bribe requests. According to Transparency International's Corruption Perception Index, Jordan

attained a score of 48 over 100 and ranked 59th globally in corruption perception in 2017. Although this score leaves ample room for improvement, Jordan fares relatively well compared to neighbouring Arab states, such as Iraq (169th), Lebanon (143rd), Egypt (117th) and Kuwait (85th). Only the Gulf states of Saudi Arabia (57th), Qatar (29th) and the UAE (21st) rank better (Transparency International, 2018). However, Jordan’s 2017 score represents a deterioration compared with 2015 when the country scored 53 thereby ranking 45th globally. Transparency International’s findings suggest that there has been an increase in 'petty corruption' among some public servants, suggesting that corruption is no longer limited to those with influence and power. Moreover, major shortcomings were identified by investors, who cited perceptions of increasing challenges and 'requests for bribes'. Transparency International also explains that many corruption cases were investigated, but no prosecutions have taken place yet. As there has not been a major corruption case since 2011 brought to the public domain, it is possible that the increasing perception of corruption among Jordanians is due to the fact that it is believed that instances of corruption, especially serious ones, are simply not being exposed.

Table 2. Corruption Perceptions Index (CPI) (100: very clean; 0: highly corrupt)

Country	2013 Score	2014 Score	2015 Score	2016 Score	2017 Score
Malaysia	50	52	50	49	47
Romania	43	43	46	48	48
Jordan	45	49	53	48	48
Tunisia	41	40	38	41	42
Turkey	50	45	42	41	40
Morocco	37	39	36	37	40
Egypt	32	37	36	34	32
Mexico	34	35	35	30	29

Source: Transparency International, Corruption Perceptions Index 2012-2017.

While Jordan ranks relatively well in corruption perception compared to peer countries, there is room to step up anti-corruption efforts. A study conducted by the Jordan Transparency Centre on the Corruption Perception Index for the years 2001-2014 revealed lingering shortcomings. The report outlined the main reasons behind the prevalence of corruption in Jordan (Jordan Transparency Center, 2014). These are highlighted below:

- Poor performance of official anti-corruption entities due to their lack of administrative and financial independence and the various conflicts of jurisdiction between these institutions.
- Restricted access to information, discouraging citizen engagement in politics
- Weak regulatory legislation limiting the ability to prosecute suspects for stolen assets.
- Poor oversight by parliament of government's functions.
- No real investigative journalism of corruption issues.
- Public officials enjoying immunity (from prosecution) and shortcomings in applying the laws equally to all citizens thus rendering legislation ineffective.

With regards to transparency, Jordan took important steps to enhance the openness of its public sector. Jordan joined the Open Government Partnership in August 2011. At the time, Jordan was the only Arab country meeting the criteria required to take part in this Partnership; since then Morocco and Tunisia have also joined. Successive action plans developed under the Open Government Partnership (OGP) enabled the government to enact measures and legislation that support a more open government. Jordan performs strongly on budget openness. The Kingdom ranked first among Arab countries in the Open Budget Index scoring 63 out of 100 in 2017, well above the global average

of 43. A recent OECD review noted that while Jordan remains a highly centralised state, the Decentralisation Law and the Municipality Law passed in 2015 initiated a process that seeks to strengthen the role of civil society organisations, citizens and other non-governmental stakeholders at the subnational level (e.g. governorates, municipalities, districts) in the national development process and, ultimately, move towards a more decentralised structure (OECD, 2017).

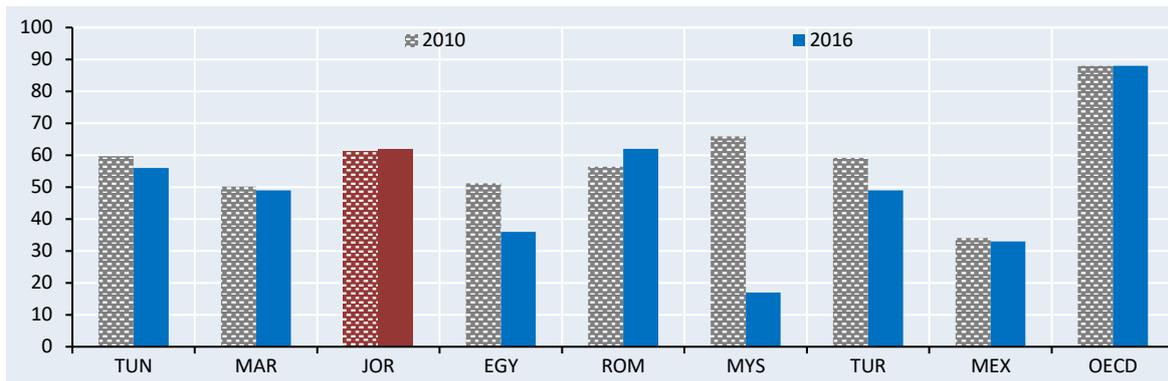
Despite the progress achieved in this area, there is still room for improving transparency. For example, there is still a lack of transparency in some areas where large expenditure items do not show a breakdown of allocations (e.g. military expenditures, miscellaneous expenditures). While Jordan ranks the best among Arab Countries in budget openness, the index noted that Jordan provides the public with 'limited' budget information, suggesting there is scope for further improvement.

Jordan performs poorly in data openness, ranking 88th out of 122 countries in the 2015 Global Open Data Index. This poor performance is explained by the weaknesses identified in the 'legislation', 'government budget', and 'government spending' categories, in which Jordan ranked 117th, 112th, and 99th respectively. Furthermore, Jordan scored 0.46, ranking 76th among 113 countries in the Open Government Index, a relatively low score compared with benchmarking countries like Tunisia, ranked 59th in the index.

The lack of transparency in government policy making is still a major challenge in this area. While some platforms that promote transparency have been developed in the Kingdom, some policies and decisions are taken without enough transparency and prior consultation with stakeholders. According to the Global Competitiveness Index, Jordan's ranking in 'transparency of government policy making' worsened to 68th globally in 2016.

Mindful that a strong rule of law is the cornerstone for enhanced transparency and anti-corruption efforts, the Jordanian authorities have paid increasing attention to judicial system reform over the past five years. This drive was further reinforced by His Majesty the King's discussion paper released in 2016, calling for a stronger rule of law in Jordan and the formation of the Royal Committee for Developing the Judiciary and Enhancing the Rule of Law. Jordan performs well relative to benchmarking countries in the Rule of Law indicator of the World Bank's World Governance Indicators (WGI). The rule of law indicator captures perceptions of the extent to which agents have confidence in and abide by the rules of society, especially in terms of contract enforcement, property rights, the police and the court, as well as the likelihood of crime and violence.

Figure 24: Worldwide Governance Indicator for the Rule of Law (2010-2016)



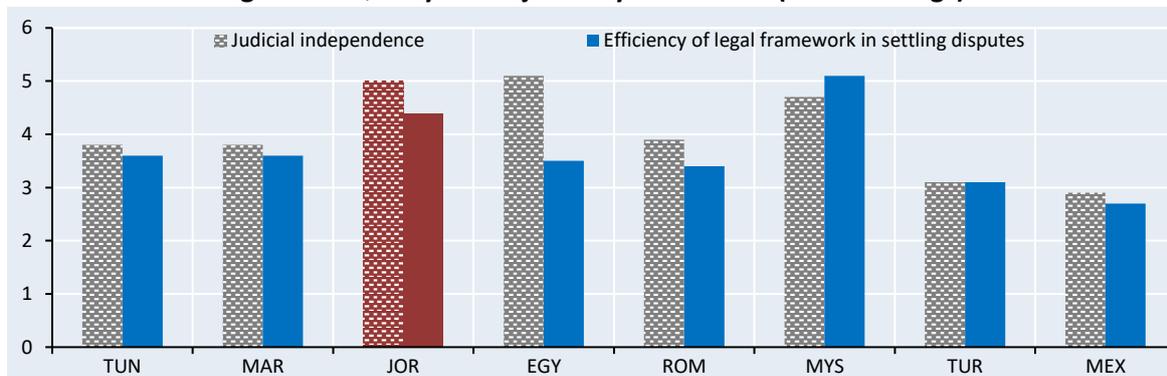
Notes : (1) Rule of law reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence; (2) It measures percentile rank among all countries (from 0 to 100).

Source: The Worldwide Governance Indicators (WGI).

Furthermore, Jordan ranked second regionally and 42nd internationally on the World Justice Project's Rule of Law Index 2016. The report measures how the rule of law is experienced by the general public and looks at a number of factors including constraints on government powers, open government, absence of government, fundamental rights, order and security, regulatory enforcement, civil justice and criminal justice.

The independence of the judiciary in Jordan is among the highest in the region. Jordan improved its rank in the Judicial Independence indicator which is part of the Global Competitiveness Index. The Kingdom was ranked 34th globally in 2016 in judicial independence. Jordan also scored 34th on the efficiency of its legal framework in settling disputes.

Figure 25: Quality of the judiciary framework (2016 rankings)



Note: Judicial independence (1 = not independent at all; 7 = entirely independent); Efficiency of the legal framework in settling disputes (1 = extremely inefficient; 7 = extremely efficient).

Source: Global Competitiveness Report - World Economic Forum.

Reform efforts

Jordan has made considerable progress over the past decade in enhancing the rule of law, promoting public sector transparency as well as combating corruption. The Jordanian authorities view these issues as being holistic and interrelated as part of a broader effort to promote public integrity.

In 2011, Jordan amended its constitution mainly to restore balance between the legislative and executive branches and to strengthen the independence of the judiciary. In concrete terms, the

amendments sought to empower the Judicial Council, establish a Constitutional Court, improve human rights protections, establish an independent electoral commission, narrow the types of cases that can be brought to the State Security Court, and grant new powers to parliament to refer ministers for criminal prosecution. In order to implement the above, four major laws were approved in 2012 including the Independent Elections Commission Law, the Political Parties Law, the Constitutional Court Law, and the Elections Law.

Jordan also strived to curtail corruption through the adoption of a National Integrity Charter and an associated plan in 2012 to enhance the National Integrity System in Jordan. The King established a Royal Committee for the Follow-up and Evaluation of the National Integrity Charter in 2014, the tasks of which were handed to the newly-established Integrity and Anti-Corruption Commission. Most recently, Jordan launched the National Strategy for Integrity and Anti-Corruption 2017-2025, which broadly aims at creating an honest anti-corruption national environment. The strategy seeks to operationalise the national integrity framework in combating corruption through a focus on increasing awareness in society. The strategy contains a list of projects focusing on preserving the rule of law, combating favouritism, promoting good governance and transparency, and facilitating access to information. Among the many objectives that this strategy seeks to achieve, it aims at: raising awareness of the harms that nepotism and favouritism incur on society, and creating programs to criminalize such behaviours; monitoring sectors of the civil service to uncover corrupt practices and hold accountable those who take part in such practices; entrench values and norms of honest and good conduct in the public sector by issuing manuals, delivering lectures and providing training for behavioural changes; integrating concepts of integrity and anti-corruption in schools, mosques and churches etc.

The institutional landscape of anti-corruption efforts was also strengthened and updated in line with the above developments. Following the adoption of the public sector restructuring law of 2014, the Integrity and Anti-Corruption Commission Law was passed in 2016 to merge two institutions – the Anti-Corruption Commission and the Ombudsman Bureau - into one entity: the Integrity and Anti-Corruption Commission. The Commission is administratively and financially independent, and acts as the main entity responsible for combating corruption across the Kingdom. The new entity has been tasked to ensure the implementation of the national integrity system and the design and implementation of strategies and plans in this field.

Jordan has also made considerable progress towards a more open government. After being a pioneer among Arab countries in joining the Open Government Partnership (OGP) in 2011, the authorities developed successive action plans to move towards a more open government. The government is currently implementing the 3rd OGP plan (2016-2018) which contains a list of commitments geared towards greater transparency, such as enhancing access to information, strengthening accountability through the launching and enhancing of a complaints registration system and follow-up mechanisms, and transparency regarding governmental budgetary matters (Ministry of Planning, 2017). However, one of the hallmarks of the plan are the Decentralization and Municipality Laws approved in 2015, which empowered citizens to have a broader involvement in the identification of development priorities, thus improving public participation in policymaking (OECD, 2017). In 2017, local elections under the new laws were held for the first time in Jordan, where citizens elected mayors, members of municipal councils, as well as members of governorate councils (Al Emam, 2017). While the laws provide a necessary framework, their implementation will require further support to ensure effective public participation in the needs assessment process as well as to ensure that vertical co-ordination

between the levels of government results in citizen needs being transparently reflected in the national budget.

Jordan also advanced towards greater judicial independence since the 2011 institutional amendments. To continue the pace of judicial reform, the King established the Royal Committee for Developing the Judiciary and Enhancing the Rule of Law. By the beginning of 2017, the committee came up with a number of recommendations aiming to entrench the independence and integrity of the Jordan judiciary and consequently enhance the rule of law. The recommendations came in the form of a 16-bill package presented to parliament in 2017, 13 of which have already been endorsed by Parliament by August 2017.

Key priorities

Jordan should consolidate the progress made in promoting transparency, integrity and the rule of law, building on its strong performance in most of these areas compared to other benchmarking countries. Further efforts should concentrate in the following areas:

- **Continue the implementation of the the 3rd OGP plan (2016-2018),** which identifies the main priorities to achieve greater government openness. The plan contains a list of 10 commitments that broadly focus on the themes of enhancing transparency, increasing public participation in decision making and promoting public service delivery. Commitments include those related to improved accessibility of data and information, strengthening freedom of media, and increasing citizens' say in policymaking through local elections. Although Jordan has made significant strides in all components of the strategy, increasing citizens' say in policymaking will be particularly challenging, as the voter turnout in the 2017 local elections was only 31.7% (Al Emam, 2017). This points to the fact that citizens are either not sufficiently aware of the importance of local elections, or that they do not have much faith in the fact that the new laws have strengthened the policymaking capabilities of locally elected actors. More broadly, and in line with the OECD's Council Recommendation on Open Government, efforts should continue to be made to ensure that stakeholders have opportunities to be informed, consulted and engaged throughout the policy cycle. The Government should also continue the ongoing consultative process to develop the 4th National OGP Action Plan, which is expected to be finalized by end of August 2018
- **Further enhancing the transparency of the general state budget.** While Jordan is considered among the most transparent countries in the MENA region concerning its budget, further efforts will not only allow citizens to be better informed about the way governmental expenses are being made, but will also help policy makers in crafting more effective policies. Better transparency can be achieved through providing a user-friendly detailed breakdown of expenses in budget statements and execution reports across all sectors
- **Continue strengthening the rule of law as a cornerstone for enhanced transparency and anti-corruption efforts.** This requires an increased emphasis in applying the laws equally to all citizens through transparent decision-making and enforcement processes. The 2017 reforms to the judicial sectors have been commended by Human Rights Watch; it is imperative that they are fully implemented and the sector is further reformed in order to step up anti-corruption efforts (Tumen, 2017).

