COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN JORDAN

Volume I: Main Report

November 2021

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA
IFC International Finance Corporation

About IFC

IFC—a member of the World Bank and member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record $31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic. For more information, visit www.ifc.org.

© International Finance Corporation 2021. All rights reserved.
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
www.ifc.org

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The findings, interpretations, views, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Executive Directors of the International Finance Corporation or of the International Bank for Reconstruction and Development (the World Bank) or the governments they represent.

Cover Photos: Tanic Huangteerakul/shutterstock.com

CONTENTS

ACKNOWLEDGMENTS

The Jordan Country Private Sector Diagnostic (CPSD) was prepared by a team led by Zeinab Partow and Kinley Salmon and included Hannah Messerli, Ali Abukumail, Guilherme De Aguiar Falco, Mahmoud Momtaz, John Arnold, Arnaud Dornel, and Mais Al Soruji. The team is thankful to many for important inputs, advice, and comments, including Abeer Shalan, Serhiy Osavolyuk, Tania Begazo, Gerlin Catangui, Tania Mohd Nor, Sabri Draia, Christos Kostopoulos, Alvaro Gonzalez, Ahmed Hassanein, Bernard Micallef, Sevgi Seckiner, Laura Quiceno, Tugay Yilmas, Lisa Choux, Meriem Ait Ali Slimane, Olga Vybornaia, Guillermo Saniger Pare and Issa Aghabi, among others. The team gratefully acknowledges the guidance of Mona Haddad, Saroj Kumar Jha, Beatrice Maser, Sebastien Dessus, Nabila Assaf, Dalia Wahba, Abdullah Jefri, Alejandro Alvarez de la Campa, and Holly Benner in preparing the report. The peer reviewers were Peter Mousley, John Mantzavinatos, Damien Shiels, and Alan Moody. Administrative support was provided by Lydia Waribo, Ruba Al Shawwa and Dima El Chafehi. The team thanks Marcy Gessel for editing and YoonSook Chung for design.

EXECUTIVE SUMMARY

The Jordan Country Private Sector Diagnostic (CPSD) is a joint International Finance Corporation (IFC)-World Bank report that highlights the constraints as well as the opportunities facing the private sector in Jordan. It considers three sectors—tourism, logistics, and information and communication technology (ICT)—and the potential they offer for greater private sector contributions to the Jordanian economy, as well as the obstacles that they face from general or sector-specific policies and regulations. The CPSD also offers concrete recommendations to address some of these constraints.

Although this report was largely prepared prior to the COVID-19 outbreak, its analysis and recommendations remain as, if not more, valid in the context of the pandemic and of an eventual recovery. A dynamic and resilient private sector is necessary if Jordan is to break the low-growth, high-unemployment trajectory it finds itself in today. The CPSD argues that tackling some of the major obstacles facing the private sector—ensuring a stable and predictable policy environment, a level playing field in terms of competition, and labor regulations that allow employees and firms to respond more flexibly to changing market needs—is essential to firm performance, investment, and productivity. These actions are as critical—and more urgent—in times of crisis and especially afterwards to pave the way for a vigorous and sustainable recovery. Similarly, the sectors assessed by the CPSD—ICT, logistics, and tourism—continue to hold promise for the country. The pandemic has underscored the important role that digitalization, a strong ICT infrastructure, and supportive services have in creating a resilient economy and business continuity. E-commerce and logistics capabilities and services are an area put forward by the CPSD as an opportunity for Jordan in the coming years; they have boomed during the current crisis and are expected to be one of the post-pandemic growth sectors. Conversely, Tourism, which had been experiencing a strong rebound in Jordan over the past few years, is one of the sectors hardest hit across the globe by the COVID-19 crisis. In Jordan the sector accounts for about 19.2 percent of gross domestic product (GDP) (total contribution) and 32 percent of exports. Crafting a strategy that effectively addresses the many obstacles that prevent the tourism sector from attaining its potential is a necessary investment for a strong recovery—and a good use of what is likely to be a transitional period until travel re-commences.

Jordan has made progress on reforms to its economy and to the business environment in recent years, but remaining challenges are significant and have been sharpened by the COVID-19 pandemic. Growth has averaged only 2 percent since 2016, and per capita income in 2019 was 10 percent below its level a decade ago. Both will fall further in 2020 because of the impact of the crisis. Unemployment rose to 19 percent (excluding foreign labor) in 2019, with much higher rates for women and youth. The recent progress in improving the business climate has not so far translated into higher domestic or foreign investment. And although public sector finances were strengthened in 2016–17, the fiscal deficit deteriorated again in 2018–19. Government debt is very high at 99 percent of GDP (2019) and projected to rise significantly in 2020. Under those conditions, boosting the private sector's contributions to productivity is perhaps the only sustainable path to growth for Jordan given fiscal constraints and limited economic policy levers to stimulate growth.

Opportunities abound, however, despite the constraints. Jordan is a youthful country, with a growing, increasingly educated and skilled labor force. Its central location in a geopolitically important region has brought it significant benefits, despite the costs. Its diverse geography and unique cultural, religious, and historical heritage has the potential to spur significant growth in tourism exports in the future. And perhaps most promising of all is the potential for a boost to innovation, productivity, and growth through the harnessing of ICT. Jordan already hosts an emergent ICT sector: global giants such as Cisco, Expedia, HP, Microsoft, and Oracle have already established operations in the country; Jordanian information technology outsourcing (ITO) and business processing outsourcing (BPO) companies have expanded to service regional and international clients; and a nascent digital and entrepreneurship ecosystem has emerged. Beyond the promise of the sector itself, however, ICT can catalyze and support the modernization and transformation of other industries and services. This is the case for tourism and logistics services, sectors that this CPSD studies in some depth, to name just two. Tourism and logistics are areas in which Jordan has already invested significantly in the past and in which the new opportunities afforded by exploiting ICT to modernize and create value are considerable. These opportunities include potential shifts in strategy to, for example, take advantage of emerging prospects in niche tourism segments—a trend that is likely to accelerate following the pandemic—and to restructure the logistics sector in support of new, high-potential, value chains in e-commerce.

The recommendations of this CPSD should be seen as fitting within, and complementing, Jordan's Five-Year Reform agenda. This reform agenda was presented by the government of Jordan in early 2019 and includes a set of cross-cutting reforms and sectoral policy reforms prioritized and sequenced over five years to deliver on the government's jobs, youth, and growth agenda. These medium-term reforms aim to make the economy more efficient and reorient it toward export-led growth by creating a better business and investment environment. Reforms prioritize supporting growth and include reforms to strengthen the business environment, including reducing the cost of starting and operating a business, increasing the predictability of regulations, supporting the digital economy, and further liberalizing the foreign investment regime. Sectoral reforms include increased competition, flexibility in labor markets, development of exports, and deeper access to finance.

Key Development Challenges

A vital objective for Jordan is an economy—and a private sector—that creates more of the jobs demanded by Jordanians. Economic growth without a reduction in unemployment has been a striking feature of the Jordanian economy for decades. Growth has not led to lower unemployment for nationals nor to job creation in high-productivity or export sectors. Although jobs are being created, Jordan's exceptionally high rate of labor force growth—one of the highest in the world, due to the massive influx of refugees and migrants, on top of a rapid rate of population growth—has meant that the new jobs that are created are only a fraction of the number needed to meet the supply of new workers joining the labor force each year. This is the case despite very low labor force participation rates for Jordanian men and, especially, Jordanian women. The number of new jobs is not the only concern; the quality of jobs has been declining. New private sector jobs are increasingly in lower-productivity sectors, and informality is rising. Many Jordanians, highly educated, aspire to well-paying jobs and high standards of living, although today these aspirations can often only be met by emigration.

The Jordanian private sector has a critical role to play in addressing another of the country's main challenges: reviving export-driven economic growth. With its small market, Jordan's growth needs to be driven by exports and by investment, particularly export-supporting foreign direct investment (FDI). Reviving FDI and exports is central to the effort to increase productivity and competitiveness. Trade, however, has suffered through years of regional instability and border closures. While a reopening of borders with Iraq and Syria presents potential opportunities for Jordanian exports, Jordan's competitiveness is in question: a range of constraints on private activity contribute to low productivity.

Cross-Cutting Constraints

Private sector activity is undermined by significant constraints that limit its ability to generate jobs and to compete in international markets. The CPSD outlines some of the most important challenges faced by private activity across virtually all sectors: (a) high business costs, (b) policy unpredictability and investment risks, (c) excessive labor market segmentation, and (d) shortcomings related to market competition. The report also examines a fourth cross-cutting issue: the special subject of private investment in infrastructure, in which public and private sectors need to collaborate in order to channel resources to network and service sectors—transportation, power, public utilities—in the most effective way possible.