- **Continuing empowering and building the capacity of the Integrity and Anti-Corruption Commission.** Adequate technical, administrative, and financial resources should be dedicated to the Commission to enable it to perform its duties effectively and independently.
- **Ensuring that the National Strategy for Integrity and Anti-Corruption 2017-2025 is fully implemented, including a revision and updating of the public procurement legislation.** The strategy provides steps to take in order to combat corruption in the Jordanian public sector, which is necessary given the fact that an EU-funded report has recently pointed out that gaps and weaknesses in the unified public procurement system and government tenders.

Pillar III: Building an attractive environment for investment and private sector development

The Jordanian private sector needs to become the main driver of investment and growth in the economy. While Jordan's competitiveness has declined over the past period, the authorities are intensifying efforts at creating an enabling environment for investment and private sector development, an area where progress has been uneven despite several reform initiatives. This pillar covers two priorities:

- A. Promoting a sound investment climate and business environment
- B. Boosting innovation as a means to enhance economic competitiveness

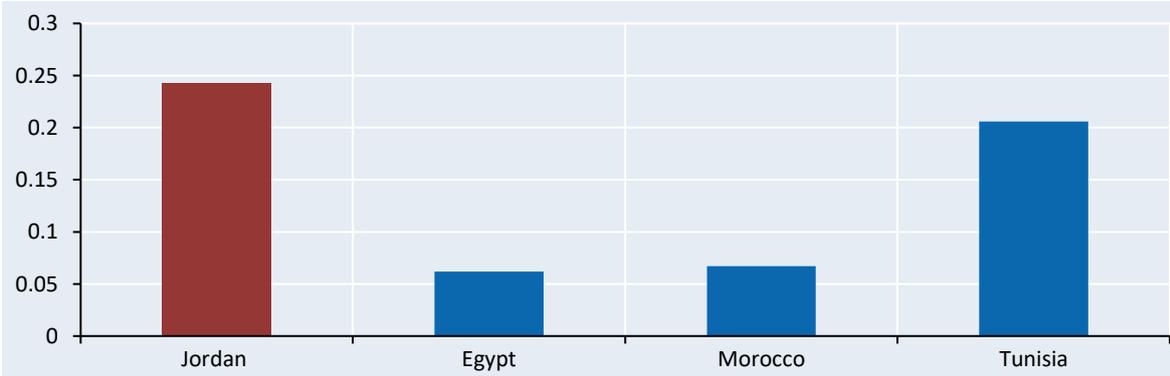
A. Promoting a sound investment climate and business environment

Current Situation

Declining investment

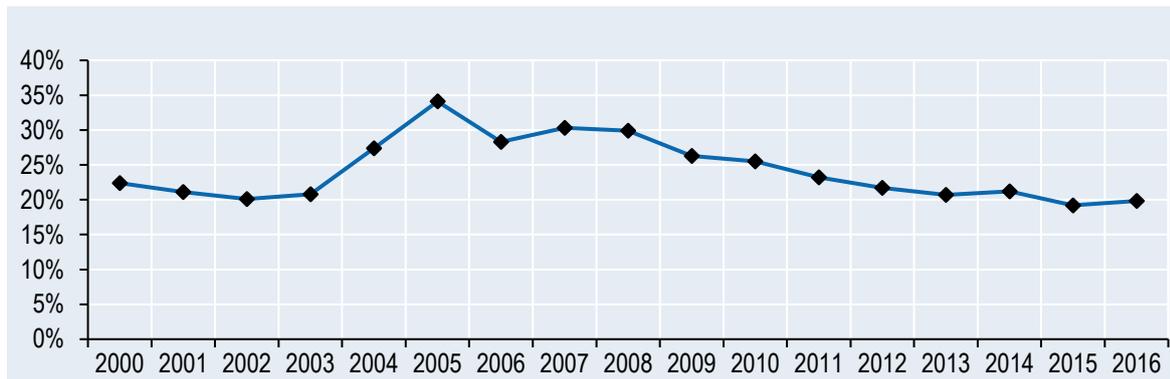
Foreign direct investment (FDI) flows into Jordan have struggled to return to the high levels achieved during the 2000s. According to the Central Bank of Jordan, FDI into Jordan climbed exponentially from 2002 to 2006, growing by around 1,388%. The vast majority of the FDIs of that period were invested in industrial sector (81%), while 13% went to hotels and the tourist industry, 3% in agriculture, 2% in hospitals and the healthcare sector, and 1% in conventions and exhibition centres (Dibie, 2007). FDI growth was driven by the privatisation of a number of state-owned enterprises during this period. Among these privatised SOEs, a large number of them functioned in the mining, telecommunications, tourism and postal sectors (Amman Stock Exchange, undated). Although the amount of FDI began declining in 2006, it remained high until the advent of the global financial crisis 2008. According to IMF data, overall investment levels in Jordan followed a similar trend. After rising from 2000 to 2007, total investments as a share of GDP dropped to a low of 19.2% in 2015, the lowest in over 15 years, whereas they had reached a high of 34.15% in 2005 (Quandl, 2018).

Figure 26. OECD FDI Restrictiveness Index (2016)



Source: OECD

Figure 27. Total Investment (% of GDP)



Source: IMF

This deterioration in investments stemmed from both exogenous and endogenous factors. Regarding exogenous factors, the sharp decline following 2008 was initiated by the global financial and economic crisis at that time, which caused a drop in worldwide FDI levels. The instability and insecurity of the region following the Arab Spring and subsequent events have further reduced the attractiveness of the region for foreign investors.

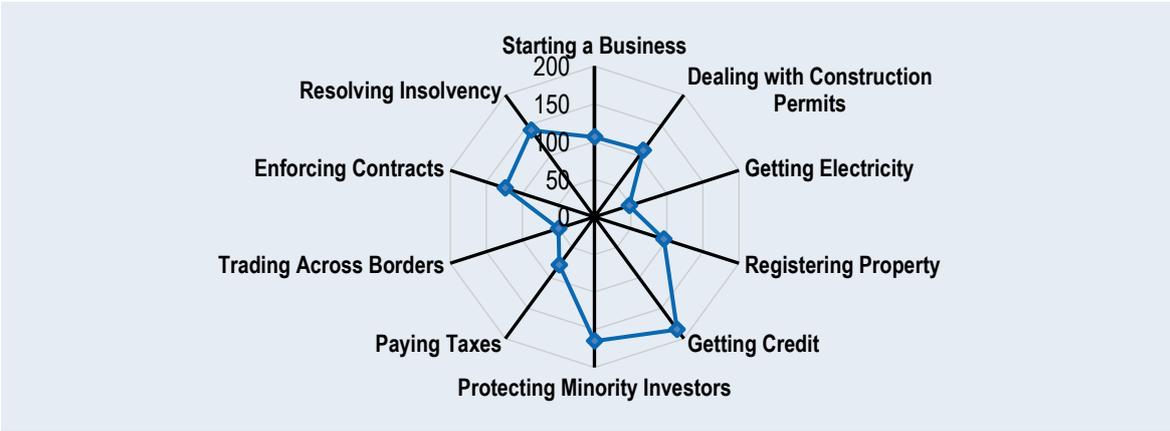
Structural weaknesses in the Jordanian economy and regulatory investment framework have also impacted investment decisions. For instance, income tax laws are issued on average once every three years, which is disorienting for businesses seeking to engage in the Jordanian economy. According to the OECD's Investment Policy Review (2013), the legal investment framework in Jordan is still rather complex with a multitude of laws and regulations, some temporary and overlapping, despite the abrogation of the temporary legislation still in force in 2013. The Jordanian authorities have sought to improve the quality and predictability of business regulation namely in terms of taxation and investment. The main regulatory changes have been the approval of an unified investment law in October 2014, and subsequent bylaws, amongst which Regulation No. 77 of 2016 (governing non-Jordanian investment), which reduced the restrictions to FDI by opening certain sectors to foreign investment and removing the minimum investment requirement of JD 50 000 for foreign investors in a limited liability in Jordan (Al Nabih & Habaybeh, 2017). Despite this progress, regulation remains patchy and often lacks predictability (Fanek, 2017).

Struggling business environment

Jordan's performance in creating a friendly and accommodating business environment has been weak. Jordan's Doing Business Distance-to-Frontier score increased from 56.75 in 2010 to 58.4 in 2014, before declining to 57.02 in 2016 and 57.3 in 2017. However, 2018 showed signs of improvement with a score reaching 60.58 in 2018. In relative terms, Jordan's ranking remains pretty low, oscillating between position 105 and 118 between 2012 and 2017. It currently ranks 103rd. Amongst the weakest performance points are: getting credit (159th), protecting minority investors (146th), resolving insolvency (146th), enforcing contracts (118th), dealing with construction permits (110) and starting a business (105th). These scores reflect shortcomings in the design of economic legislation, the efficiency of government administration and the excessive amount of red tape. Compared to other countries of the region, the Kingdom still performs slightly better than the average of the MENA region (56.72). Despite the approval and implementation of the 2014 unified investment law, Jordan has maintained a fairly high level of regulatory barriers to FDI, particularly in certain sectors (OECD, FDI Restrictiveness Index 2017).

Jordan is among the first Arab countries to have adopted national legislation on competition in the early 2000s. The legal competition framework regulates anti-competitive practices, abuse of dominant positions, and mergers and acquisitions. While Jordan was successful in instituting the legal framework for competition, the institutional structure lacked the adequate resources and support to deal with competition matters (OECD, 2013).

Figure 28. Doing Business Rankings (2017)



Source: World Bank

Table 3. Doing Business (2011, 2016 and 2018) (Overall ranking)

Country	2011	2016	2018
Malaysia	21	22	24
Romania	56	35	45
Mexico	35	45	48
Morocco	114	68	69
Turkey	65	63	60
Tunisia	55	75	88
Jordan	111	119	103
Egypt	94	126	128

Note: The distance to frontier score benchmarks economies with respect to regulatory practice, showing the absolute distance to the best performance in each Doing Business indicator. An economy’s distance to frontier score is indicated on a scale from 0 to 100, where 0 represents the worst performance and 100 the frontier. The rankings are benchmarked to June 2015. (0=lowest performance to 100=frontier)

Source: World Bank, Doing Business Report 2017-2018, 2017-2016, 2016-2015, 2011-2010.

Broader indicators of economic competitiveness offer considerable room for improvement. Jordan scored 4.3 in the 2017-2018 Global Competitiveness Index developed by the World Economic Forum, ranking 65th among 138 countries and 7th among Arab countries. Out of the 12 pillars of the index, Jordan ranked the worst in macroeconomic environment, labour market efficiency and health and primary education. Only three countries in the region ranked worse than Jordan in the 'macroeconomic environment': Egypt, Lebanon, and Yemen. The poor score and ranking achieved in 'macroeconomic environment' is related to Jordan's large public debt and budget balance deficit, as well as low gross national savings. The low ranking in 'health and primary education' is due to a drop in the primary education enrolment rates. And the low ranking in labour market efficiency is due to a low score on the 'efficient use of labour' indicator, referring to some restrictive labour policies employed by Jordan.

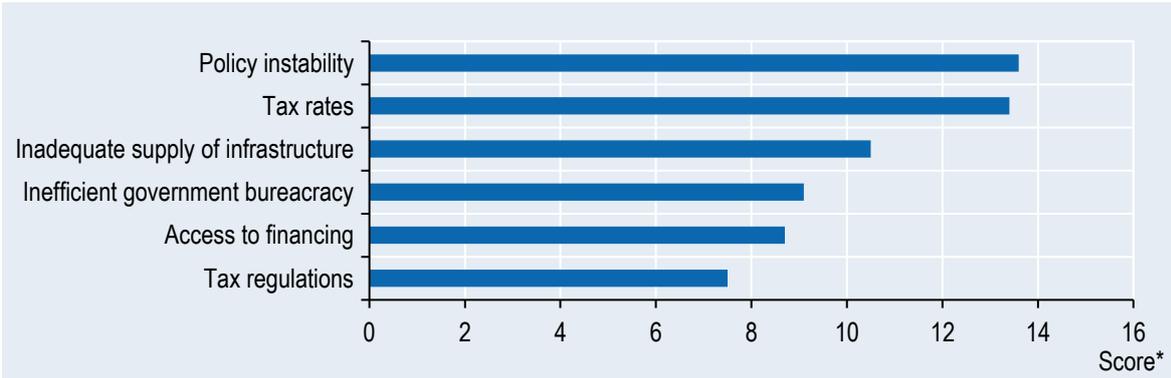
Figure 29. Jordan's Competitiveness Rankings (2016- 2017)



Source: Global Competitiveness Index (World Economic Forum)

Firm-level surveys identify a number of obstacles to business and investment, including access to finance, government inefficiency and red tape, complexity and instability in tax and investment frameworks, and external shocks from regional instability. According to the results of WEF's Executive Opinion Survey, the most problematic factors for doing business in Jordan were policy instability, tax rates, inadequate supply of infrastructure, inefficient government bureaucracy, access to financing, and tax regulations.

Figure 30. The most problematic factors for doing business in Jordan (2016-2017)



Source: Global Competitiveness Index (2016-2017) by WEF

A recent report issued by the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the World Bank Group draws lessons from a survey administered to more than 6,000 firms in eight countries across the region, including Jordan. According to the report, the top business environment obstacles reported by firms in Jordan were: access to finance, tax rates, and political instability. 31.2% of surveyed firms in Jordan put 'access to finance' as the top business environment obstacle. 23.2% of surveyed firms in Jordan put 'tax rates' as the main obstacle, mainly referring to the time it takes to prepare, file and pay taxes, as well as to the complexity and continuous change in tax regulations, and the significant amount of fees that have to be paid by businesses in Jordan. And more than 10% put 'political stability', referring mainly to the spillovers of the regional political instability and insecurity (EBRD et. al., 2016).

The results of the survey also show that corruption is not a major concern for Jordanian businesses, unlike in other countries in the region, with only 4.6% of firms indicating 'corruption' as the top business environment obstacle. Moreover, while getting a reliable electricity supply was a major concern for five of the eight surveyed economies in the region, this issue was not a significant concern

for firms in Jordan, which has a well-developed electricity network compared to other countries in the region.

Access to finance and financial inclusion remain low in Jordan. Only 62 out of 100 adults had a deposit account in a commercial bank in 2015, with a significant gender gap between men and women (IMF 2017) and progress in promoting access to financial services has been slow in recent years.

A complex and unstable regulatory environment

The complexity and instability of the legal and policy framework governing taxes and investments has been a major hurdle for the private sector. According to the MENA Enterprise Survey, 5.3% of senior management time in Jordan is spent on 'dealing with government regulations', the second highest across the eight surveyed regional countries.

Tax laws were amended a significant number of times over the past decade, making it difficult for the private sector to keep track and cope with the associated bureaucracy and changes. Tax laws and regulations were amended in 2005, and in 2009 and 2010, and more recently in 2014, with plans for another amendment by 2017. These amendments came after the introduction of new tax laws during the 1990s and early 2000s. This account does not include special cabinet decisions raising rates or upon the discretion of the Prime Minister. A study conducted by the Jordan Strategy Forum, found that the majority of surveyed private sector representatives believe that current tax administration and its procedures (e.g. estimation and auditing) are not clear, transparent nor fair. A majority of focus group participants in the research agreed that instability in tax legislation acts as a significant disincentive to invest and do business in Jordan (Jordan Strategy Forum, 2014).

Alongside the continuous changes to the tax system, the investment framework similarly went through significant changes. The complexity of Jordan's incentive regime stems from intricate overlapping schemes with major differences among geographical locations and sectors raising questions about effectiveness. According to the OECD Investment Policy Review of 2013, Jordan's policy framework suffered from a number of obstacles including inefficient bureaucracy, complex administrative procedures and inconsistent enforcement of legislation. The new investment law and Regulation No. 33 of 2015 have tried to provide investors with a clear incentive framework based on three sets of tax incentives, departing from the previous dispersion of provision in different laws.

Policy and legislative instability in Jordan has made it very difficult to eliminate red-tape and bureaucracy from the government apparatus. Some large US investors have reported hidden costs due to bureaucratic red tape, vague regulations, and conflicting jurisdiction (US Bureau of Economic and Business Affairs, 2016). Government bureaucracy and red tape lie at the core of Jordan's poor scores in some of the key dimensions of the Doing Business report (such as the 'Starting a Business' component, where Jordan is ranked 105th). According to a recent report conducted on Jordan's performance in Doing Business, the main reason behind the deterioration in Jordan's ranking across a number of indices is the red tape and bureaucracy at the Greater Amman Municipality (GAM) (Jordan Strategy Forum, 2016). For example, obtaining a vocational licence from GAM consumes 75% of the time required to start a business. Likewise, GAM procedures consume 32 out of a total of 63 days in dealing with construction permits.

An inadequate framework for SME development

Jordanian SMEs and entrepreneurs are essential for the country to address important economic and social challenges and materialise opportunities. SMEs (usually firms with 1 to 249 employees)

represent the vast majority of enterprises in all countries. Micro firms (with 1-9 employees) and the self-employed are the dominant type of private sector firms, especially in low and middle income countries and in the services sector. More importantly, SMEs are important drivers of job creation and economic growth: they generally account for between half and two thirds of private sector employment and contribute, to varying degrees, to value added and exports.

SME development in Jordan is somewhat higher than in the rest of the MENA region, although it lags significantly behind that of other emerging and developing countries:

- The density of SMEs in Jordan is 25.6 per 1 000 inhabitants, compared to 19 in the MENA region, 45 in high-income OECD countries and 31 in developing countries.
- Jordanian SMEs employ 31% of the workforce, compared to an average of 28% in MENA, 33% in developing countries and 45% in OECD countries.
- The average rate of enterprise creation per 1 000 people of working age in 2004-2012 was 0.69, slightly higher than the MENA regional average of 0.6 but well below the OECD average of 4.8.
- Jordanian SMEs are strongly oriented towards internal trade: They accounted for only 2.4% of total domestic exports in 2011.

Many actors support directly and indirectly the development of start-ups and SMEs in Jordan.

Those actors include government ministries in charge of the wider economic and competitiveness policy agenda, notably the Ministry of Industry and Trade (MIT), the Ministry of Planning and International Co-operation (MOPIC), the Ministry of Finance (MOF), Ministry of Labour (MOL), Ministry of Municipality Affairs, Ministry of Education (MOE), and many others. Other important public sector actors provide direct support to SMEs and entrepreneurs. The most pertinent include the Jordan Enterprise Development Corporation (JEDCO), the Jordan Loan Guarantee Corporation (JLGC), the Vocational Training Corporation (VTC), the Employment and Development Fund (DEF) and the Jordan Investment Commission (JIC). Furthermore, a number of non-governmental and private sector organisations are also active in the SME and entrepreneurship agenda providing business development services, training, coaching and many other types of support.

Jordan's draft SME Strategy identifies the constraints related to the environment in which SMEs operate:

- a weak entrepreneurial culture;
- lack of access to financing;
- lack of entrepreneurial and management skills and capacity, coupled with inadequate access to business development, advisory and diagnostic support services, especially in the governorates;
- market access challenges;
- lack of innovation and technology adoption/ development; and
- legal, regulatory and administrative barriers.

Reform efforts

Trying to accelerate the pace of reform, the government is adopting measures to make it easier to do business in Jordan through the recently endorsed Jordan Economic Growth Plan 2018-2022 and a number of reform measures. The plan proposes interventions that are specifically targeted at improving Jordan's competitiveness and Doing Business rankings. Interventions under the plan include measures to ease access to finance and streamline tax administration, and are expected to contribute to improving Jordan's competitiveness. All business related laws under the Structural Reform component of IMF programme have been implemented, including a new Inspection Law in September 2017, a new Secured Lending Law in April 2018 and a new Insolvency Law in May 2018.

The government is also striving to simplify and ease all investment related procedures, limiting its time of completion to 7 days. This is part of a new drive by the Jordan Investment Commission, which was established in 2014 and serves as an accessible single entry-point for investors looking to invest in Jordan, to cut bureaucracy and red-tape (Jordan Investment Commission, 2018). The commission has already implemented a number of measures which have received praise from investors, including cutting and simplifying procedures, as part of its investment promotion strategy (2017-2019). The Commission is also consolidating a number of services to make it easier for investors.

Investment promotion efforts are also being stepped up. In tandem with these measures, the commission recently launched an investment map for the Kingdom containing more than 120 investment opportunities worth JD 302 million. These investment opportunities, located in all 12 of Jordan's governorates, can be characterised as falling under the industrial and manufacturing sectors (chemicals, clothing, extractive industries etc.), food processing sector (livestock, poultry, dairy, fruits and vegetables), health sector (hospitals), education sector (private schools and training centres/institutes) as well as the tourism and entertainment sectors (hotels, amusement parks, malls etc.) (Jordan Investment Commission, 2018).

Since access to finance remains to be one of the biggest challenges in Jordan's business environment, authorities have been working on facilitating access to credit, especially for SMEs. One of the main achievements with this regard is the establishment of a first credit information bureau in Jordan in late 2015. Operational since January 2016, the bureau will provide credit information services to facilitate corporations and individuals in obtaining more favourable loan conditions. The Central Bank has also extended the domain of its oversight activities to cover smaller finance enterprises in order to raise the institutional capacities, efficiency and competitiveness of these companies. Alongside this, authorities have been working on establishing funds to exclusively serve SMEs in order to facilitate their access to credit. Funding programmes are usually run by the Central Bank of Jordan, where funds are lent to banks in favourable terms to be in turn on-lent to eligible SMEs. The most recent initiatives in this regard include (a) the establishment of a finance credit endowment of JD 1.1 billion offering preferential interest rates to SMEs in selected sectors; (b) the establishment of two investment companies for banks at a gross capital of JD 125 million in 2017 with the aim of investing in medium-sized enterprises; (c) the establishment of two investment funds endowed with USD 98 million Innovative Startups and SMEs Fund and (d) increasing Central Bank support to SMEs through the Jordan Loan Guarantee Corporation, which is tasked with providing loan guarantees to SMEs (International Monetary Fund, 2017). The Central Bank has also signed a number of agreements with regional and international institutions valued at USD 440 to extend credit to SMEs via local banks; these

include: a USD 100 million loan agreement with the Arab Fund for Economic and Social Development (AFESD); a World Bank loan of USD 70 million and a AFESD loan of USD 50 million.

While the authorities are aware of the need to simplify and stabilise the regulatory environment, reform has proceeded at a slow pace and has only picked up in recent years. Jordan endorsed a new Investment Law in 2014 replacing five older investment-related laws and merging three related institutions into the Jordan Investment Commission (JIC). The adoption of the new investment law coincided with the ratification of the Public Private Partnership law, which is aimed to attract private investment into large-scale development projects. Since the endorsement of the new investment law, the authorities have been developing the relevant implementing bylaws and instructions. While this positively impacted the business environment, gaps still remain. For example, the Investment Window is yet to function as planned, as limited powers were granted for the Investment Commission to become responsible all necessary approvals.

From a sectoral perspective, Jordan was successful in creating a conducive environment to clean energy investment in particular, as part of a broader effort to reduce the country's high dependence on fossil fuel imports. Since 2010, authorities have developed a comprehensive set of legislation to promote renewable energy investments in Jordan, especially in solar photovoltaic (PV) and wind energy. One of the most important legislations in this regard has been the Renewable Energy and Energy Efficiency Law passed in 2012, and then amended in 2014. This, along with other measures introduced by the government, resulted in Jordan having one of the most advanced regulatory and policy frameworks for renewable energy in the MENA region (OECD, 2017).

The government has recently embarked on a plan to review and reform all legislation governing business activities in Jordan to better align them with international best practices. In 2017, number of long awaited legislations were adopted or amended to improve the business environment, such as:

- An **amended companies' law**, which expands the oversight powers of shareholders in public shareholding companies and prohibits individuals from simultaneously being CEO and chairperson of board in the same company. The law also provides for 'proportional voting' in the election of companies' boards of directors, so that the votes of each shareholder become equal to the number of shares in the company.
- A **law for streamlining monitoring and inspection regulations on economic activities** (namely in the sectors of public health, food and medicine safety, labour rights, environment, work safety) so as to limit redundant procedures.
- Further **reforms of the investment law in 2018** offer tax and ownership incentives to investors and should contribute to streamlining the process for establishing foreign firms in Jordan.

Some of these reforms have already started delivering tangible results. As far as benchmarking indexes are concerned, Jordan's distance-to-frontier score in the World Bank Doing Business Index rose (going from 58.20 in 2017 to 60.58 in 2018) (World Bank, 2018).

To foster the creation and growth of SMEs, the Jordanian government has developed a draft National Entrepreneurship and Small and Medium Enterprise Growth Strategy for 2016-2020 (SME Strategy), whose implementation action plan identifies a set of measures to address major constraints for SME development in the country. The Jordan Enterprise Development Corporation (JEDCO), the institution identified by the SME Strategy as the main coordinator of SME support in the country. The SME Strategy, which is yet to be adopted, also cites a number of constraints limiting SME development potential. Some of those constraints reflect the economic structure and level of development in the

country: a preponderance of micro firms (fewer than ten employees) in the enterprise population (96%) which limits the competitive and productivity potential of the economy. This is because micro firms have fewer internal resources, less capacity to compete in global markets, and suffer from a lack of management skills, financing, and technology that limits their survival and growth potential. The majority of SMEs focus on the production of traditional, low value-added goods of low quality, serving local markets, and competing on the basis of price. Very few have the capacity to compete in international markets. The vast majority have no quality control systems in place nor follow quality control procedures in compliance with international quality certification systems. They do not invest heavily in technologies that will add value to their products and overall economic performance, and exhibit low levels of technology utilisation.

Key Priorities

Against this background, the Jordanian government should accelerate the pace of reform and broaden the agenda to develop a comprehensive business environment reform agenda as a key pillar of its strategy to boost growth and employment. The following priorities should be given particular attention:

- **Developing a comprehensive and unified roadmap to improve the business environment and enhance Jordan's competitiveness.** This would include a set of integrated policies and measures designed to address the main business environment obstacles in Jordan along with a clear timeline with milestones and assigned responsibilities. Issues that the roadmap would address include access to finance, government inefficiency and red tape, and complexity and instability of legislation. This roadmap could incorporate some of the measures included the Economic Growth Plan 2018-2022, including (a) streamlining tax administration so as to simplifying customs processes and limiting tax evasion; (b) ease access to business license applications by introducing a making a single unified application for licensing and registration; and (c) facilitate businesses' access to finance. Specific attention should be paid to inspections. In this regard, measures such as adopting a risk-based assessment to inspections as well as improving coordination and information sharing between inspectorates would reduce inspection times and improve predictability of outcomes.
- **Minimising changes in legislation and policies as much possible to create a stable business environment and introducing Regulatory Impact Assessment for new initiatives.** Any amendments and changes to the laws should be carefully assessed to avoid having to amend the law within a short period from when it was endorsed. A regulatory impact assessment may facilitate this process, showing the anticipated impact of any legislation before it adopting.
- **Ensuring that fiscal consolidation reforms do not negatively impact the business environment.** Since 'tax rates' was cited to be the top problematic factor to doing business in Jordan in the most recent competitiveness report, the government should ensure that reform measures are investor-friendly. This can be achieved if the focus of reform was on tax management and collection, and on the provision of simplified procedures to pay taxes, rather than on increasing tax rates.
- **Continue working on reforming the business environment in line with plans and strategies without delays.** For example, the Jordan Economic Growth Plan specifically lays out the measures

needed to be taken to boost Jordan's ranking in some international competitiveness indicators, such as facilitating access to credit, reforming and simplifying the country's tax system, and simplify license applications and registrations.

- **Accelerating reforms to increase access to credit** including the implementation of the insolvency law, the secured transactions law or regulations to promote the development of the micro-finance sector. The government should also ensure the availability of resources for the implementation of the Financial Inclusion strategy developed in December 2017. Over the longer term, Jordan will need to encourage the development of capital markets to provide a viable alternative to bank finance.
- **Developing a comprehensive approach to SME development through the adoption of an SME strategy and the institutional strengthening and capacity building of JEDCO.** Specific attention could be devoted to: (i) SME policy co-ordination across government and agencies, (ii) improving business statistics (which remains rather limited to date and constrained by the inexistence of a nationally-accepted definition of SMEs), (iii) introducing a monitoring and evaluation framework for SME policy.