Business Costs

High business costs affect the competitiveness of the Jordanian private sector across the board. Energy costs are high and vary widely by sector—by a factor of eight—as a result of firm lobbying and discretionary, piecemeal policy-making. Electricity tariffs for productive sectors are more than double the average tariffs in the region and are higher than the average cost for European and non-oil-producing countries of the Middle East and North Africa. While the intent may be to use the large subsidies from industry and other large consumers to keep electricity tariffs at a socially acceptable level for many households, the result is detrimental in that it raises costs for Jordanian productive sectors. Weak competition and firm entry mean that costs for mobile connectivity and for fixed broadband are substantial relative to regional peers and competitors, hindering more rapid growth of the digital economy and uptake of digital payments and e-commerce. Transportation is expensive for the quality that users receive. This premium is especially true for land transport in the tourism sector and for trucking services between Aqaba and Amman. Regulations that are in place in part to protect users of tourism services in fact tend to inhibit competition in the sector; similarly, minimum tariffs keep inefficient cargo truck operators afloat, raising cargo transportation costs for all.

Investment Risks and Policy Unpredictability

Rather than addressing the underlying issues behind elevated costs, a series of exceptions and exemptions have been put in place to address social demands or in response to sector or firm lobbying. This creates a vicious cycle of a multitude of piecemeal remedies that, rather than resolving the underlying cost problems, heighten the unpredictability of regulations, substantially reduce government revenues, and create a disincentive to investment. A highly restrictive environment for FDI is an additional barrier to investment. While improving the stability of the business environment has been the focus of regulatory reform efforts in recent years, progress on implementation has been limited. Some of the recurrent issues faced by investors in Jordan today include the predictability, interpretation, and application of laws and regulations and frequent breaches of contracts. Investors consider the regulatory changes frequent and abrupt, often occurring without warning or a transition period, and without consultation with the private sector. Texts are sometimes vaguely drafted, leaving room for interpretation, particularly in tax- and customs-related matters. Furthermore, a proliferation of licensing requirements, permits, and approvals—which may well have been initially introduced to protect users and ensure a high level of service—in fact represent a significant cost in time and fees for businesses without enhancing quality. These requirements may also act as barriers to new entrants, reducing dynamism and competition, and are particularly onerous in the tourism sector. The Ministry of Tourism decided in December 2019 to abolish licenses in the sector, relying instead on a classification scheme to regulate businesses under its mandate, although further details on application of the decisions have yet to be issued.

Competition

Robust market competition helps generate the incentives for firms to innovate, reduce costs, and become more efficient, or to exit, driving productivity. Jordan would benefit from stronger institutions to enforce antitrust rules and to advocate for greater government attention to robust implementation of competition policy. The Competition Directorate suffers from an inadequate mandate, lack of institutional independence, and lack of resources, both financial and human. It also lacks mechanisms to identify and monitor restrictive policies and regulation and thus has difficulty performing the role of a competition advocate. The effectiveness of the Competition Law, which touches on a wide range of topics covered by sound antitrust laws, could be boosted by improved policy implementation as well as by some legal amendments, including increasing the investigatory and prosecutorial powers of the Competition Directorate. Competition-related issues deeply affect all three sectors analyzed in this CPSD (tourism, logistics, and ICT): (a) barriers to entry and other policies increase the market power of trucking companies, freight forwarders, and clearing agents at the expense of individual truckers in the logistics sector; (b) restrictive regulations across the entire tourism value chain artificially segment the market, undermine competition, and protect incumbents; and (c) weak enforcement of existing regulations permits discrimination and abuse of dominance against some sector players in ICT and fails to ensure equitable spectrum policy and access to infrastructure and rights of way, raising costs to end users. Regulations are often put in place in order to ensure a high quality of service or financial sustainability, but there is a balance to be found between overregulating, on the one hand, and ensuring minimal technical and financial requirements to guarantee quality and competence in service delivery, on the other. Reforms to strengthen the institutional capabilities of market regulatory agencies in these and other sectors would complement institutional and regulatory reforms on the competition agenda.

Segmented Labor Markets

Labor policies make it difficult to match workers to jobs and prevent the economy from leveraging labor, one of Jordan's main strategic resources. The situation of Jordanians in the labor market is profoundly impacted by the presence of the large number of non-Jordanians—migrant workers and refugees—in the labor market, and immigration and work permit policies have been implemented to attempt to address this reality. Disconnects between policy and reality have undermined the system, however. These disconnects include the difficulty of guaranteeing foreign workers a one-year, full-time work contract and the presence of a large number of non-Jordanian workers in the country without a work permit. The result is, on the one hand, a labor market that is formally segmented, where workers have difficulty moving across segments, leading to a suboptimal labor allocation across sectors and jobs and harming productivity. Labor segmentation is in most cases based not on education or initial skills, but on nationality, gender, sector, and legal status, and this fragmentation is increasing.[1] On the other hand, high informality has meant that although segmentation exists, there is also a wide grey area in which competition exists between Jordanians and non-Jordanians, and where Jordanians can find themselves competing at a disadvantage.[2] An extensive study (Razzak 2017) has found that Jordanians seek working conditions that provide on-time payment, recognition of overtime, predictable working hours, and jobs that emphasize skills rather than manual labor. For non-Jordanians, however, these conditions appear to be routinely flouted, and the enforcement of the Labor Law is undercut by limited resources and by the incentives created by an immigration system and labor laws (e.g. a lower minimum wage for non-Jordanians) that push in the opposite direction. In the end, two key objectives—more jobs for Jordanians and a labor market that helps match workers to jobs—are undercut.

Financing Infrastructure

Relative to comparators, Jordan's performance in attracting investment through public-private partnerships (PPPs), at 2 percent of GDP per year over the past five years, has been remarkable, particularly considering the country's modest sovereign long-term credit rating. The government hopes to continue this trend: the need to improve investment efficiency, combined with fiscal constraints, has encouraged the government to prioritize the leveraging of private finance to fill infrastructure gaps in the coming years. Jordan's success, however, masks a number of vulnerabilities in the upstream planning of public investment that need to be addressed before embarking on the pursuit of PPP projects. This is particularly important because future projects will be in sectors in which financial sustainability is more challenging to attain (e.g. in water and sanitation, among others); many past project were in power generation, which generates a stable cash flow to recover most operating and capital costs), and in which government subsidies are likely to be required. Going forward, public investment management mechanisms need to be put in place to ensure that only high-quality investments are approved, fiscal commitments and contingent liabilities are tracked, and the financial viability and governance of subsovereign entities are strengthened. In parallel, the PPP framework will need to foster project origination in subsectors in which private investment can deliver excellent value for money but in which more extensive support from the state is needed to attract private investment and finance. There is also a need to further develop infrastructure-financing opportunities in local currency that can tap domestic investors such as pension funds.

Sector Analyses

The CPSD delves more deeply into three sectors—tourism, logistics, and ICT—in order to increase understanding of the concrete opportunities for private sector investment and growth, and the policy, regulatory, and other obstacles that may hamper them. These three sectors were selected for the importance of their potential contributions to growth, employment, and productivity and competitiveness, and for their more geographically inclusive impacts that can benefit locations and populations beyond Amman. The COVID-19 crisis only serves to highlight the importance of enhancing the performance of these services sectors that rely on Jordan's relative skill abundance—particularly skilled women—and emerging ICT capacities.

Tourism

Jordan has many of the building blocks for an economically productive and sustainable tourism sector, yet it has not been able to fully leverage its tourism potential. Rather than a sector of widespread excellence, it is one mired in business environment uncertainties, bureaucracy, and uneven delivery of what should be highly competitive products. The COVID-19 pandemic and its severe impact on the tourism sector globally and in Jordan will necessitate the implementation of purposeful near-term policies to mitigate the impact of the crisis on the sector, followed by measures to help in the adaptation to what will undoubtedly be a changed business environment as the crisis abates. Globally, the crisis is expected to result in some increased consolidation in the sector as firms, especially SMEs, are forced to exit; this is likely to be true for Jordan as well. Measures taken in the near term should therefore endeavor to minimize outcomes that lead to greater concentration in a market that already suffers from a number of competition constraints, a topic further developed in this report. This is important in order to enhance the competitiveness of tourism in Jordan and contain prices while supporting an improvement in the quality and range of tourism services.

As a recovery in tourism emerges, moving forward will require a new understanding of the sector, of changes in consumer sentiment, and a sharpening of the tourism strategy by development new products and modalities to keep pace with the shifts that are affecting the sector globally. Responses to prepare for a recovery will certainly need to focus on health standards and protocols. But in addition, increased internet access and a growing number of electronic platforms that channel tourism activities are changing the sector; disintermediation is enabling travelers to search widely and customize their travels to a much greater extent than what is offered in Jordan today. The COVID-19 crisis is also likely to change the shape of the industry in the medium term: there is likely to be an increased demand for exceptional experiences, high-quality service, outdoor (adventure) and wellness tourism, and a deeper concern for ecology and health and cleanliness guarantees. The transition also presents an opportunity to rethink and re-focus marketing and promotion, and to adequately fund them. More specifically, Jordan will need to respond with a shift in strategy: rather than targeting all segments of the industry equally—cultural, medical, faith-based, conferences, wellness, adventure, film, sports—spreading resources too thinly and diluting messaging and impact, a focus on specific promising segments needs to be developed. The challenge will be to raise and consistently maintain high standards and tailored, seamlessly unified experiences in the selected segments. The CPSD suggests three tourism segments, building on its cultural tourism offering, in which Jordan can develop an advantage: adventure tourism, faith-based tourism, and medical tourism. Beyond injecting greater focus into sector strategy, boosting competition and eliminating excessively restrictive regulations are essential to encouraging greater private investment and to fulfilling tourism's promise and catalyzing private investment in areas with identified service gaps such as the provision of quality transport, construction of three-star hotels and other accommodation to fill the needs of domestic and long-term tourists, and management of tourism sites, among others. Finally, making good use of the hiatus in tourist activity to invest in employment and training support and capacity building would be a critical investment.