B. Boosting innovation as a means to enhance economic competitiveness

Current situation

Jordan's overall innovation performance has been in decline in recent years. Despite the launching of a National Innovation Strategy 2013-2017 which sought to increase Jordan's research capacities and cement a knowledge-based economy, the country's ranking in the Global Innovation Index dropped from 61st in 2013 to 83rd in 2017 (Cornell, INSEAD & WIPO, 2017). Jordan's performance was found to be weak in the categories of human capital and research, as well as market sophistication, where the country ranked 83rd and 116th respectively among 127 countries in 2017. Regionally, Jordan compares less favourably than its peers, with the exception of Egypt. Another main indication of the poor innovation performance is the number of patents being issued in a country. For Jordan, the number of resident patent applications per \$100 billion GDP (2011 PPP) amounted to 52 in 2015, down from 66 in 2010.

Table 4: Ranking Global Innovation Index

Country	2013	2017
Malaysia	32	37
Romania	48	42
Turkey	68	43
Mexico	63	58
Morocco	92	72
Tunisia	70	74
Jordan	61	83
Egypt	108	105

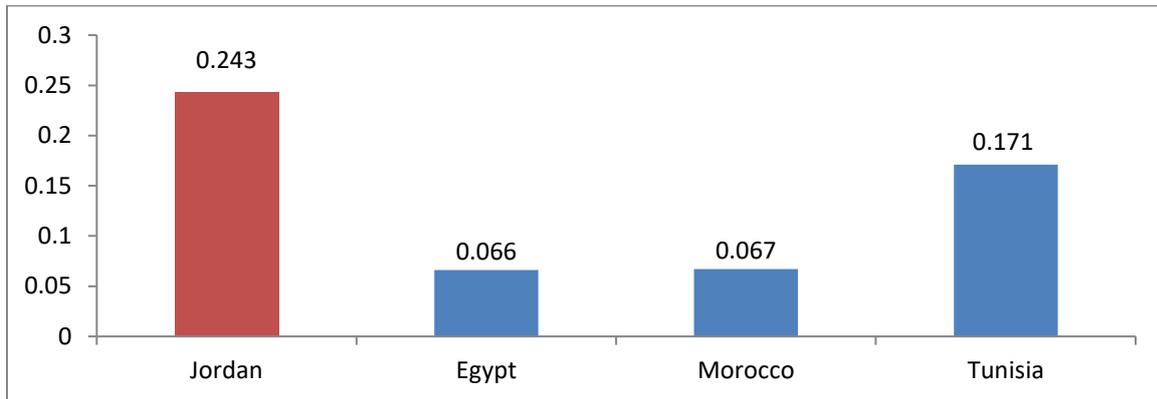
Note: First ranked = best performer. The 2013 ranking included 142 countries and the 2017 ranking included 127 countries.
Source: Global Innovation Index.

Jordan has a relatively high level of human capital. Access to education has improved throughout the past decades, and Jordan can boast of having the highest number of researchers active in Research and Development per million people among all 57 members of the Organisation of the Islamic Cooperation (Organisation of the Islamic Conference, 2010). It is also worth mentioning that two of Jordan's universities, the University of Jordan and the Jordan University of Science and Technology, have constantly ranked among the best universities in the Arab world, with both holding the 9th and 14th rankings respectively according to the latest QS University Rankings (QS World University Rankings, 2018).

Despite improvements in human capital development, Jordan's innovation performance has not been up to its potential. The high amounts of FDI attracted in the 2000s did not produce the intended spillover effects. Much of the FDI was confined to specific agreements in specific Zones. Moreover, a considerable portion of FDI also went into very specific sectors, such a real estate, financial services and large tourism projects, which are not necessarily conducive to significant skills transfer to the local Jordanian economy (Santander, 2018). Jordan has not developed a specific policy seeking to attract FDIs with higher spillovers to the rest of the economy nor has it developed a structured approach to FDI-SME linkages that could have led to more inclusive and sustainable growth (Davies et. al., 2016) (WB JIC2013).

Jordan's restrictions to FDI may also limit to innovation potential of the economy. Jordan scores poorly on the OECD's FDI Restrictiveness Index, which measures statutory restrictions on foreign direct investment in 58 countries and 22 sectors. The higher the index, the more restrictive an economy is to foreign investments. Jordan's score reached 0.243 in 2017, higher than the scores of other regional peers. Restrictions in sectors such as engineering, architecture, transport or insurance are probably reducing the potential for technological acquisition and development in the country.

Figure 31. FDI Restrictiveness Index (2017)



Source: OECD

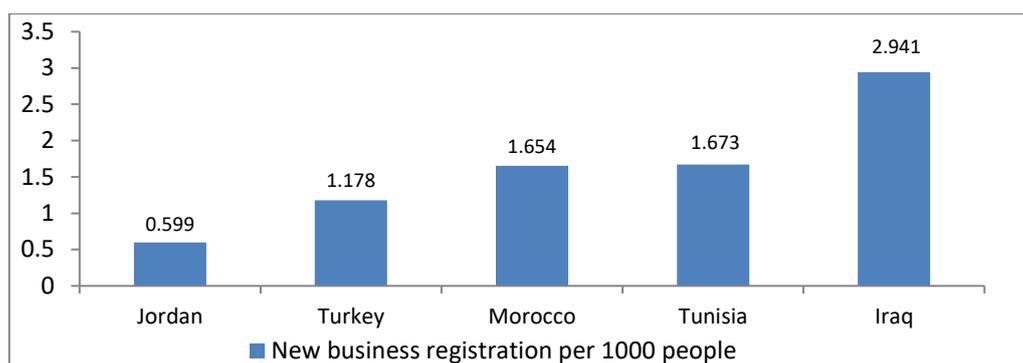
Funding and legal constraints also act as a main barrier to promoting innovation. Total spending on R&D in Jordan amounts to less than 0.5% of GDP, considerably less than global and regional averages. The development of incubators and venture capital financing innovation remains very limited and is far from best international practices. These elements, coupled with the lack of development of the intellectual property regulation, reduce incentives to engage in innovative activities.

Another main obstacle to innovation in Jordan is the lack of awareness both by the public and private sector on the concept of innovation. In Jordan, most SMEs are not aware of innovation and technology development and how they may impact their productivity and competitiveness. The difficulty of technological adoption, in particular for non-frontier firms explains part of the malfunctioning of the productivity transmission machine. Access to credit and human capital development are amongst the main constraints to technological adoption. Furthermore, the higher education system in Jordan is also not conducive to promote innovation, as teaching remains heavily reliant on theoretical knowledge as opposed to practical job-linked knowledge which could foster innovation (World Bank, 2013).

Innovation governance has historically been weak in Jordan. The Jordanian authorities have traditionally viewed innovation policy from a narrow perspective limited to science and technology policy. While indeed these are critical factors in innovation, innovation policy itself should be more comprehensive and promote knowledge and technology transfer.

Along with a depressed innovation performance, Jordan's entrepreneurship landscape is not up to its potential. The rate of new business creation has lagged behind many regional economies, standing at only 0.599 companies per 1,000 inhabitants of working age in 2016. While Jordan's new business density had improved over the past decade, rising from around 0.58 in 2007 to 1.022 in 2013.

Figure 32: New Business Density (2016)



Source: World Bank (note: Data for Tunisia 2013)

Reform efforts

The National Innovation and Competitiveness Council was reactivated in 2014 to identify and further respond to the challenges facing the development of a knowledge economy sector based on innovation and excellence.

Jordan launched an updated National Innovation Strategy in 2014, consisting of a set of suggested projects at a total cost of around JD 14.5 million to be implemented within four years. The strategy was prepared by the Higher Council for Science and Technology in collaboration with the Ministry of Planning and with the support of the World Bank. The strategy focused on six priority clusters, the same ones as those identified by the Jordan 2025 Vision and the Jordan Economic Growth Plan (medical services and pharmaceutical industry; information and telecommunications technology; clean technologies; architecture and engineering services; education and career guidance services; banking and financial services). Some of the projects envisaged by the strategy consisted of instilling a culture of innovation and entrepreneurship among higher education students, enhancing the capacities of university instructors and employers regarding innovation, and classifying and promoting vocational professions so as to limit the mismatch in the Jordanian labour market. This strategy however does not have target measures thus limiting the possibility of monitoring and evaluating progress in implementing the strategy.

Some actions have been taken to promote the financing of innovation. The recent efforts made at easing access to credit for SMEs and innovation-driven businesses is a positive development towards filling this gap. In 2017, the World Bank and the Central Bank of Jordan jointly launched an ambitious project seeking to provide financial assistance to small-scale ventures, especially those in high-potential sectors (such as green and renewable energy, media and telecommunications, pharmaceuticals, technology etc.) so that they may enhance their productivity and innovative performances (Cornock, 2017).

The authorities have also significantly shifted Jordan's labour policy towards self-employment. The government is now trying to promote the concept of entrepreneurship among unemployed Jordanians, especially those living outside the Amman governorate. A number of initiatives have been set up with this regard, with the most recent being the establishment of an JD 100 million innovative start-ups fund in 2017 under a joint effort by the Central Bank, Ministry of Planning and International Cooperation, and the World Bank.

Key priorities

Against this background, increasing Jordan's potential growth levels will require greater attention to innovation policy, promoting competitiveness, technology transfer and entrepreneurship. This could be translated into the following priority actions:

- **Strengthening innovation governance by adopting a comprehensive policy framework to better promote and encourage innovation.** Since Jordan has the suitable infrastructure (human and capital) for innovation, authorities should prioritise the promotion and facilitation of innovation through a comprehensive policy framework, under which action plans can be developed implemented. The authorities should consider updating the National Strategy for Innovation with specific and measurable targets to ensure proper implementation of the strategy and effectively monitor and evaluate its progress.
- **Promoting innovation spillovers through investment policy.** Jordan's investment promotion activities should aim at increasing the integration of Jordan's private sector into global value chains as well as encouraging technology transfer. Thus, FDI-SME linkages must be established and further strengthened so that transfers of skills and technology can take place.
- **Strengthening the existing institutional structure and legal framework for competition policy.** This can be achieved through extending adequate resources and support to effectively and swiftly address competition matters.
- **Increasing public spending in R&D.** More generally, public funding may be directed towards the private sector through seed, angel or venture capital funds. Policies may also encourage and incentivize the private sector to expand R&D spending.
- **Developing a clear and measurable action plan to promote entrepreneurship among unemployed Jordanians,** perhaps as part of the country's SME strategy (see above). This would be in line with the government's recent shift in labour policy towards self-employment.

Pillar IV: Involving the public, civil society and the business community in decision-making

Jordan has made progress in involving the general public and private sector in its decision making process in recent years. While some gaps still exist, the government's decision making is now more participatory and open to involvement by the general public and the private sector than it was 10 years ago. Throughout this period, civil society in Jordan has strengthened and the voice of the private sector has become more pronounced. Most recently, the authorities are working towards decentralisation along with empowering the youth and women to engage in political and economic affairs. This pillar of the Compact for Economic Governance discusses the following priorities:

- A. **Continuing the decentralisation agenda**
- B. **Promoting inclusive policymaking through enhanced Public-Private Dialogue**
- C. **Promoting the economic inclusion of youth and their involvement in public life**
- D. **Strengthening women's empowerment in the labour market and public life**

A. Continuing the decentralisation agenda

Current situation and reform efforts

In recent history, the political, economic and administrative public system in Jordan has been largely characterised by its inherently centralised nature, with policy-making, national planning and development initiatives being predominantly led by the national government. However, there has been a growing realisation in the last few years that increased public involvement in decision-making is likely to create more consensual and legitimate policy outcomes. This process has led to the approval of the 2015 Laws on Municipalities and Decentralisation. The decentralisation process not only transferred power to the subnational level but also prepared the ground for the first local elections in August 2017 concerning municipal and governorate councils with newly devolved powers (Jordanian Government, 2015). Inspired by King Abdullah II's vision to have a grassroots political process, the law is intended to increase public trust in the government and strengthen public representation across a number of areas, whilst "promoting inclusive socio-economic development" (OECD, 2017).

This step towards a more bottom-up approach with increased public participation seeks to assist in the identification of needs and priorities, in terms of services and policies, and gives more representation and influence to councils at the governorate and municipality levels. This reform is coming at a challenging time for Jordan, both in terms of the economy and national security, with issues compounded by conflict in neighbouring countries and the challenges brought about by the refugee crisis⁴⁸. These pressures continue to create issues for public services and economic resources

Jordan held its first ever local elections for decentralisation on 15th August, 2017, which included representation at all levels of society, from mayors, local and municipal councils, responsible for governance in the capital city. The elections had a relatively low turnout, with only 32% of eligible voters participating. Voters continue to be largely apathetic to the whole electoral process, be it regarding local or parliamentary elections, as many doubt that the government can deliver on its pledges to enact genuine democratic reforms, such as curbing gerrymandering (Al-Khalidi, 2017). This

has led some to concern as to whether decentralisation will actually create a more representative and inclusive government structure in the longer term (Sowell, 2017).

Given that Jordan has long been a heavily centralised state, and that municipalities and local governmental structures merely acted as antennas for the central government, the decentralisation process is an ambitious goal with strong potential for long-term political developments. Historically, policies at the local level had predominantly focused on Ministry of Interior-led security initiatives, with socio-economic development and planning being much more secondary. Local politicians and engagement groups have little experience or understanding of socio-economic issues. The decentralisation process may therefore have a transformative power. The initiative seeks to develop an increased role for citizens in building their own futures, identifying the specific development priorities for their own governorates (European Union, 2010).

However, it is worth noting that the new law falls short of providing a full-fledged decentralised administration. At first glance, the Decentralisation Law appears to afford a considerable degree of power to local representatives. With this, each local governorate establishes an executive council responsible for implementing public policies at the local level, led by the local governor; these executive councils will also be responsible for matters such as the deployment of security forces, police and civil defence forces. Powers of locally elected councils are based on a delegation of parliamentary powers which are themselves somewhat limited (Sowell, 2017). Furthermore, in practice, less responsibility is given to governors and many of the more significant budgetary and policy decisions are still made at a national government level. Furthermore, the law does not allow local governments and councils to increase or revise taxation, so they remain economically dependent upon the government in Amman. Although local councils can draft proposals on capital spending, the budgets are required to be within specific parameters set by the Ministry of Finance's Budget Division. At present, the central government provides citizens with all basic services, including healthcare, primary education, defence, water, gas, electricity and sewerage. Since 2015, Municipalities have taken responsibility for planning permissions, road maintenance, waste collection and urban planning, but still lack the finances and resources to expand their role.

Instead of fully devolving powers to locally elected bodies, the Decentralisation law is designed to provide a more active role in development for citizens and civil society at the sub-national level (OECD, 2017). In addition, many of the roles for elected councils do not yet have a fully defined and clear scope or mandate, and their relationship between other government levels remains unclear. This issue, coupled with the lack of fiscal decentralisation, may hamper the success of the decentralisation efforts.

Jordan has vast regional disparities in terms of population and development levels. According to the latest census conducted in 2015, governorates range in size from 4 million in Amman to less than 100,000 in Tafilah. In terms of development, there is a notable contrast in the distribution of population size and wealth, with the highly populated areas in north-west of Jordan and sparsely populated areas in the south-east of the country, creating further difficulties in identifying and reacting to social development challenges.

Key Priorities

The following actions summarise the key outstanding issues regarding the decentralisation agenda:

- **Ensuring the effective implementation and success of Jordan's current decentralisation efforts.** Given that the 2017 local elections witnessed a sobering low voter turnout, it is imperative that decentralisation efforts are maintained and enhanced. Building the capacities of locally elected bodies, further delegating authority and empowering them as well as securing and allocating adequate financial resources are crucial factors in order to provide further legitimacy to local councils. Proper implementation of the Decentralisation model will ensure a more representative and inclusive government structure in the longer term. Locally elected bodies should gradually have the ability to raise taxes, which will allow them a significant degree of financial autonomy and will lessen their reliance on the central government. Effective coordination across levels of government should be put at the heart of the decentralisation efforts.
- **Developing the legal framework behind the Decentralisation process to ensure proper implementation.** This should include defining roles and mandates for elected councils and determining clear relationships between them and other government entities at various levels in order to ensure accountability and alignment of roles and responsibilities. Avenues including asymmetric decentralisation schemes could be explored to better match realities on the ground. Functional approaches to decentralisation of competences could also lead to better outcomes.
- **Developing and implementing a comprehensive communication strategy and capacity building to stakeholders at the local, municipal and governorate levels** to support public participation, ensure a transparent and effective coordination process and spread awareness and knowledge about the whole decentralisation agenda. Early illustrations of success stories will appease public perception and enhance people's confidence in Jordan's path towards decentralisation.

B. Promoting inclusive policymaking through enhanced Public-Private Dialogue

Current situation and reform efforts

The concept of Public-Private Dialogue is not new to Jordan, as it has been a part of government policy planning for a number of years. A number of initiatives have been put in place to promote dialogue, representation and engagement with the private sector, for instance in the form of advisory panels and councils that the government regularly looks to for economic and social policy advice (Jordan Chamber of Industry, 2016).

A number of private sector participatory and advisory councils have been established in recent years, including a partnership council at the Ministry of Industry and Trade, Ministry of Information and Communications Technology and a Competitiveness Council at the Ministry of Planning. In recent years, the government has sought to strengthen the amount, scope and impact of these tripartite organisations and bodies, mandated to lead specific dialogue initiatives between the public and private sectors.

Despite these efforts, perception amongst private sector representatives remains doubtful about the effectiveness of these platforms in involving the private sector as a partner in policy making. This

is because a number of decisions and policies are taken by the government without adequate consultation with the private sector, and in some cases, with no consultation at all. This has particularly been the case when dealing with fiscal consolidation policies which resulted in additional costs and burdens to the private sector. For example, it has been reported that private sector representatives were given the opportunity to review and comment on the new draft investment law, but there was no formal public-private consultations launched prior to the endorsement of the law. Stakeholders often complain that the consultation process is "not systematic, structured, inclusive or transparent" (OECD, 2013).

Some of these platforms have managed to gain more institutional weight in influence in policy making. The Jordan Economic and Social Council, for example, has been one of the more effective government-led platforms, with the majority of Council Members being appointed from the private sector. The Council conducts research on various economic issues facing Jordan and presents a platform for public-private dialogue to discuss main economic challenges and possible solutions.

Other private sector-led initiatives, such as the Jordan Strategy Forum, established in 2012, as a private sector-led initiative to bridge the communication gap and enhance dialogue between the public and private sectors have managed to gain some traction in the public debate. The Forum has become one of Jordan's leading think tanks on economic affairs, and seeks to constantly engage the public sector with its research and initiatives. The Forum has been effective in its approach to identifying and raising awareness for economic development issues and has been a useful partner for the government in economic planning and implementation of policy.

Other than public private dialogue and consultations, Jordan adopted the Public-Private Partnership law in 2014 (Law No. 31 of 2014). It aims at encouraging participation and inclusion of the private sector and cooperation with the government in terms of economic and social development. The law looks to improve contracts, ensure competitive bidding processes, and arbitrate dispute settlement. It also aims to "rehabilitate, construct, operate and maintain the public infrastructure, as well as encouraging the private sector to invest with the government and extending funding for feasible public projects" (Jordanian Government, 2014).

Key Priorities

Further efforts to involve private sector and civil society representatives in public policy making should proceed in two directions:

- **Developing a more systematic, structured, inclusive and transparent public private dialogue framework** over all government policies and measures. Building trust through a clear set of rules and showing results will be essential to effectively engage the private sector. A clear mechanism for consultation with the private sector should be designed and implemented across the different institutions in the government. Such a mechanism should ensure that the consultation process between the government and the private sector operates within an inclusive and transparent framework to stimulate productive dialogue and partnership between both parties and to improve the image and trust in government efforts.
- **Strengthening civil society in Jordan providing it with the space to engage in bottom-up discussions with governmental authorities.** Although civil society organisations (CSOs) are abundant in Jordan, many lack the proper tools and knowledge to effectively mobilise and

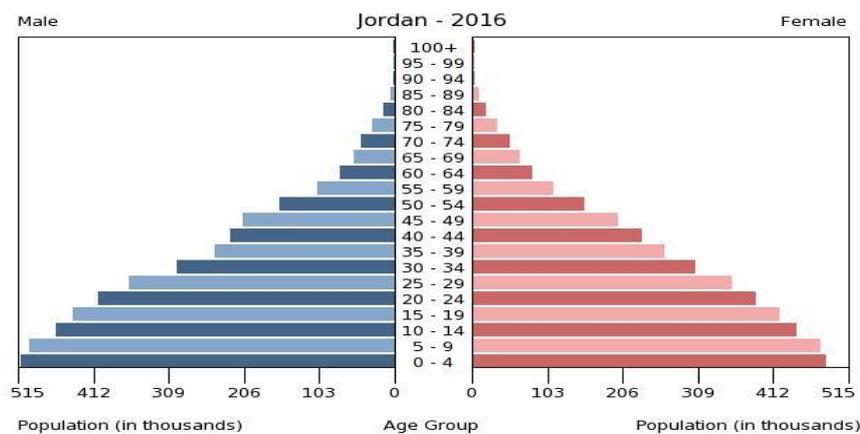
advocate for their causes. In addition, the 2008 Associations Law, which stipulates that a minimum of 7 people are needed to form an association, is not up to international standards. The law must be amended in order to remove obstacles facing the formation of CSOs; cooperation between ministries is crucial in order to bring about positive developments regarding CSOs; and CSOs must be provided with specific training and capacity building in certain fields (such as advocacy) in order to be more effective (ACTED, 2018).

C. Promoting the economic inclusion of youth and their involvement in public life

Current situation

Jordan's age distribution is one of the most salient opportunities and challenges that the country faces. 71% of the population are under the age of 30 and 22% are between 15 and 24 (UNICEF, 2015). The large share of youth in Jordan's population presents a 'demographic opportunity' for the Kingdom. However, if missed, this 'opportunity' may become a curse, creating a situation where the government has to cater for a large number of idle youth. It is therefore crucial that Jordan takes advantage of this opportunity in its favour. The Higher Population Council has already prepared a policy document on the issue prepared an extensive matrix of national indicators to monitor and follow up on Jordan's path towards realising this opportunity (Higher Population Council, 2009).

Figure 33. Jordan's Population Pyramid in 2016



Source: PopulationPyramid.net

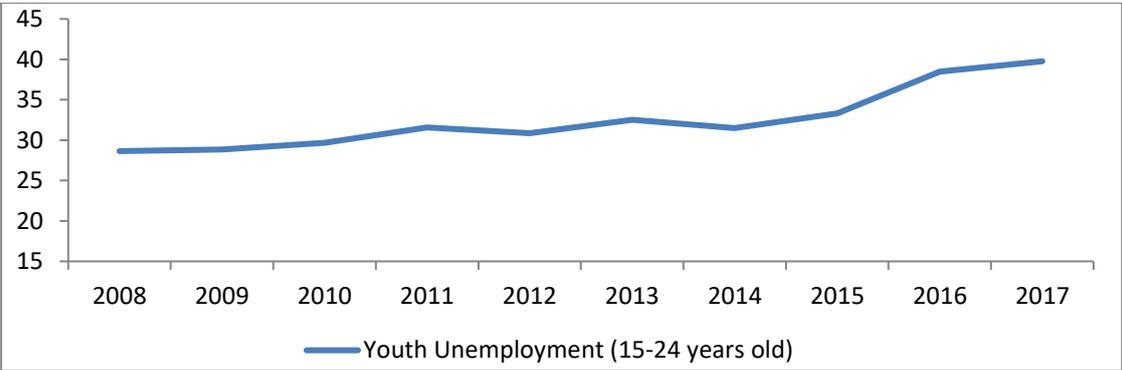
Currently, public policies have not managed to make the most out of the demographic bonus. Youth unemployment remains high. Low levels of integration in the labour market may lead to human capital depletion over time and to growing difficulties to insert youth in the labour market. Sustained high unemployment and poverty rates amongst the youth may also lead to brain drain of Jordanian capital abroad. The lack of capacity and the discrepancy between expectations and the reality can be a cause of frustration for younger generations (USAID, 2016).

With a high level of school attendees and relatively high levels of university graduates, Jordan has a well-qualified young population connected to the global community. Youth literacy rates in Jordan are some of the best in the Arab world, with 99% of both men and women able to read and write. However, challenges to the Jordanian education system exist. Significant regional disparities remain,

with schools in rural areas being in much poorer conditions and providing an education of lesser quality than their counterparts in urban areas. Additionally, public schools are poorly funded and poorly maintained, which has resulted in students in such schools receiving an education of poor quality (USAID, 2018). The fact that Jordan’s performance in science and mathematics ranks among the lowest in the PISA ranking is a testament to the quality issues affecting the education system (Jordan ranked 60 and 63 out of a total of 69 countries in science and mathematics performance) (OECD, 2015).

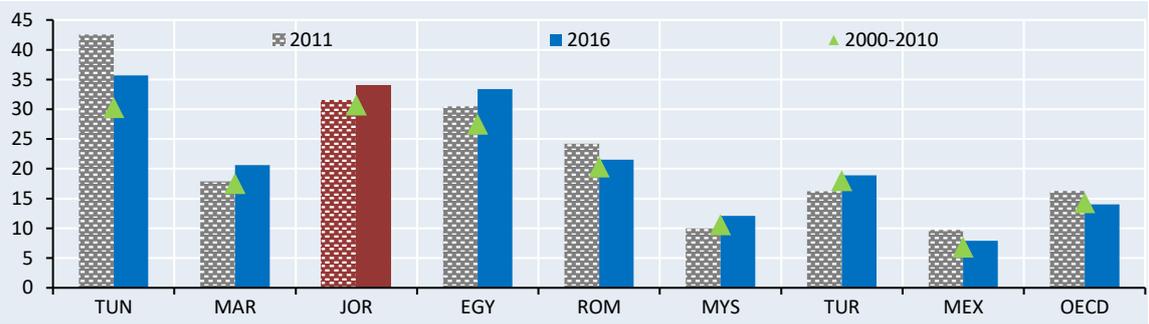
Education-to-labour transitions are difficult for many young Jordanians. Despite having a relatively well qualified workforce compared to the rest of the Arab world, ensuring a smooth transition from education to employment has been included in a number of previous national strategies, implementation has so far been stagnant and the economy has not been able to generate enough opportunities to effectively absorb new entrants into the labour market⁴⁷. As mentioned above, young people lack prospects and opportunities and higher education does not seem to act as a safety net, on the contrary. Youth unemployment in Jordan has been increasing over the past decade, reaching 39.4% in 2017 among those aged between 15 and 24 years old. Thus, they represent the most vulnerable fraction of the labour force.

Figure 34. Youth unemployment in Jordan (15-24 age range)



Source: World Bank

Figure 35. Youth unemployment rates 2010-2015



Source: ILO Key Indicators of the Labour Market database; OECD Labour Market Statistics.

Many young people in Jordan are at risk of becoming disenfranchised and turn to high-risk behaviours, such as embracing extremist ideologies or unhealthy practices, such as drug use. Smoking is increasingly popular among the youth population of Jordan, with 34.1% and 19.4% of young males and females respectively being smokers. The low voter turnout rates in parliamentary and local elections underscore the youth’s disenfranchisement towards the current political system in Jordan; the fact that an increasing number of protesters tend to be young adults is another sign showcasing the youth’s disenfranchisement (Newbill, 2013).

Health issues also seem to appear in vulnerable segments of the youth population. For example, the lack of sexual and reproductive health knowledge and education, with few such services to cater for such issues, may turn into an increasingly social and public health problem. Whilst the prevalence of HIV/AIDS is relatively low in Jordan, there are progressively high rates of sexually transmitted diseases⁵⁹. Although child marriages and teenage pregnancy are not widespread, they affect a significant part of the Jordanian population, especially the rural poor (Higher Population Council, 2017).

Young Syrian refugees face even greater difficulties than their Jordanian counterparts, with less opportunity and fewer prospects. There is a pressure on young Syrians to give up education in order to look for income generating opportunities and young men are most susceptible to drop out of school. Young Syrians living in Jordan often come under intense external pressures to head households or participate in exploitative labour. The prevalence of early marriages amongst the Syrian community also impacts education outcomes, particularly that of women more prone to childhood pregnancy. (Higher Population Council, 2017).