Logistics

The CPSD proposes a shift in Jordan's vision and policies in the logistics sector. Jordan aspires to become a regional logistics hub. But competition is fierce in the region in the provision of traditional logistics services, and Jordan is at a disadvantage because of a number of factors outlined later in the report. For cargo transiting from the Jordanian port of Aqaba to Iraq, Umm Qasr (Iraq) presents significant competition with similar capacity and a shorter road connection to Baghdad.[3] For transit cargo from Europe, Aqaba must compete with the port of Mersin, Turkey. Mersin and Syrian ports are better placed to supply reconstruction activities in Syria. There are limited opportunities for liquid bulk due to proximity to Saudi Arabian ports. There is scope, however, for Jordan to transition to a focus on modern logistics. While traditional logistics focus on the provision and deployment of equipment and storage facilities, modern logistics is asset light. It emphasizes efficient use of available assets rather the acquisition of new assets. It improves the flow of goods by simplifying transactions and improving coordination between supply chain participants. It organizes value-addition activities in a more efficient manner. It also adds value to the goods moving through these supply chains by increasing the amount and accuracy of information about the goods. Finally, it facilitates the exchange of information between the regulator and the supply chain participants. A shift toward an emphasis on modern logistics would take advantage of the country's human capital endowment, in particular the technical skills available in the ICT field; the core business of both logistics and ICT is the management of information. To support such a transition in Jordan, and also to reinforce traditional trade competitiveness, it will be necessary to accelerate reforms in trade facilitation, improve the level of service and sustainability of road transport, and invest in improved distribution of consumer goods domestically. Regulatory reforms will also be required to make the investment climate less cumbersome and facilitate the functioning of markets in a smoother way.

Information and Communication Technologies

The ICT sector is already an important sector for Jordan, with a total contribution estimated at 12 percent of GDP, and has potential for significant growth. This potential has only expanded with the COVID-19 pandemic: ICT is an enabler of growth in sectors that rely on digital infrastructure for aspects of their businesses, and a key pillar supporting the acceleration of existing trends towards home-based work, e-commerce, e-health, online education among numerous other developments. Two areas of the digital economy hold notable potential in Jordan: information technology outsourcing and digital entrepreneurship. Jordan already has impressive examples of ITO in companies like Aspire and Cisco, while Jordan's start up ecosystem is continuing to grow. However, various challenges are hampering the attainment of this potential. Chief among them are problems in digital infrastructure. As already noted, the affordability of Jordan's mobile internet as well as its fixed broadband is lower than that in most peer countries and internet speeds remain far behind the global average. High costs are driven by high taxes and uncompetitive markets. The changeable and costly business environment is also a barrier to both digital entrepreneurs and ITO. Digital platforms and digital payments are slowly developing in Jordan, and the full range of benefits that these could bring to the ICT sector are yet to be realized. Jordan is also notable for the large number of ICT graduates who are unable to find employment in their sector. This situation is caused primarily by a lack of job creation in ICT, but it also reflects a poor match between the skills of graduates and the needs of ICT employers.

Priority areas for reform to unlock Jordan's potential in ICT include measures to increase competition in digital infrastructure, such as enforcing infrastructure sharing and number portability; ensuring competitive bidding for the 5G spectrum; and guaranteeing that mobile network operators cannot block over-the-top competitors. The digital payments ecosystem would benefit from the implementation of e-KYC (electronic know-your-customer) and the acceleration of digitization efforts for government-linked payments to increase use. Short courses for ICT graduates to provide soft skills can also help reduce skills mismatches. Finally, the ICT sector would also be a notable beneficiary of a lower cost and more predictable business environment.

RECOMMENDATIONS

Cross-Cutting Themes

ISSUE	RECOMMENDATIONS
Promoting healthy competition: antitrust enforcement and competition advocacy	• Limit the scope of and establish objective criteria for granting exemptions under the Competition Law; revamp anticartel enforcement and investigation of abusive practices by dominant firms; strengthen the fines regime to meet international best practices and establish a settlement procedure. • Improve the effectiveness of merger control through providing clarity on what transactions fall under the merger control regime, amending the notification trigger by including a turnover criterion and setting criteria to guide the substantive analysis of merger review. • Strengthen the institutional set-up through enabling the Competition Directorate to independently decide on cases and to implement greater transparency and due process during and after the investigation, in addition to increasing the Directorate's human and financial resources. • Condition the application of price controls on the Competition Directorate's prior approval. • Enhance advocacy efforts to increase compliance with the Competition Law by the business community and remove regulatory restrictions to entry, expansion, and competition in key markets.
Labor markets	• Consider measures to encourage formalization of workers, such as harmonizing the minimum wage across sectors, reducing the difficulty and time required to obtain work permits, easing the procedures to shift jobs across sectors, and making nationality and sector quotas more flexible (these are in any case circumvented by workers). • Increasingly tie public wage increases to prevailing wages in the private sector where possible. • Prioritize entry of migrants with in-demand skills – especially highly-skilled workers. • Institute a code of conduct to address harassment in the workplace and public spaces; progress has begun on this, but compliance mechanisms are needed, with the transport sector the top priority. • Use a wide range of media-based campaigns to disseminate tailored messages to change social norms around female employment. • Expand the public sector provision of childcare services and consider a stimulus package to support private sector–led provision of childcare.

Business costs and unpredictability	• A number of critical reforms are underway, but implementation and avoiding policy reversal are key. • Continue to reduce equity limits on foreign direct investment (FDI) by reforming the negative list of foreign investment; this is particularly important for high-potential services sectors. • Simplify regulatory requirements and procedures affecting business entry, licensing, and business operation to reduce burdens on businesses. • Reduce the number of exceptions and exemptions provided—in particular to individual businesses or subsectors—and instead focus on addressing the underlying drivers of cost. • Institute a mandatory consultation process when policy changes are required. This would ensure that the private sector (including a wide range of stakeholders) is sufficiently consulted and that there is an adjustment period for compliance. • Strengthen the institutional and operational effectiveness of the Jordan Investment Commission to strengthen governance, support its investment promotion mandate, allow hiring and managing outside the confines of the public sector, and buttress the Investor Grievance Mechanism.
Infrastructure finance and maximizing finance for development (MFD)	• Continue progress to operationalize the revised public-private partnership (PPP) law, underpinned by a Council of Ministers-approved public investment management (PIM)-PPP framework policy and implementation plan to ensure more selectivity and better management of the government's contingent liability exposure. • Undertake a review to identify, consolidate, and record fiscal commitments and liabilities incurred in past PPPs. • Revamp the PPP framework to foster project origination in subsectors in which private investment could deliver excellent value for money but requires more extensive support from the state to attract private investment and finance.

Sector Assessments[4]

Tourism

ISSUE	RECOMMENDATION
Lack of competition, excessive segmentation of tourism sector, and resistance to new entrants	• Revise bylaws for tour operators, tour guides and specialized tourism transport to reconsider fees, licensing requirements, minimum capital requirements, employment restrictions, allowed business activities, among other constraints • Enhance ease of entry to the domestic flights market. • Level the playing field, including by ensuring that the same level of incentives, tax exemptions, if any, are available to restaurants regardless of location and consider allowing non-local investment in hotels in Petra. • Continue to pursue liberalization of FDI equity restrictions in transportation services and transport auxiliary services, as per Investment Bylaw No. 77-2016, as amended by Bylaw No. 80-2019 for non-Jordanian investments.
Noncompetitive levels of service in tourism and hospitality entities	• Improve the quality of service delivery in all links of the tourism value chain by (a) introducing and further expanding international certification and professionalization schemes; (b) expanding technical and language training (offerings and locations), designed with the private sector and in accordance to its needs; (c) designing and launching a national awareness program reinforcing the value of the sector for all Jordanians and the employment opportunities for all.
Poorly developed and managed sites	• Accelerate and expand the 2016 Site Management Bylaw that allows for private sector concessions at tourism sites.
Uneven geographic distribution of lodging and shortage of three-star accommodations	• Support upgrading and new development of three-star lodging entities, particularly in less developed regions. • Diversify sources and methods of financing.