One of the most marginalised and overlooked groups in the Jordanian society are young people with disabilities. Young people with disabilities, 6% of those aged between 10 and 24 have some kind of disability, tend to have difficulties in accessing basic services. The majority of government programmes does not cater to this and the lack of inclusion for children with disabilities is a major oversight at present.

Reform efforts

The Jordanian government recognises the importance of providing opportunities for youth, as exemplified in the adoption of a new youth strategy in March 2018. Jordan was actually the first of the Arab states to develop a National Youth Strategy which consulted up to 50,000 young people in its inception (Higher Council for Youth, 2004). The strategy expired in 2009 and subsequent reviews and updates have slightly momentum as they have not been able to deliver tangible results. However, youth empowerment and inclusion still remains an important agenda in Jordan's development process despite the delay of the launching of the new youth strategy (Al Shawbak, 2018), which was only adopted in March 2018.

The institutional landscape governing youth affairs have been inconsistent over time, with main entity responsible for youth affairs changing over time between a Higher Council and a Ministry. The Council has been quite proactive with the development and creation of civil society organisation centred on youth engagement, such as youth organisation, clubs and centres which predominantly target the disenfranchised, vulnerable and disabled, but also particularly talented and outstanding young people. Currently, the Ministry is responsible for the implementation of the new National Youth Strategy.

There is little political awareness, and thus participation, among young people in Jordan. Low engagement and political awareness has been partially attributed to fear to take part in political activities (OECD 2018), and illustrate how the active presence of security personnel in youth meetings deters participation and true dialogue (Al Hayat Center, 2011). Different studies on this matter argue show how the state carefully regulates and monitors political activity and its participants (Swartz & Arnot, 2012), leading to reduced incentives for the youth to follow political processes. For example, young Jordanians possessed a low level of awareness about recent political reforms, especially about

the 2011 constitutional amendments adopted in response to the Arab Spring-inspired protests (Vendetti, 2012).

Some steps have been taken to further engage the youth in public affairs. For example, unlike the 2016 parliamentary elections, the local elections held in 2017 allowed Jordanians under the age of 30 to run for local council. This resulted in around 6% of overall candidates between 25 (the minimum age to run as a candidate) and 30 years old, and in a 27 year old candidate being elected mayor in Moab (Karak), making him the youngest Mayor in Jordan's history (Roya News, 2017). While the minimum age to be a candidate in a sub-national election remains significantly higher than in most OECD and MENA countries (OECD 2018), the legal age to vote was also lowered to 17 to encourage more youth voter turnout. Although voters aged between 18 and 30 constituted only 33% of the total votes, thousands of young Jordanians participated in some way in the electoral process playing a number of roles including monitors, campaigners, and others.

Civil society movements have also sought to further engage the youth. There are currently a number of prominent Jordanian NGOs and youth programmes operating at a national level to engage young people through initiatives such as volunteering, community service and extracurricular education activities, such as the ones carried out by the Jordan Youth Innovation Forum which seeks to develop civic engagement and develop entrepreneurship skills amongst the younger population.

Key Priorities

Jordan should develop a comprehensive approach to youth economic and political empowerment based on the following priorities:

- **Expediting the implementation of the new Youth National Strategy (2018-2020) and associated Action Plan.** This strategy should focus on implementing the commitments related to active citizenship and youth empowerment, both in terms of political participation and economic participation. There is a need to translate the political will within the Jordanian leadership for youth political awareness and participation, into solid practical actions. Providing genuine opportunities for young people to be involved in the implementation of the Strategy will be critical to ensure ownership and legitimacy. Enhancing perception and confidence of youth in the government will be crucial. The new strategy has been delayed on numerous occasions and has yet to see the light of day (Al Shawbaky, 2017) and was, according to the Ministry of Youth, only approved in March 2018.
- **Developing a clear agenda within the scope of the Ministries of Education and to apply a “youth lens” in designing policies and services that are effective in minimizing youth exposure to high-risk behaviours.** This agenda should also include proper awareness on sexual and reproductive health knowledge and education, as well as the provision of some adequate services in the health centres to cater for these issues.
- **Stabilising the institutional landscape that governs youth affairs.** There is a clear need to clarify responsibilities in youth affairs in Jordan, most notably between the Ministry of Youth and the increasingly active Crown Prince Foundation, as well as the various other youth stakeholders. Moreover, extending support to the Ministry of Youth will raise the profile of the country’s working agenda with youth, as well as ensure the proper implementation and close follow up of the upcoming new National Youth Strategy.

- **Providing support for prominent Jordanian NGOs in extending their services, programmes and initiatives to the youth, and at a national level.** Engaging young people through initiatives such as volunteering, community service and extracurricular education activities is significantly needed. Beyond this support, activities should target the challenges related to the absence of young people in public and political life, including mock elections, awareness raising campaigns and targeted support for younger candidates to run in elections.
- **Developing a clear agenda and action plan to address the needs of the young disabled.** Government programmes and services across all ministries and institutions should be inclusive for children and youth with disabilities and cater for their needs.

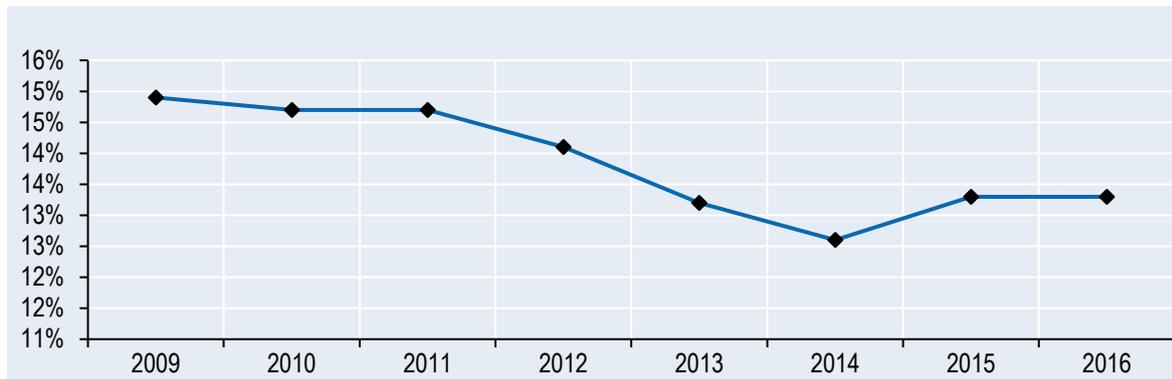
D. Women's Empowerment in the Labour Market and Public Sphere

Current situation & reform efforts

Jordan has a strong enrolment rate to its education system, providing equal access to both boys and girls. The country also has one of the highest education rates for women in the region which has huge potential to advance Jordan's political, social and economic development. In recent years, women have seen a significant scale-up in opportunities for employment. However, women continue to be under-represented in many areas of society due to largely traditional values which restrict female empowerment and political participation (USAID, 2017).

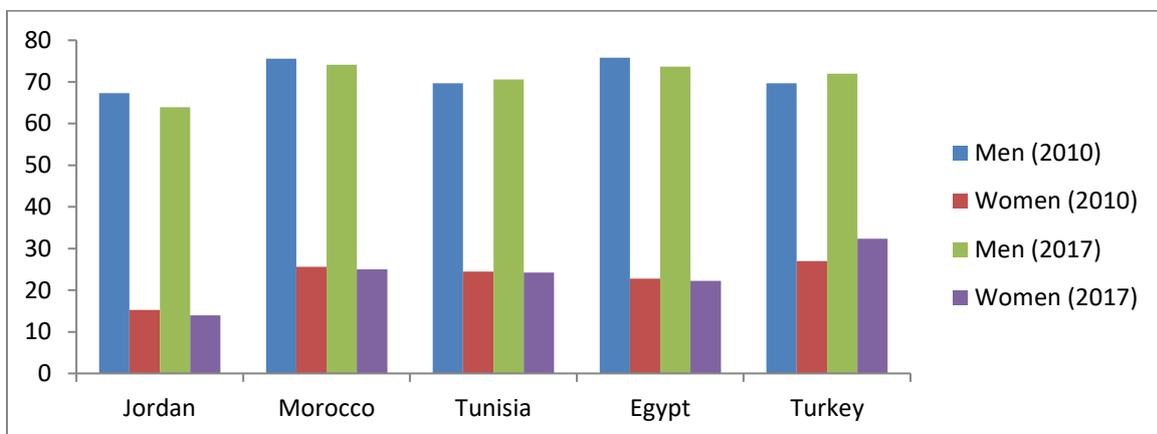
Female educational attainment but has not translated into economic participation and professional outcomes. The number of women aged between 20 and 39 graduating from university has almost tripled since 2000, surpassing the number of male graduates in the same period (International Labour Organization, 2017). Women's enrolment rate in universities in 2016 stood at 51.6% while that of males stood at 48.4% (Department of Statistics, 2018). However, there still remains a significant gender gap in women's formal employment, as Jordan's female workforce participation is one of the worst in the world. According to the Department of Statistics, the female labour participation rate reached 13.3% in 2016, after having been above 14% before 2012. Female unemployment reached 24.1% in 2016 and is rising. There are also major disparities in terms of the gender pay divide, with Jordanian women experiencing a gap of 41.3% relative to their male counterparts⁶⁶. Investing in women is sound economic policy as it is estimated that Jordan's GDP could be boosted by around 45% should the gender labour gap be closed (International Monetary Fund, 2017).

Figure 36. Female Economic Participation Rate



Source: Department of Statistics

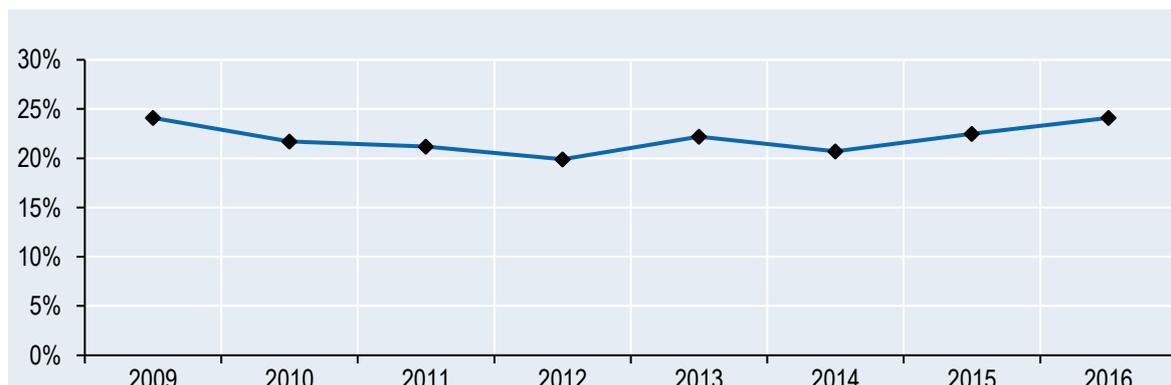
Figure 37. Labour participation by gender in 2010 and 2017 (% of population ages 15+)



Source: ILO Key Indicators of the Labour Market database

Note: The labour force participation of Egyptian Men for the year 2017 was unavailable. The data for the year 2015 was used

Figure 38. Female Unemployment Rate



Source: Department of Statistics

The commonly held stereotype in Jordan is that women work at home, carry out domestic chores and take care of their children¹⁵. Due to the social norms in society imposed by the immediate families and communities of women and men, there is a lack of economic and political participation for women. Many women who work find that there is a lack of domestic support from their spouses, due to social stigmas, and therefore find it difficult to balance home and work life, often forcing them to leave whatever employment they have. Another issue for women in the workplace is the prevalence of

harassment and the lack of adequate mechanisms to prevent it (OECD 2017). According to a recent study by UN Women, 57% of women who are currently unemployed would want to work if they could, but other factors from within the home prevent them from doing so (UN Women and REACH, 2017).

The economic structure of employment in Jordan also adversely affects women's economic activity (World Bank, 2014). Most of the Jordanian women who work are concentrated in the public sector, especially in the education and health sector; as such public sector jobs provide a much more secure and stable environment, as well as higher benefits, than jobs in the private sector. Since these sectors have not experienced a significant increase in job creation in the past decade, women have not benefited from the country's high growth rates in earlier years. Women also face open and covert discrimination when it comes to entering the private sector. It is not uncommon for an employer to hire a man over a woman; especially if the latter is a single and childless woman, as the former would be considered as his family's main breadwinner and in greater need of the job (Magistad, 2017). Also, employers are required to provide for maternity leave and childcare facilities, which discourages them from hiring young women (European Training Foundation, 2009). The OECD has found that legal frameworks, such as the one mentioned above (OECD 2017), have a strong across-the-board impact on the economic empowerment of women. Moreover, some women find working to be unsustainable due to the low wages and high costs of domestic helpers, nurseries, and public transportation in Jordan.

Outside of public sector employment, women are much more likely to be employed within the informal sector, especially those who are married with families, as it offers a more convenient environment to meet the requirements and needs of their families. It is estimated that almost half of employed Jordanians work in the informal sector.

In the private sector, women remain underrepresented. Despite a relatively high employment rate of women (43.4%) in the formal private sector, only 18% of the total labour force was female in 2017 (World Bank, 2017a). The number of women in corporate leadership also remains low; the percentage of women on the executive boards of publicly listed companies in Jordan stands at 3.45% (66 seats out of a total 1 866) (IFC, 2015). Of 237 publicly listed companies on the Amman Stock Exchange, only 52 (22%) companies had at least one female board member. 42 companies (18 % of listed companies) had one woman, eight companies (3%) had two women, one company had three women and one company had four women on its board (IFC, 2015).

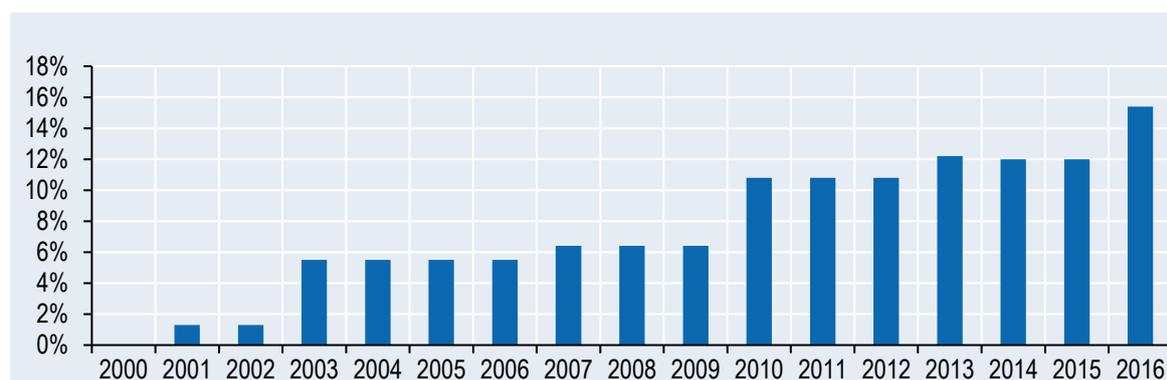
Table 5: The distribution of Jordanians aged 15 and above in employment by employment status and gender, 2005-2015.

	Total			Males			Females		
	2015	2005	Change	2015	2005	Change	2015	2005	Change
Employee total	87.5	82.7	4.8	86.0	80.9	5.1	96.3	94.3	2.0
Government	38.8	36.1	2.7	36.7	34.3	2.4	50.5	48.1	2.4
Private (formal)	43.8	45.9	-2.1	43.9	46.1	-2.2	43.4	44.8	-1.4
Private (informal)	4.2	0.7	3.5	4.9	0.6	4.3	0.7	1.4	-0.7
Other	0.7	7.1	-6.4	0.5	7.9	-7.4	1.7	1.6	0.1
Employer	4.5	9.5	-5	5.1	10.5	-5.4	1.5	2.5	-1.0
Self-employed	7.8	0.6	7.2	8.9	0.5	8.4	1.9	0.8	1.1
Unpaid worker	0.1	0.2	-0.1	0	0.1	-0.1	0	0.7	-0.7

Source: DOS, 2016

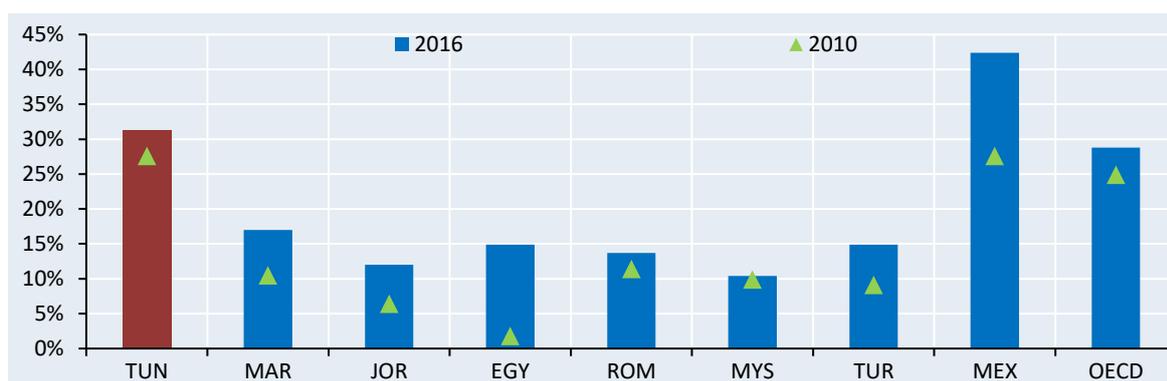
There has been some progress for women in terms of political empowerment. The proportion of parliamentary seats held by women reached 15.4% in 2016, rising steadily over the past decade. This was made possible by consecutive amendments to the elections law which gradually increased the quota for women-specific parliamentary seats. In the last elections law of 2015 (implemented in 2016), 15 seats in parliament were designated to women. Women won 20 out of 130 seats in the latest parliamentary elections held in 2016, compared with 18 out of 150 in the previous parliament. The female participation rate in parliamentary permanent committee reached 21%. Despite this progress, the share of females in parliament remains lower in Jordan than in other countries of the region. The Municipalities and Decentralisation Laws of 2015 also allowed for progress to be made at the subnational level politics, as the laws stipulate that 10% of governorate council's members and 25% of municipal council members must be women (OECD, 2017).

Figure 39. Proportion of parliamentary seats held by women in Jordan



Source: Inter-Parliamentary Union

Figure 40. Percentage of Women in National Parliaments (lower house or single house)



Source: Inter-Parliamentary Union as of March 1st 2016

Women in Jordan face discriminatory legislation, and face obstacles in accessing justice. For example, control of economic assets such as land & bank accounts, and access to loans remains skewed towards men. Legal gender gaps are present in issues such marriage and divorce procedures, inheritance, and child custody. Jordanian women still cannot pass their nationality onto their children like men can. In terms of accessing courts, Jordanian women would usually refrain from going to court due to their lack of financial resources and social stigma; they are thus more likely to be negatively impacted by personal disputes (World Bank 2014 and OECD 2017).

Outside of public life, women in Jordan still face domestic abuse, which often remains underreported on account of social and cultural stigmas. This issue particularly affects the refugee communities living in Jordan, where high levels of gender-based violence are reported. Also, there are high rates of underage and early marriage in Jordan, which goes largely unreported, but is estimated to be as high as 33% among refugee girls from Syria.

There is political will within the Jordanian government to narrow the gender gap which can be seen through initiatives such as the National Strategy for Jordanian Women 2013-2017 (Jordan Times, 2015). As discussed in Jordan Vision 2025, the government is attempting to increase women's employment from 15% to 27% over the course of the decade (Jordanian Government, 2015). However, these initiatives tends to be underfunded and face resistance from part of the population with conservative values.

The authorities have plans to revamp discriminatory laws to uphold women's rights. The Jordan National Commission for Women prepared a strategy in 2013 for that purpose, but no budget was allocated by the government for implementation. More recently however, some accomplishments were made to protect women's rights in Jordan. In 2017, the government scrapped the controversial article 308 from the Penal Code, which used to pardon rapists if they marry their victims.

Key Priorities

A comprehensive approach to bridge gender gaps in the economy, society and public life should be developed. This will require prioritising the following actions:

- **Building on women's human capital to enhance Jordan's economic performance through a more conducive work environment for women in the private sector.** Among the needed actions are:
 - Eliminate the gender pay gap through a proper review of laws and regulations in order to ensure equal pay based on job descriptions and qualifications,

- Balance work and family duties through increasing social spending to support child care. Given that not all public and private sector institutions have childcare facilities; this has discouraged women from finding employment. Facilitating the establishment of nurseries and high-quality day-care services would free up women’s time from caring for their young and elderly family members, and would allow them to enter the labour market.
 - Improve public transportation in Jordan: Public transportation in Jordan is underdeveloped and negatively impacts women’s entry to the labour market. Transportation by bus is complicated due to irregular bus routes, as well as unsafe, as women have faced harassment when using means of public transportation. This has discouraged women from seeking employment and joining the labour market (International Monetary Fund, 2017).
 - Establish in-state quotas for women in senior leadership positions in the public and private sector. This would not only provide employment opportunities for qualified women, but also improve women’s image in society and narrow the gender gap
- **Adopting a gender-sensitive approach in policy-making and eliminating any discriminatory legal provisions**, including:
 - Better understand the impact of gender inequality through the collection of disaggregated data allowing to develop adequate policy responses;
 - Implement international commitments on gender by embedding them into national regulation and providing sufficient financial resources for their enforcement;
 - Make progress on family law, namely on personal status codes which need to be aligned with those of men: discriminatory regulations and legislations exist regarding numerous issues (such as land and bank accounts, marriage and divorce procedures, inheritance, child custody, transmission of nationality to children etc.).
- **Facilitating women’s accessibility to justice and finance**, in particular by:
 - Eliminating discriminatory provisions in land ownership, holding bank accounts and access to credit. This is particularly important for women-owned and –managed enterprises to raise their productivity levels and employ more women (International Monetary Fund, 2017).
 - Remove obstacles to access justice, allowing women to fully exercise their rights in the family and public spheres. Improving access to justice has both a knowledge component, where particular emphasis should be put in informing women of their rights; but also an economic one, particularly in the context of discriminatory regulation on the possession of assets and lower female participation in the labour market, thus calling for financial support.
- **Securing resources to ensure implementation of actions and initiatives suggested by the National Strategy for Jordanian Women 2013-2017.** The strategy sought to empower women on all levels (socially, politically, legally and economically) and to make them active and contributing members of society. In short, the strategy aimed at closing the gender gap and ending women’s discrimination in society (Muatman, 2013). The Jordanian government has committed itself to the UN Sustainable Development Goals 2030 and to voluntary national reviews on gender specifically; it is imperative that the goals regarding women’s empowerment are achieved (UN Women, 2016).

Annex I. Jordan Compact Implementation Plan

Pillar	Short Term (1 year)	Medium to Long Term (> 1year)
I. Designing sound economic policies for an inclusive and sustainable market economy	<ol style="list-style-type: none"> 1. Effectively implement the Jordan Economic Growth Plan 2018-2022, with a particular focus on enhancing the competitiveness of Jordanian firms and economic (and export) diversification 2. Develop a comprehensive export promotion strategy, create a full-fledged export promotion agency; reviewing the impact of existing FTAs and strengthening quality infrastructure 3. Formulate a comprehensive innovation strategic framework in the country building on the existing human resource development strategy 4. Continue pursuing growth-friendly fiscal consolidation through greater expenditure efficiency and tax reform (e.g. Income Tax Law, improved tax administration and fight against evasion/avoidance) 5. Ensure the implementation of the Jordan Response Plan 2018-2020 and the Jordan Compact, enhancing the impact of the simplification of rules of origin in the EU 6. Promote labour market flexibility, considering a temporary decrease of social security contributions, a single minimum wage 7. Promote quality jobs and enforce decent work principles across all sectors 	<ol style="list-style-type: none"> 8. Continue to implement Jordan 2025 vision, developing adequate monitoring and evaluation tools 9. Develop modern railroad infrastructure across the country 10. Continue expanding the tax base and the overall fairness of the tax system 11. Continued implementation of the Jordan Compact and provide economic opportunities for refugees 12. Ensure the sustainability of the results of the National Employment Programme and formulate a clear plan to lower unemployment levels especially among women and youth 13. Continue reforming the education sector, focusing in particular on TVET
II. Enhancing the transparency and efficiency of public institutions and processes	<ol style="list-style-type: none"> 14. Continue with the public sector restructuring plan expanding it to new sectors 15. Prioritise ongoing or planned PFM reforms (e.g. procurement, public investment management, revised debt management strategy, results-based budgeting) 16. Conduct a review of government expenditures over the past decade to identify potential savings 17. Develop ex-ante (e.g. RIA) and ex-post evaluation of public policies and reforms 18. Further enhance the transparency of the general state budget 19. Ensure the timely and effective implementation of the 3rd Open Government Partnership Plan 2016-2018 20. Continue developing the capacity of the Integrity and Anti-Corruption Commission 	<ol style="list-style-type: none"> 21. Strongly enforce rule of law through the continued implementation of ongoing judicial reform 22. Develop and implement the 4th Open Government Partnership plan 23. Incorporate all sectors into public sector reform strategies and plans 24. Ensure that the National Strategy for Integrity and Anti-Corruption 2017-2025 is fully implemented

<p>III. Building an attractive environment for investment and private sector development</p>	<p>25. Develop a unified and comprehensive roadmap to improve the business environment and enhance Jordan's competitiveness, focusing on tax administration, licensing and inspections, and access to finance</p> <p>26. Ensure that fiscal consolidation and tax reforms remain investor and business-friendly</p> <p>27. Strengthen the existing institutional structure and legal framework for competition policy</p> <p>28. Accelerate reforms to enhance access to finance (e.g. financial inclusion strategy, insolvency and secured transactions laws)</p> <p>29. Finalise the adoption of a comprehensive SME Strategy and reinforce JEDCO's capacity</p>	<p>30. Minimise changes in legislation and policies as much as possible to create a stable business environment.</p> <p>31. Strengthen innovation governance by adopting a comprehensive policy framework to better promote and encourage innovation.</p> <p>32. Direct investment policy to encourage FDI-SME linkages and enable innovation spillovers</p> <p>33. Increase public funding for R&D in light of available resources and develop innovation finance instruments (e.g. venture capital, seed capital, etc.)</p> <p>34. Encourage capital market development and microfinance as alternatives to bank finance</p> <p>35. Develop a plan to promote entrepreneurship among unemployed Jordanians</p>
<p>IV. Involving the public and civil society and the business community in decision-making</p>	<p>36. Develop the legal framework behind the decentralisation process to ensure proper implementation and undertake a comprehensive communications strategy and a capacity building programme</p> <p>37. Expedite the implementation of the new National Youth Strategy and associated Action Plans</p> <p>38. Facilitate women's access to justice and finance and eliminate discriminatory provisions in legal frameworks</p>	<p>39. Deepening and broadening Jordan's decentralisation agenda</p> <p>40. Develop a more structured and institutionalised approach to public-private dialogue</p> <p>41. Stabilise the institutional landscape that governs youth affairs.</p> <p>42. Develop a comprehensive strategy to bridge gender gaps and promote women economic empowerment:</p> <ol style="list-style-type: none"> a. Reduce gender pay gap b. increase social spending on childcare c. Improve public transportation d. Introduce quotas for women in senior leadership positions in the public and private sectors.

Annex II. The Compact for Economic Governance: Technical Aspects and Methodology

The Compact for Economic Governance

On 6 May 2015, Senior Officials of the Deauville Partnership unanimously adopted the **Compact on Economic Governance**. Following past action plans on topics such as open government, anti-corruption, asset recovery and SME development, the Compact provides a framework for reform efforts across Arab Countries in Transition (ACTs) aimed at promoting good governance and a sound business climate as preconditions to boost inclusive growth. G7 Leaders’ welcomed the agreement on the Compact in the 2015 Schloss Elmau summit declaration as well as “the shared commitment to implement [it]” in the 2016 Ise Shima summit declaration.

The Compact was prepared by the German G7 Presidency with support from the OECD with the overall objective of identifying key policy objectives and reform priorities across four main pillars (see Figure 1).