Logistics

ISSUE	RECOMMENDATIONS
Supply of road transport and competition	• Develop a regulatory framework allowing introduction of an electronic market and operation of digital platforms to facilitate matching supply and demand for trucking services, particularly for individual truckers. This would provide independent operators with direct access to shippers; • Eliminate restrictions that impact the level playing field, including (a): some rules on access to Aqaba port, such as for the number of trips, number of 20-foot containers, and access by individuals; (b) some rules on the licensing and registration of trucks by individuals and companies such as those that suspend the registration of heavy trucks in the name of individuals and that set a minimum number of owned/leased trucks as a requirement for obtaining a license as a company; (c) minimum or reference prices set by associations along the transport and logistics value chain (mainly shipping agents, customs clearance agents, and freight forwarders) and that are contrary to the competition law • Introduce environmental standards as part of the annual truck inspection; this should ensure that the remaining fleet is able to meet future environmental standards.
Trade Facilitation	• Introduce tariff classifications for new imported products to reduce delays at customs caused by the agents' lack of knowledge of product purpose. • Introduce procedures to facilitate e-commerce to respond to expected new challenges for clearing cargo, collecting duties and taxes, and detecting anomalies. • Reduce the exceptionally high rate of physical inspection by Customs in Jordan through greater use of risk-based methods • Accelerate efforts at government agencies other than Customs to make the cargo clearing process more agile, matching the improvements in Customs processes.
Potential e-commerce logistics hub	• Conduct a market study of both domestic and regional e-commerce activities. • Expedite the introduction of proposed customs reforms. • Conduct a review to reduce conflicting regulations, simplify procedures, and provide a business environment comparable to that in competing hubs.

Information and Communications Technologies

ISSUE	RECOMMENDATIONS
Supporting competition in digital infrastructure	• Enforce number portability and review rules on mobile virtual network operators (MVNO) • Enforce rules on right of passage and infrastructure sharing • Establish a competitive selection process for the 5G spectrum. • Enable and require mobile network operators to provide support for voice and video services offered by over-the-top service providers
Tailoring digital skills to market demand	• Support private sector–led digital skills development, including establishment of the National Skills Council for ICT (SC-ICT) as a financially and administratively independent legal entity • Enhance digital skills competencies for public school students.
Enhancing the environment for digital entrepreneurship	• Support building business-to-business (B2B) links between Jordanian high-potential tech start-ups and potential partners or investors in regional and global value chains • Support upgrading and equipping three to five technology hubs (Tech Hubs) as “for fee” venues.
Digital Platforms	**Government platforms** • Assess available services, and interoperability, capabilities, and data governance in the Jordan e-government program and incentivize creation and upgrading of foundations for e-Government • Build capacity at MoDEE and other government agencies to implement the Digital Jordan program **Private sector platforms** • Address regulatory and taxation issues, including classification of economic activity and avoid uncertainty in domestic regulations and taxation. • Address issues related to the regulation of freelancers. • Support adoption of the gig economy through outreach, awareness-building campaigns, and training on how to access and offer services.
Boosting use of digital payments	• Accelerate the digitization of government payments (National Aid Fund, bread subsidy, health and transport) to generate use cases for digital payments. • Develop a government e-payments services implementation roadmap. • Develop an overarching government payment architecture. • Develop a high-level change management framework. • Develop regulatory guidelines and policies regarding digital government-to-person (G2P) payments and financial inclusion.

1. JORDAN COUNTRY PRIVATE SECTOR DIAGNOSTIC

INTRODUCTION

The Jordanian economy has been struggling to grow over the past decade: the relationship between the level of investment and the consequent increase in gross domestic product (GDP) has worsened,[5] labor productivity has declined, and goods exports have fallen. Most jobs created are low skilled, and Jordanians, particularly young women, are not able to turn their education into employment and higher incomes for themselves, and into productivity gains for the economy. Economic stagnation is also reflected in trade. While commodity price fluctuations played an important role in the decline of Jordan's merchandise exports (relative to GDP) in the past decade, the lack of innovation also has hurt the competitiveness of the country's traded goods (World Bank 2019a).[6]

Services exports, on the other hand, have fared better. Although they have not surpassed GDP growth, exports of services have increased and have generally kept up with GDP growth. Indeed, recent analysis suggests that Jordan's comparative advantage rests in services, given its cost structure for energy and transportation, the availability of highly skilled women, and the constraints on regional trade (World Bank 2018e and 2019a). On the supply side, the Jordanian economy is dominated by services sectors, which have represented close to 60 percent of GDP during the past two decades. Tourism, transport and communication, financial services, and government services, in particular, are important subsectors. In terms of contributions to GDP growth, the services sector has also been the main driver, with tourism particularly buoyant in recent years.

This report complements recent analysis that suggests that an emphasis on services as a driver of growth is the right place to start in Jordan. And while services dominate Jordan's economic activity, private sector firms in services (and beyond) suffer from significant constraints that prevent them from entering markets and thriving. The CPSD focuses on five of these cross-cutting constraints that impair the dynamism of the private sector in services and elsewhere, restrict investment, and inhibit the creation of high-quality jobs: business costs, the investment risks associated with uncertainty and unpredictability of investment policy, labor market problems, barriers to competition, and issues related to the financing of infrastructure investment. These five constraints were chosen on the basis of consultations with the private sector in Jordan and with experts inside and outside the World Bank Group, and on a review of existing knowledge.

The CPSD then shifts its focus to three services subsectors for more in-depth assessments: tourism, logistics, and information and communication technology (ICT). Tourism is already a leading sector in Jordan for employment and exports and clearly offers the possibility of significant expansion. Logistics has long been fundamental to Jordan's growth, both as an enabler of other industries and as a sector in its own right serving demand within Jordan as well as in neighboring countries, most notably in Iraq. ICT is also an enabler of growth in a range of other sectors and is growing in importance as more and more businesses look to become digitally enabled and to sell, advertise, and operate through online or mobile platforms. Moreover, Jordan has an existing pool of highly skilled women and ICT-savvy, entrepreneurial, younger generations that it needs to tap.

CPSD roadmap. This Country Private Sector Diagnostic (CPSD) begins by setting out the macroeconomic context in Jordan—a source of considerable challenge to the country. It then outlines the high-level characteristics of the private sector in Jordan. With this context in place the cross-cutting constraints section leverages existing World Bank Group work and aims to provide additional insights in areas that have received less focus in the past, such as the interplay between business costs and policy unpredictability and issues related to the financing of infrastructure investment. In the sector assessments of tourism, logistics, and ICT, the CPSD draws links between those assessments and the cross-cutting constraints and illustrates the impact of a poor business environment, high costs, lack of competition, and an unpredictable regulatory framework on outcomes in the sectors. A summary of the sector assessments is included in Volume I of the Report, and the full assessments are available in Volume II. A table of priority recommendations is included at the end of the cross-cutting constraints section and each sector assessment.

2. COUNTRY CONTEXT

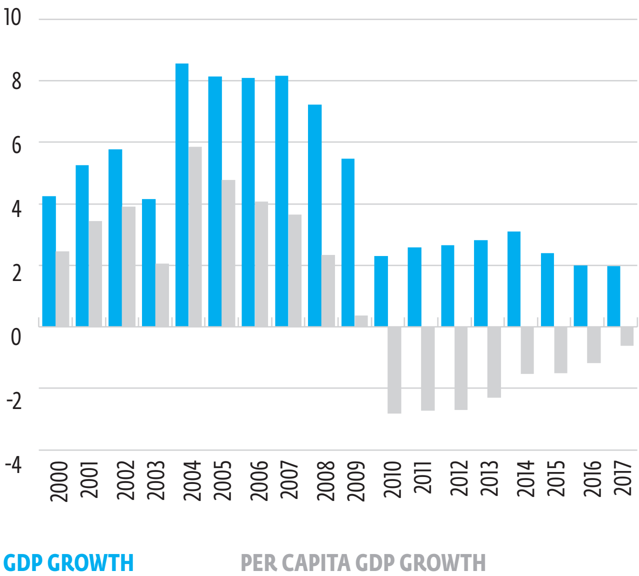
MACROECONOMIC CONTEXT

Jordan is a small open economy, heavily dependent on the public sector, particularly for the employment opportunities it provides to its citizens. A large public sector has been an important part of the Jordanian social contract for some time. This has led to an implicit job segmentation between incumbent citizens in the public sector and migrants and refugees who seek jobs in the private, often informal, sector (World Bank 2016). Over time, fiscal constraints have made it infeasible for the public sector to absorb all incumbent Jordanians, while the emerging private sector has not been able to create enough jobs, constrained as it is by a number of factors that will be discussed in this report. The resulting difficulty in sustaining Jordan's economic and social model has resulted in growing citizen dissatisfaction, particularly with the lack of sufficient job opportunities and the limited improvements to welfare and inclusion. The COVID-19 pandemic has compounded these challenges.

Before the global financial crisis of 2008–09, Jordan enjoyed a decade of strong macroeconomic performance, as enumerated in a recent economic analysis by Harvard's Center for International Development (CID 2018), which provides an overview of Jordan's macroeconomic performance and constraints. GDP grew at an average of 6.5 percent per year; the cumulative increase in per capita income between 1999 and 2009 was 48.7 percent. Growth was export-led, with exports tripling over the period as garment, agricultural, and chemical exports gained market share. The rapid expansion in garment exports in particular was supported by the introduction of qualifying industrial zones (QIZs) in 1997, which allowed for duty-free exports to the United States. Massive inflows of foreign direct investment (FDI), averaging 13 percent of GDP between 2003 and 2009, financed large current account deficits. Nevertheless, this growth did not lead to significant private sector job creation for nationals, in part perhaps because many of the workers employed in QIZs were foreigners. The employment elasticity of growth[7] dropped from 1.16 during 1990–99 to 0.53 during 2000–09. Labor productivity remained low in labor-intensive sectors, leading to the creation of low-wage low-skill jobs that often did not appeal to Jordanians and were filled by foreign workers (refugees or migrants from poorer neighboring countries, and from as far afield as south and east Asia) (World Bank 2016).