Figure 1: Compact for Economic Governance: Overall Objectives, Pillars and Policy Areas



The Compact is designed not as a mere declaration but rather as an operational document to inform policy dialogue within the Deauville Partnership. Indeed, the Compact refers explicitly to “follow up” in the form of a “steady dialogue and consultation process”, in particular through a **peer review and peer learning** mechanism supported by the OECD, the Deauville Partnership’s international financial institutions (IFIs) as well as relevant coordination platforms. The Compact’s priorities are to be operationalised through **country-tailored implementation plans** under which ACTs identify specific policy measures which could then be supported by G7 and partner countries through technical assistance (including under the umbrella of the MENA Transition Fund) and other supporting measures. Finally, the Compact underscores the need to measure and monitor policy effectiveness as

part of these plans. To this end, both qualitative measures and internationally established indices are used to benchmark progress towards reaching policy objectives.

Overall Approach to the Country-Level Implementation of the Compact

With the support of the German Foreign Office, the OECD is assisting ACTs in the preparation and monitoring of country-tailored Implementation Plans, starting with Tunisia and Egypt as pilot countries. This support is structured as a two-step exercise:

- **Phase 1 – Stock-taking:** The OECD supports ACTs in identifying priority areas for intervention by assessing and benchmarking the current state of play across the Compact’s four pillars. This demand-driven assessment takes the form of a comprehensive **Stocktaking Report** for each ACT to be presented and discussed at a Deauville Partnership Senior Officials’ Meeting. Under each of the pillars, these reports contain: (1) a *qualitative assessment of reform implementation* since 2011 (including both achievements and outstanding challenges); (2) an *indicator scoreboard* listing output and outcome indicators (with both baseline values and historic trends to allow comparison across ACTs but also improvement over time for each individual ACT); and (3) *policy recommendations* to serve as a basis for the Compact Implementation Plans through the identification and prioritisation of reforms.
- **Phase 2 – Progress reporting:** Building on each Stocktaking Report as a baseline assessment, the OECD will report annually on progress made by ACTs in the different dimensions of the Compact. This will be done through a brief Monitoring Report providing for each ACT: (a) a *description of achieved or ongoing reforms as well as emerging challenges*; (b) an *update on output and outcome indicators*; and, potentially, (c) a *thematic focus in one policy area covered by the Compact*. Monitoring Reports will also be presented and discussed at Senior Officials’ Meetings.

In parallel to both exercises above, ACTs will benefit from **capacity building** through the above peer-review exchanges, the involvement of government officials in the gathering and interpretation of relevant data and indexes, as well as specific capacity-building and knowledge-sharing meetings.

This Deauville Partnership tool will be complementary to, and aligned with, other instruments to support policy dialogue and reform implementation at the national level, including IMF programmes and budget support from IFIs and bilateral donors.

Stocktaking Reports: Overall Approach and Methodology

Stocktaking Reports are prepared by the OECD in consultation with each relevant ACT and in cooperation with Deauville Partnership IFIs. Drafts are circulated to each ACT for fact checking and to IFIs for comments. Draft Reports will be submitted by the OECD to the G7 Presidency for inclusion in the agenda of a Senior Officials’ Meeting. A peer review discussion will then take place with the participation of other ACTs, G7 countries, as well as partner countries.

Stocktaking Reports are concise and relatively high-level. They comprise qualitative and quantitative elements.

On the *qualitative* front, the Reports identify key developments, challenges and recommendations across the four pillars. While following the structure of the Compact, each report is adapted to the specific circumstances of each ACT, as the relative importance of policy priorities and pillars varies

from country to country. Given the extensive analytical work undertaken by various partners in most ACTs, Stocktaking Reports build on existing research and analysis, including reports and other materials produced by the OECD, the Deauville Partnership IFIs and bilateral development agencies from G7 and partner countries. Each report contains a list of references used in the analysis.

On the *quantitative* front, each Report contains an indicator scorecard comprising 32 indicators (see **Annex III**). The scoreboard combines macroeconomic variables, composite indices, and other indicators. Indicators have been carefully selected based on three criteria: relevance, availability, and comparability. As a result, the scoreboard includes well-established indices typically used in the evaluation of structural reforms and public policies, and which are available for all four references ACTs (Egypt, Jordan, Morocco, and Tunisia) and updated periodically (on a yearly basis in most cases). In order to avoid comparability concerns, national statistics and other quantitative data are used in the qualitative assessment but are not part of the indicator scoreboard. Indicators cover both policy output and outcomes. In addition to values for ACTs, the scoreboard provides OECD averages and data from a set of comparator emerging economies from different regions (Malaysia, Mexico, Turkey and Romania) for benchmarking purposes. Depending on the indicator, baseline values will be 2010 or multi-year averages (e.g. 2000-2010).

The use of qualitative indicators is subject to important caveats. First, the indicator scoreboard is just part of the analysis and its results need to be analysed in combination with the qualitative assessment. Second, the Reports refrain from establishing a causal link between the implementation of specific reforms and the evolution of individual indicators. The indicator dashboard is thus used to provide an overall picture of the situation in each ACT and the evolution over time, not to measure the impact of a given reform. When available, data on the actual results of a given policy or reform are presented as part of the qualitative analysis.

Preparation of the Pilot Stocktaking Report for Jordan

The preparation of the pilot Stocktaking Report for Jordan took place in two stages.

First, following consultations with the Jordanian Authorities, the OECD conducted a kick-off and fact-finding mission to Cairo (January/February 2018) to present the proposed methodology discuss the overall approach and scope of the Stocktaking Report. The mission also included a series of fact-finding meetings with relevant government and non-government stakeholders. Second, fact-finding and data collection were completed through thorough desk research before and after the mission. Table 1, below, provides a list of stakeholders participating in this exercise.

Table 1: List of Co-ordinating institutions and stakeholders

JORDAN
Co-ordinating institution: Ministry of Planning and International Cooperation (MoPIC)
Other government stakeholders met: <ul style="list-style-type: none">• Economic and Social Development Office, Royal Court• Ministry of Planning and International Cooperation• Ministry of Finance• Ministry of Public Sector Development• Ministry of Industry, Trade and Supply• Ministry of Labour• Jordan Investment Commission• Integrity and Anti-corruption Commission of Jordan• Central Bank of Jordan
Other stakeholders met: <ul style="list-style-type: none">• World Bank• Representatives of G7 Embassies in Amman• Private sector representatives (Amman Chamber of Industry, Jordan Chamber of Industry, Amman Chamber of Commerce)

Second, consultations with the Jordanian authorities on the basis of an interim draft took place in May/June 2018. A revised version of the report was presented at a Deauville Partnership Senior Officials' Meeting held in June 2018. The report was then finalised after integrating the comments received from Senior Officials.

Annex III. Compact for Economic Governance Indicator Scoreboard

Number	Pillar	Indicator	Type (Outcome / Policy)	Rationale	Source	Frequency and period of reference
1	Economic Policies for Inclusive, Sustainable Growth	Real GDP growth (percent change)	O	Basic macroeconomic framework (growth)	IMF World Economic Outlook databases	Annually (2000-2017)
2	Economic Policies for Inclusive, Sustainable Growth	Inflation (percent change)	O	Basic macroeconomic framework (price stability)	IMF World Economic Outlook databases	Annually (2000-2017)
3	Economic Policies for Inclusive, Sustainable Growth	Labour productivity (GDP at PPP exchange rates per employed person; annual growth rate)	O	Measuring efficiency with which inputs are used to produce goods and services; including absolute levels as well as y-o-y growth	Calculations based on ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2015)
4	Economic Policies for Inclusive, Sustainable Growth	Employment-to-population ratio	O	Basic macroeconomic framework (employment); Measuring share of employment for working age population	ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)
5	Economic Policies for Inclusive, Sustainable Growth	Total investment/GDP	O	Measuring gross fixed capital formation (public and private)	IMF World Economic Outlook databases	Annually (2000-2017)
6	Economic Policies for Inclusive, Sustainable Growth	Current account balance/GDP	O	Basic macroeconomic framework (current account)	IMF World Economic Outlook databases	Annually (2000-2017)
7	Economic Policies for Inclusive, Sustainable Growth	General government gross debt/GDP	O	Basic macroeconomic framework (fiscal); Measuring sustainability of government finances	IMF World Economic Outlook databases	Annually (2000-2017)
8	Economic Policies for Inclusive, Sustainable Growth	(1) Gini coefficient and (2) poverty headcount ratio at \$3.10 a day (2011 PPP) (% of population) (not available for Egypt)	O	Measuring level of inequality in income distribution and poverty levels	World Bank World Development Indicators	Varying frequency; most recent data ranges between 2007-2012; poverty headcount data not available for Egypt
9	Economic Policies for Inclusive, Sustainable Growth	CO2 emissions (kg per USD 1,000 of GDP)	O	Measuring efficiency in terms of energy consumption/environmental sustainability of growth	International Energy Agency	Annually (2000-2013)
10	Economic Policies for Inclusive, Sustainable Growth	Exports of goods and services/GDP (for all ACTs); TiVA (for Tunisia)	O	Measuring openness to trade; TiVA can be used in countries where it is available (at present only Tunisia) to measure value addition, participation in GVCs	OECD Trade in Value Added; World Bank World Development Indicators	Annually (2000-2015); Latest TiVA data is from 2011

11	Public Sector Transparency and Efficiency	Tax revenue/GDP	O	Measuring resource mobilisation efforts	World Bank World Development Indicators, OECD (for OECD average)	Annually (2000-2014)
12	Public Sector Transparency and Efficiency	Government expenditure in (1) compensation of employees; and (2) subsidies	O	Showing relative importance of government expenditures in key dimensions (civil service, subsidies)	IMF Governance Finance Statistics	Annually (2000-2014)
13	Public Sector Transparency and Efficiency	Transparency International Corruption Perception Index	O	Widely used composite index measuring corruption perceptions as a proxy for governance standards	Transparency International	Annually (2009-2015)
14	Public Sector Transparency and Efficiency	Global Open Data Index score	P	Composite index measuring legal and technical openness of government data	Open Knowledge Open Data Index	Annually (2013-2015)
15	Public Sector Transparency and Efficiency	Open Budget Index	P	Composite index measuring transparency in central government budget formulation and execution	International Budget Partnership Open Budget Index	Biennially (2006-2015)
16	Public Sector Transparency and Efficiency	Worldwide Governance Indicators for (1) Government Effectiveness; (2) Regulatory Quality; and (3) Rule of Law	P	Composite index measuring key aspects of governance based on various data sources (surveys, international organisations, NGOs)	World Bank's Worldwide Governance Indicators	Annually (2010-2015)
17	Investment Climate and Private Sector Development	(1) FDI inflows; (2) FDI stocks (% of GDP)	O	Measuring trends and relative positions regarding foreign direct investment attraction	UNCTAD database	Annually (2000-2014)
18	Investment Climate and Private Sector Development	New business density (new limited liability firms per 1,000 working-age people)	O	Measuring LLC incorporations based on business registry data as a proxy for overall entrepreneurial activity/business creation	World Bank's Entrepreneurship Survey database	Annually (2010-2014); not available for Egypt
19	Investment Climate and Private Sector Development	Domestic credit to private sector/GDP	O	Measuring depth of credit market for private sector as a proxy for financial sector development	IMF International Financial Statistics	Annually (2010-2015)
20	Investment Climate and Private Sector Development	Financial inclusion (% of adults with an account at a financial institution)	O	Measuring financial inclusion amongst the adult population as a proxy for overall access (no comparable data exists for SMEs)	Global Financial Inclusion (Findex) Database	Every three years (2011, 2014)

21	Investment Climate and Private Sector Development	Resident patent applications per 100 billion USD GDP (2011 PPP)	O	Measuring patent production relative to the size of the economy as a proxy for innovative activity	WIPO Statistics Database	Annually (2010-2014)
22	Investment Climate and Private Sector Development	Evaluation of key transition policies: (1) large and small-scale privatisation; (2) Governance and enterprise restructuring; (3) Price liberalisation; (4) Trade & Forex exchange system; and (5) Competition Policy	P	Measuring progress in areas for a successful transition to a market economy, as evaluated by the EBRD's Chief Economist Office	European bank for Reconstruction and Development (ERBD) Transition Indicator Database	Annually (2012-2014)
23	Investment Climate and Private Sector Development	FDI Regulatory Restrictiveness Index	P	Measuring statutory restrictions to FDI across sectors as a proxy for the openness of the FDI policy framework	OECD FDI Regulatory Restrictiveness Index	Annually (2010-2015)
24	Investment Climate and Private Sector Development	Global Entrepreneurship Monitor (Average National Expert Survey scores of entrepreneurial ecosystem and total early-stage entrepreneurial activity) (only for Tunisia, Egypt, Morocco)	P/O	Measuring (a) the strength of the overall environment for entrepreneurship (including several key variables); and (b) actual entrepreneurial activity based on survey data	Global Entrepreneurship Monitor	Every 2/3 years for National Expert Survey (2010, 2012, 2015); only 2015 for adult population survey on entrepreneurial activity; GEM data not available for Jordan
25	Investment Climate and Private Sector Development	World Bank Doing Business Distance to Frontier	P	Measuring performance in World Bank Doing Business dimension as a proxy for the overall business regulatory environment; distance to frontier measures absolute performance over time	World Bank DB, distance to frontier	Annually (2010-2016)
26	Investment Climate and Private Sector Development	Average trade facilitation performance	P	Measuring the policy framework for trade facilitation	OECD Trade Facilitation Indicators	Every 2/3 years (only 2015 data is available for ACTs)
27	Investment Climate and Private Sector Development	Logistics Performance Index (overall score)	P	Measuring performance in trade logistics	World Bank Logistics Performance Index	Biennially (2007-2016)
28	Inclusive Decision-Making	Youth unemployment rate	O	Measuring youth labour market outcomes	ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)

29	Inclusive Decision-Making	Gender labour participation gap	O	Measuring gender labour market outcomes	ILO Key Indicators of the Labour Market database; OECD (for OECD average)	Annually (2000-2016)
30	Inclusive Decision-Making	Worldwide Governance Indicator for Voice and Accountability	P	Composite index measuring strength of voice & accountability mechanisms based on various data sources (surveys, international organisations, NGOs); used to evaluate mechanisms for public participation in policy-making	World Bank's Worldwide Governance Indicators	Annually (2010-2015)
31	Inclusive Decision-Making	Proportion of parliamentary seats held by women	P	Proxy for women participation in policy-making	Inter-Parliamentary Union, OECD Gender Data Portal	Annually (2010-2017)
32	Inclusive Decision-Making	Commonwealth Youth Development Index indicator for political participation	P/O	Composite index measuring different aspects of youth political engagement, including policy inputs (policy framework) and outcomes (voter education and youth voice)	Commonwealth Youth Development Index	Every 2-3 years (2013, 2016)

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