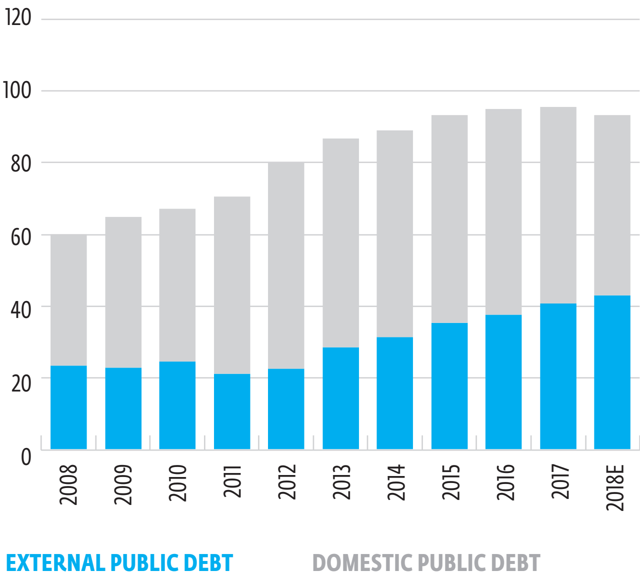
The financial crisis and a series of external shocks contributed to a severe and rapid economic slowdown. The shift in the trajectory of GDP growth can be clearly seen in figure 1.1. Regional conflict reduced demand in some of Jordan's main markets[8] and cut off important trade routes while simultaneously bringing a massive wave of migrants and refugees into the country (CID 2018). The plunge in exports to Iraq and Syria was exacerbated by a fall in international potash prices. FDI inflows dropped to an average of 5.1 percent of GDP over 2010–17 as investors, particularly from Gulf Cooperation Council (GCC) countries, felt the impact of the financial crisis and growing regional instability. Conflict and insecurity also raised the cost of energy: the natural gas pipeline from the Arab Republic of Egypt was disrupted in 2011, forcing Jordan to import liquid fuels at a time of record high prices and straining the country's balance of payments and fiscal accounts (CID 2018).

FIGURE 2.1. GDP AND PER CAPITA GDP GROWTH, 2000–17



Source: World Development Indicators 2018

FIGURE 2.2. GROSS PUBLIC AND PUBLICLY GUARANTEED DEBT HAS GROWN BY 50% IN THE PAST DECADE (% OF GDP)



Source: World Development Indicators 2018.

To address the fiscal and current account imbalances, Jordan undertook a huge fiscal adjustment. Indirect taxes were increased, subsidies cut, and public investment reduced. Jordan's domestic spending net of domestic revenue fell by 8 percent between 2011 and 2017. This is "significantly larger than the adjustment registered [during the global financial crisis] in Spain (4.6 percent of GDP, 2009–15) and Portugal (6.1 percent, 2010–16), and not far below the one recorded in Greece (10.7 percent, 2010–2016)" (CID 2018). Nevertheless, and despite the fiscal effort, Jordan's debt-to-GDP ratio has continued to rise from about 70 percent in 2011 to 95.5 percent in 2017 (figure 1.2), reflecting deficits in the electricity utility (NEPCO) and, to a lesser extent, the water utility (Water Authority of Jordan, WAJ), as well as weak revenue collection.[9]

The Jordanian economy has shown extraordinary resilience despite this large fiscal consolidation and continued to grow at an average rate of 2 percent between 2011 and 2017. Rapid population increase (one of the fastest rates in the world due to in-migration) has, however, meant that per capita income has fallen by 12 percent over the same period. Social stress is heightened by rising unemployment, which reached 18.7 percent in 2018, with especially high rates among the youth (39.7 percent), the more educated (31.2 percent),[10] and women (28.1 percent) (CID 2018).

The challenge faced by policy makers came to a head in June 2018, when several forces occurred together. Per capita income was contracting; few of the higher-skilled jobs demanded by Jordanians were being created; deficit reduction measures had been ongoing since 2014, after what had already been a difficult adjustment to high oil prices from 2011; energy subsides were eliminated over 2016–17, and increased rates on many products directly affected households (World Bank 2018c). Reflecting the significant social stress that had been building in recent years, demonstrations triggered by a proposed tax reform led to the resignation of the government. Slow growth had been making going forward with continued fiscal consolidation difficult; moreover, further fiscal consolidation presents a challenge for political stability and to inclusive growth.

The ongoing COVID-19 pandemic presents additional challenges in Jordan, as it does globally. On the external front, the sharp contraction in external demand will undermine the recent improvement in exports. As a country highly dependent on tourism, the near-total shut down of tourist activities will impact growth in the near-term, and perhaps into the medium term. Although the precipitous fall in the international price of oil is beneficial for Jordan's external account, the negative impact on the economies of lower oil prices on Gulf Cooperation Council countries is likely to reduce investment and remittance flows to Jordan. Domestically, lockdowns and economic dislocation are reducing demand and economic activity, and the need to put in place measures to buffer the impact of the pandemic will raise the fiscal deficit and limit the possibility for consolidation in the near term. dining, tourism, mass transport, and nonessential retail shopping along with construction.

To improve the quality of economic growth and to produce more and better jobs for Jordanians, Jordan will need to rely on greater dynamism in the private sector. It will need to reignite export-led growth in higher productivity sectors, especially services; it will also need to promote investment and ensure more stability in policies and regulations affecting investors, allow its internal markets to become more contestable, and facilitate the access of the existing pool of highly skilled Jordanians—particularly women—to the labor force.

THE PRIVATE SECTOR IN JORDAN

As in many other developing countries, Jordan's private sector is dominated by small enterprises. Small firms make up about 96 percent of total Jordanian enterprises, employ 60 percent of the country's labor force, and contribute 24 percent of GDP, according to the Jordanian Small and Medium Enterprise Association.[11] Also, like many other countries, Jordan suffers from the "missing middle" syndrome. Jobs in Jordan's private nonagricultural sector are mainly found in microenterprises and in old, large establishments; there are few medium-sized firms. Old, large establishments contribute in only a limited manner to net job creation, and microenterprises are concentrated in the informal sector, meaning that not enough high-quality jobs are being created. Promising sectors such as ICT, pharmaceuticals, and health tourism have been something of an exception, populating the middle segment, but these sectors have faced challenges in scaling up and are under continual competitive pressures, especially from within the region (such as from Dubai).

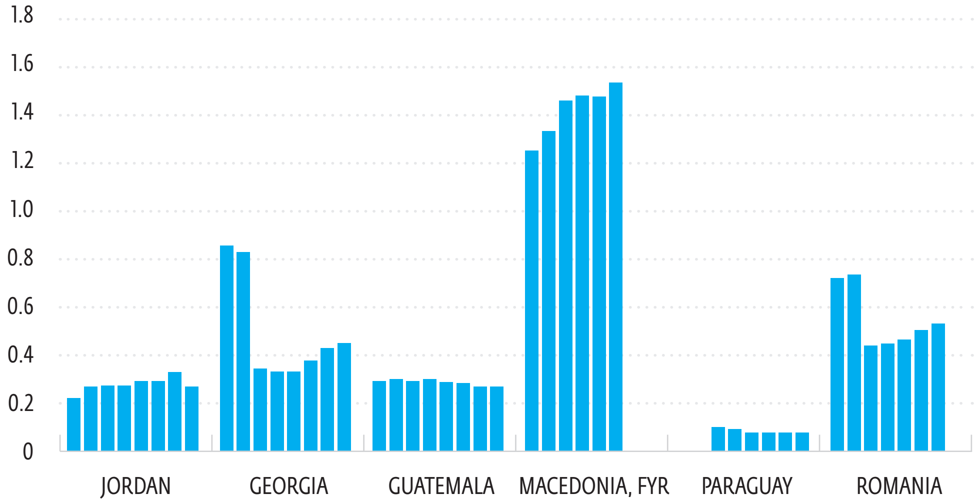
New firms entering the market create the majority of jobs in the private nonagricultural economy, although these jobs are mainly in informal and often low-productivity one-person and micro (two- to nine-employee) establishments. Evidence indicates that informality is associated with lower levels of productivity in the Middle East and North Africa than in other regions that are at a similar level of development. The large share of employment in microfirms is also a reflection of the economy's sectoral composition, which is dominated by the services sector, which tends to have smaller establishments. The majority of such start-ups (80 percent in 2006–11) were in the services industry with a large concentration in retail trade. The types of informal firms that operate in low-productivity sectors often offer low-quality jobs with limited benefits and social protection (World Bank 2011). The widespread creation of start-ups may reflect the fact that many Jordanians are entrepreneurs out of necessity, not of choice, attempting to secure a livelihood in an environment where existing firms fail to generate sufficient jobs to absorb the growing labor force.

A minority of fast-growing existing firms, or "scale-ups," also contribute a very significant share of new jobs to the economy. Scale-ups are defined as existing establishments with at least 10 employees at the beginning of the period, and which at least double in employment size over a four-year period. More productive firms create more jobs, and in the Middle East and North Africa, scale-ups are more productive and younger than other firms (Schiffbauer and others 2015. Despite their small number—only 9 percent of incumbent small and medium enterprises (SMEs) in Jordan fit this description in 2010—these establishments grow at lightning speed. More than half enjoyed an average annual employment growth rate greater than 40 percent, reaching in 2011 more than six times their size in 2006. They contributed 40 percent of net job creation among establishments of all sizes, and 64 percent of economywide net job creation among establishments with 10 or more employees. Manufacturing scale-ups contributed 35 percent of net job creation among manufacturing establishments of all sizes (Strategy& 2018; World Bank 2016).

Barriers to the creation and expansion of firms, abound, however, and the same difficulties that hinder firms from growing inhibit their ability to export. Relatively few Jordanian firms export. Fewer than 20 percent of firms reporting in 2013–14 indicated that their primary market was international. Just 40 percent sold their products and services nationwide; most firms saw their market as strictly municipal. The density of exporting firms is low relative to peer countries (figure 2.3). This is perhaps correlated with the decline in FDI and reflected in the limited connections between Jordanian and international firms. Just 5 percent of all private sector firms have foreign ownership of 10 percent or more, slightly less than the average for the Middle East and North Africa, but well below the average for upper-middle-income countries. Consistent with this finding, relatively few firms in Jordan—6.8 percent—have any form of internationally recognized quality certification. This proportion is well below the Middle East and North Africa regional average of 13.5 percent of firms.

Women are underrepresented at all levels of business in Jordan. Fewer managers are female (less than 5 percent) than the Middle East and North Africa regional average, whereas female participation in ownership is also lower. The share of full-time female workers is also lower than the regional average, below 10 percent. Female workers are marginally more common in larger firms. This lack of female participation does not appear to be driven by education. Female tertiary enrollment, at 37.5 percent, is higher than men's, which is 35 percent; similarly, female literacy in Jordan is over 97 percent.

FIGURE 2.3. EXPORTING FIRMS PER 1,000 POPULATION, SELECTED COUNTRIES, EVOLUTION 2005–12



Source: World Bank, Exporter Dynamics Database.

Note: Comparators selected using the World Bank's "Find My Friends" tool. Annual data for 2005–12 are shown for each country where available.

3. CROSS-CUTTING CONSTRAINTS

This section outlines five major cross-cutting issues for the private sector in Jordan:

a. High business costs

b. Investment risks and lack of policy predictability

c. Segmented labor markets

d. Competition challenges

e. Financing infrastructure and maximizing finance for development

Where relevant, these constraints are also referred to in the sector assessments on tourism, logistics, and ICT that follow. A summary table of the priority recommendations for addressing cross-cutting issues concludes this section.

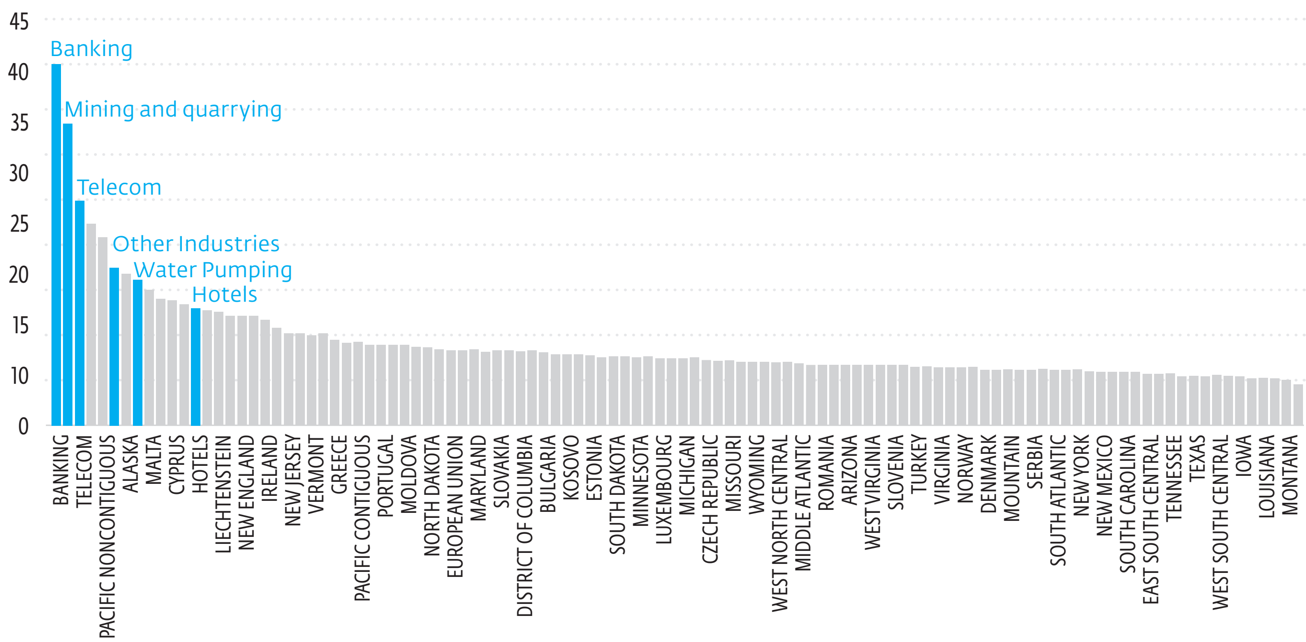
BUSINESS COSTS

High business costs affect the competitiveness of the Jordanian private sector across the board. This section will look at costs in energy, ICT, labor, and transport and will outline how these then contribute to the dynamic of unpredictable policy changes addressed in the next section of the report.

Energy

Energy costs in Jordan are high, can be unpredictable, and vary widely by sector (figure 3.1). Banks face the most expensive tariffs of 40 US cents per kilowatt-hour (kWh); mining and quarrying, the telecommunications (telecom) sector, and hotels also face particularly high tariffs. Electricity tariffs for the productive sectors are more than double the average tariffs in the region, and higher than the average cost for European and non-oil-producing countries in the Middle East and North Africa (World Bank, DPL 2 2019). Jordan's manufacturing sector has felt the brunt of high prices because it is relatively energy intensive, with 46 percent of its production rated highly energy intensive by United Nations Industrial Development Organization. Efforts to shield some household consumers from high energy prices have led to a heavily cross-subsidized energy regime. The ratio between the highest and the lowest energy tariff in Jordan before 2011 was 2.7 but it rose to 8.0 by 2018. Energy tariffs also vary significantly across time and can be unpredictable: following the disruption of cheap imports of gas from Egypt, the cost of generation doubled between 2011 and 2014.

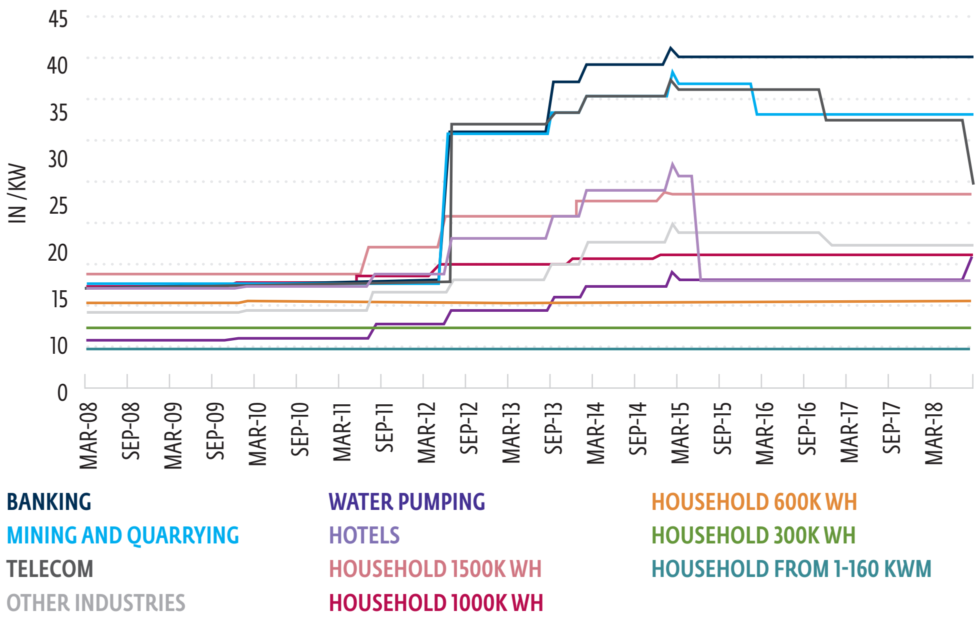
FIGURE 3.1. ENERGY COSTS IN JORDAN, WITH WIDE VARIATIONS BY SECTOR, HIGH RATES RELATIVE TO OTHER COUNTRIES



Source: Hausmann and others 2019.

High energy costs are likely to remain an issue in Jordan for the foreseeable future, raising business costs and reducing productivity. Jordan imports most of its energy, and natural gas provides about 85 percent of the country's primary energy input for electricity. When piped natural gas supplies from Egypt were disrupted in 2011, the national power company NEPCO and the government started to accumulate debt to avoid passing the entire cost burden to the consumers. While today the average tariff is just short of cost recovery, a large legacy debt (amounting to about 18 percent of GDP) has remained unaddressed, and current tariffs are insufficient to cover debt service. The significant cross-subsidies from industry and large consumers are used to keep the tariff at a socially acceptable level for households that consume less energy. Going forward, energy sector costs are projected to increase further as some new high-cost generation projects come online and the interest burden on legacy debt continues to rise. If the burden of higher energy production costs remains heavily placed on the productive sectors, the challenges of high energy costs for private sector development will remain substantial. The government has committed to a financial sustainability roadmap for the electricity sector to try to improve the situation. The plan includes improved targeting of energy subsidies and a debt sustainability plan for NEPCO. It also includes a cap on tariffs of 200 percent of the cost of supply for productive enterprises, and an overall reduction in cross-subsidization[12].

FIGURE 3.2. ENERGY COST VARIATIONS, BY TIME AND SECTOR



Source: Hausmann and others 2019.

Note: kW = kilowatt; kWh = kilowatt hour

Together this implies that private sector development in the medium term should focus on sectors that are not excessively energy intensive—including services. Tourism, logistics, and ICT all broadly meet this requirement, although they also would benefit greatly from reductions in energy tariffs. Hotels in particular have faced relatively high and changeable energy prices. For example, one hotel owner said that for a hotel of 106 rooms he had been facing a monthly electricity bill of $38,000.

Telecommunications

Costs for mobile connectivity in Jordan are substantial by regional and competitor standards. In terms of mobile internet affordability, Jordan scores lower than Egypt, Morocco, Tunisia, Turkey, the Russian Federation, Bulgaria, Romania, or the United Arab Emirates on the GMSA mobile connectivity index. This is a hindrance to more rapid growth of the digital economy, including digital payments and mobile e-commerce, for which Jordan has seen relatively slow uptake. Network coverage and availability is slightly better than Egypt, Tunisia, and Russia, but it remains well behind regional leaders.

In fixed broadband, Jordan also has relatively low speeds and relatively high costs. The average speed is 18 megabits per second (Mbps) compared with a world average of 41 Mbps, and best in class of 166 Mbps in Singapore. Despite offering slow speeds, Jordan's fixed broadband charges customers fees per month that are higher than those found in countries such as Morocco, Tunisia, Russia, Romania, and Turkey. As is detailed in the section on market dynamics and in the ICT deep dive, these cost and performance issues have their roots in regulatory challenges.

INVESTMENT RISKS AND POLICY UNPREDICTABILITY

In addition to elevated costs, businesses face a highly changeable and uncertain regulatory environment. The instability of the business environment not only influences existing investors, but also affects Jordan's ability to attract new investors, especially because word-of-mouth and positive testimonials from existing investors are often among a country's most effective marketing tools. Although improving the stability of the business environment has been the focus of regulatory reform efforts in recent years—most notably through the cabinet's approval of the predictability framework[13] , which makes it mandatory for all business-related regulations to go through a Public-Private Dialogue process, and the recent organization and operationalization of an investor grievance mechanism (IGM) at the Jordan Investment Commission[14]—progress on implementation has been limited. A survey of firms in late 2017 and early 2018 found that regulatory instability and uncertainty were still a major problem. Fully 89 percent of businesses said government did not inform them of regulatory changes that affect them; 90 percent believe that the government does not take concerns voiced by the private sector into account when amending legislation that affects business. Only 6 percent of firms surveyed said they had ever been consulted on regulatory changes, although larger firms are more frequently consulted. On average, the firms surveyed disagreed with the statement that "in general the legislations affecting my business are stable" (IDRC 2018). This lack of predictability in regulations and the inability to interpret them are costly for investors.[15]

Some of the recurrent issues that investors in Jordan face today include the predictability, interpretation, and application of laws and regulations and frequent breaches of contract. These are outlined as follows.

a. Predictability of laws and regulations. Investors consider that regulatory changes are frequent and abrupt, often occurring without warning or a transition period and without consultation with the private sector. Investors maintain that officials design new regulations without calculating the economic impact. This lack of stability is encouraged by frequent changes in top government officials, including ministers, which are often accompanied by changes in policy and strategic direction. The result is an increase in uncertainty, costs, and delays for investors.

b. Interpretation of laws and regulations. Texts are sometimes vaguely drafted, leaving room for interpretation. Ambiguous provisions allow officials to interpret them in ways that can be prejudicial to investors. This is often the case of tax-related matters that involve the abuse of power by civil servants, notably during audits. Similarly, for customs duties, the lack of clarity allows discretion for officials determining the scope of exemptions from customs duties for companies within the Development and Free Zones or for firms outside of those zones that benefit from advantages pursuant to the Investment Law No. 30 of 2014.[16] This leads to delays in customs clearance and tends to result in having customs officials exclude the products in question from the scope of the exemptions, raising costs.

c. Application of laws and regulations. Discretionary, and sometimes abusive, application of the laws—especially for regulated activities—is another complaint noted by the private sector. In practice, this refers to variations in the application regulations as firms move from one officer to the next, often imposing on investors additional requirements not mentioned in the legal texts. These additional formalities render procedures even more cumbersome.

Cumbersome formalities include the proliferation of licensing requirements, permits, and approvals that represent a significant cost in time and fees for businesses. A clear process or a stated period of time for procedure completion is not always available. The licenses also create barriers to new entrants, further reducing dynamism and competition in the sector. Specific licenses, often more than one, have been required for a wide swathe of businesses in Jordan. These requirements are particularly pronounced in the tourism sector, with restaurants, cafés, and tour operators among many others affected. This issue is detailed further in the tourism sector assessment of this CPSD. [17] A cabinet decision to abolish the licenses was issued by the Ministry of Tourism in December 2019; the classification scheme will be used to regulate businesses under its mandate, although in the absence of further details, both regimes are currently being applied.

d. Breach of contract. A tendency of state agencies or ministries not to comply with commitments made by prior administrations or to issue new laws and regulations that affect investments has been noted by the private sector. This practice can trigger the application of stabilization clauses contained in contracts, public-private partnerships (PPPs), or power purchase agreements (PPAs). A number of disputes between foreign investors and the state have led to formal proceedings.[18] The disputes are due to breach of contract and issues related to the renewal of licenses, delays, noncompliance with prior commitments, income tax on sales of assets, and unlawful termination of agreements. Beyond raising costs related to regulatory uncertainty, these proceedings entail direct costs for the country associated with representational costs that include the fees of international law firms acting as counsel, experts drafting reports and arbitrators' fees and expenses.

Foreign Direct Investment

On the subject of foreign direct investment (FDI) more generally, Jordan is among the most restrictive countries covered by the OECD's FDI Regulatory Restrictiveness Index. Restrictions on FDI increase business costs by creating barriers to entry and market access and by raising input costs for sectors that rely on the products of restricted sectors. Sectors with relatively higher levels of restrictions on FDI in Jordan include transportation, media, real estate, construction, and business services, but they exist even in sectors that are usually more open, such as wholesale and retail services. Some sectors require foreign investors to make higher up-front investments or provide greater collateral relative to locals; an example is tour operators. In other sectors, full foreign ownership is restricted. The government has recently fully liberalized 22 of 51 activities and services that previously only permitted less than 50 percent foreign ownership (World Bank, 2019). However, that still leaves 9 activities and services that are completely prohibited from having foreign investors and 20 that allow only less than 50 percent foreign ownership.

FDI restrictions are costly in terms of forgone investment. A strong negative relationship exists between a country's FDI restrictiveness (as defined by the FDI index) and its overall FDI (in stock per capita). Mistura and Roulet (2019) identify similar results for 60 advanced and emerging countries, finding that liberalizing FDI restrictions by about 10 percent can increase bilateral FDI stocks by 2.1 percent on average. They note that effects are greater for FDI in the services sector, but even manufacturing sectors—which are typically open to FDI—are negatively affected by the overall restrictiveness of countries.

Among the costliest are policies that restrict the presence of foreign investors within a country's borders. The evidence regarding the trade-depressing impact of restrictions on the services trade is particularly relevant to Jordan. In OECD countries, extensive costs are associated with four types of restrictions on the trade of services, with the highest costs associated with restrictions that arise behind country borders. These are related to the commercial presence of foreign businesses (mode 3) and the natural presence of persons (mode 4), two modes which capture restrictions that affect the establishment as well as the operation of businesses.[19]

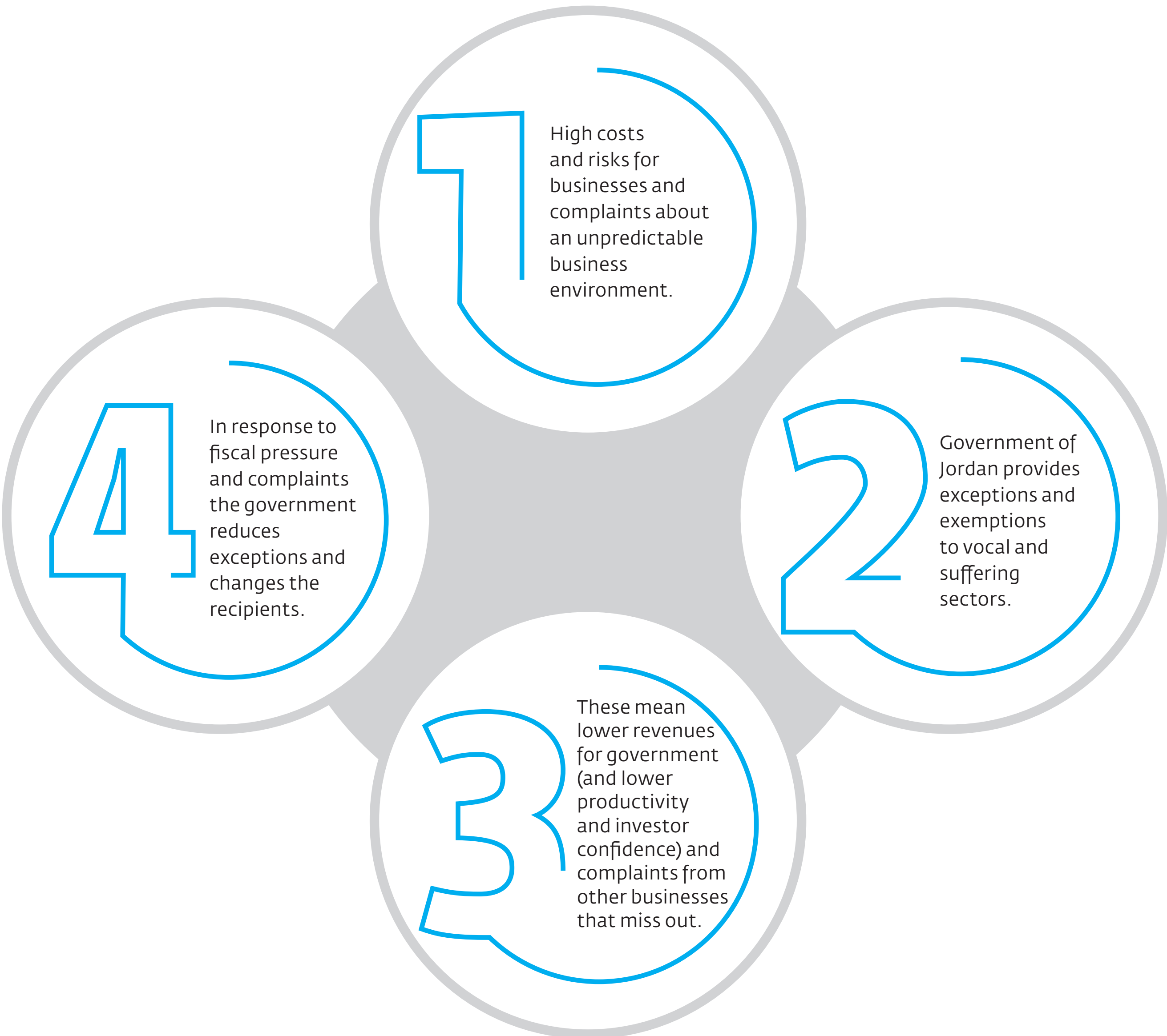
A vicious cycle of unpredictable business environment and high costs

Regulatory unpredictability interacts with high business costs to generate a negative cycle. Businesses in Jordan face a challenging cost environment, notably in terms of energy, logistics, and ICT services. In response to these challenges, and to a regulatory environment that changes frequently and unpredictably, businesses approach the government with requests for relief or assistance. For high-priority or vocal sectors (and sometimes just priority or vocal businesses), the government provides relief in the form of exceptions and exemptions to some costs. These exceptions and exemptions are granted in a range of ways. For example, energy tariffs vary by a factor of eight depending on the sector. Similarly, rules on the use of foreign workers vary by sector, physical location, and employee nationality. Tax and customs exemptions are also widespread and differ depending on sector and geography. Some sectors receive exemptions from competition regulations, allowing them to impose high barriers to entry (tour bus operators) or price floors (trucking). Finally, Jordan has a multitude of economic zones with varying exemptions and exceptions. ASEZ, in Aqaba, has exceptions that differ from QIZs, which in turn differ from Development Zones.

These exceptions and exemptions amount to a significant cost subsidy by the government to the beneficiary businesses and sectors. Exceptions and exemptions have contributed to lower tax revenues for the government, for example. According to a World Bank analysis, exemptions were the main driver behind a decline in the total tax-to-GDP ratio from 24.7 percent in 2007 to 15.9 percent in 2016 (World Bank 2018c). Selective exemptions also generate complaints from excluded businesses or sectors. Fiscal pressures and complaints from excluded sectors lead the government to reduce some exceptions, close a few exemptions, and change regulations to provide benefits to those who missed out the first time. Yet this pattern takes the country back to the beginning of the cycle: high costs for businesses and an unpredictable regulatory environment, as represented in figure 3.3.

To definitively exit this cycle Jordan needs to tackle the underlying cost and investment risk problems afflicting the economy through investments or more comprehensive regulatory solutions. These reforms, such as tackling competition issues, are likely to be challenging politically, or may require substantial investment, for example in renewable energy. One approach may be to attempt to tackle costs for individual sectors by, for example, investing in renewable energy to provide lower energy costs to specific sectors or locations. While this would still be a form of exceptionalism, it would at least be a shift from a cost subsidy to an effort to address the problem for part of the economy; it could provide a model for how to scale up the solution to address cost challenges economy-wide. Maximizing finance for development (MFD) provides another tool to help break this cycle by allowing investors to tap additional avenues of financing to fund needed investments. Yet it is critical that the fiscal room generated by MFD be used to tackle the underlying challenges rather than facilitating a continuation of the negative cycle.

FIGURE 3.3. CYCLE OF PIECEMEAL REFORMS THAT RESULTS IN REGULATORY COMPLEXITY AND UNCERTAINTY



LABOR MARKET SEGMENTATION

Jordan is a labor-abundant nation that has experienced one of highest rates of labor force growth in the world. This has intensified the challenge of reducing the country's unemployment rate. Jordan's annual population growth rate averaged a very high 4 percent over the past 15 years and stood at a still-high 2.6 percent in 2017.[20] The country is also home to a large population of migrant workers whose numbers have tripled over the past 15 years. [21] In addition, nearly 1.3 million Syrian refugees have entered the country, and some of them have further swelled the labor force. Although precise numbers are not available, the Ministry of Labor suggested in 2017 that as many as 1.4 million non-Jordanians may be working in the country, about the same as the number of employed Jordanians (quoted in Razzaz 2017).

Jordan's labor market troubles are reflected in high unemployment, rising informality, and low labor force participation rates among Jordanians. While jobs are being created, the labor force is expanding at a much more rapid pace, meaning that unemployment has remained stubbornly high at close to 14 percent on average since 2000, standing at 15 percent in 2018,[22] with much higher figures for youth (39.7 percent), women (28.1 percent), and those with higher education (31.2 percent).[23] This is not a new issue as even in the economic boom years of 2000–2007, the rate of job creation did not keep pace with the growth of the labor force, but the problem has significantly worsened. While in 2007 there were 160,000 entrants into the labor force for 70,000 new jobs; by 2015, the gap between entrants and new jobs had more than doubled, with just 40,000 new jobs created for 235,000 new market entrants. Informality has risen since 2010, and informal workers now represent almost 60 percent of all workers (Winkler and Gonzalez, 2019).

The supply of workers thus does not appear to be at the core of the country's poor labor market outcomes; neither does the level of available skills nor do costs appear to be the binding constraint. Although there may be exceptions in specific sectors, the evidence supports this hypothesis. The supply of both high- and low-skilled workers increased substantially over the past two decades: on the one hand, the influx of migrants and refugees substantially increased the supply of unskilled labor; on the other, the dramatic rise in the educational attainment of Jordanian women led to a large increase in the overall supply of skilled labor.[24] With respect to labor costs, Jordan's wages are higher than the average in the region, and additional costs, such as social security contributions by employers, are significant, at 14.25 percent of wages, but fall close to the middle of regional ranges (Fitch Solutions, 2019). [25] Another metric supports the finding that labor costs are relatively low in Jordan: the ratio of labor costs to value added, often used to compare competitiveness across countries. While Jordan's relatively high minimum wage (annually it amounts to more than 100 percent of GDP per capita) means that productivity-to-minimum wage comparisons suggest a problem, the average wage paints a slightly different picture. The average wage in Jordan represents 42.2 percent of labor productivity (2014), while in all other regions except for Central Asia and Europe, the ratio was on average higher than 43 percent.

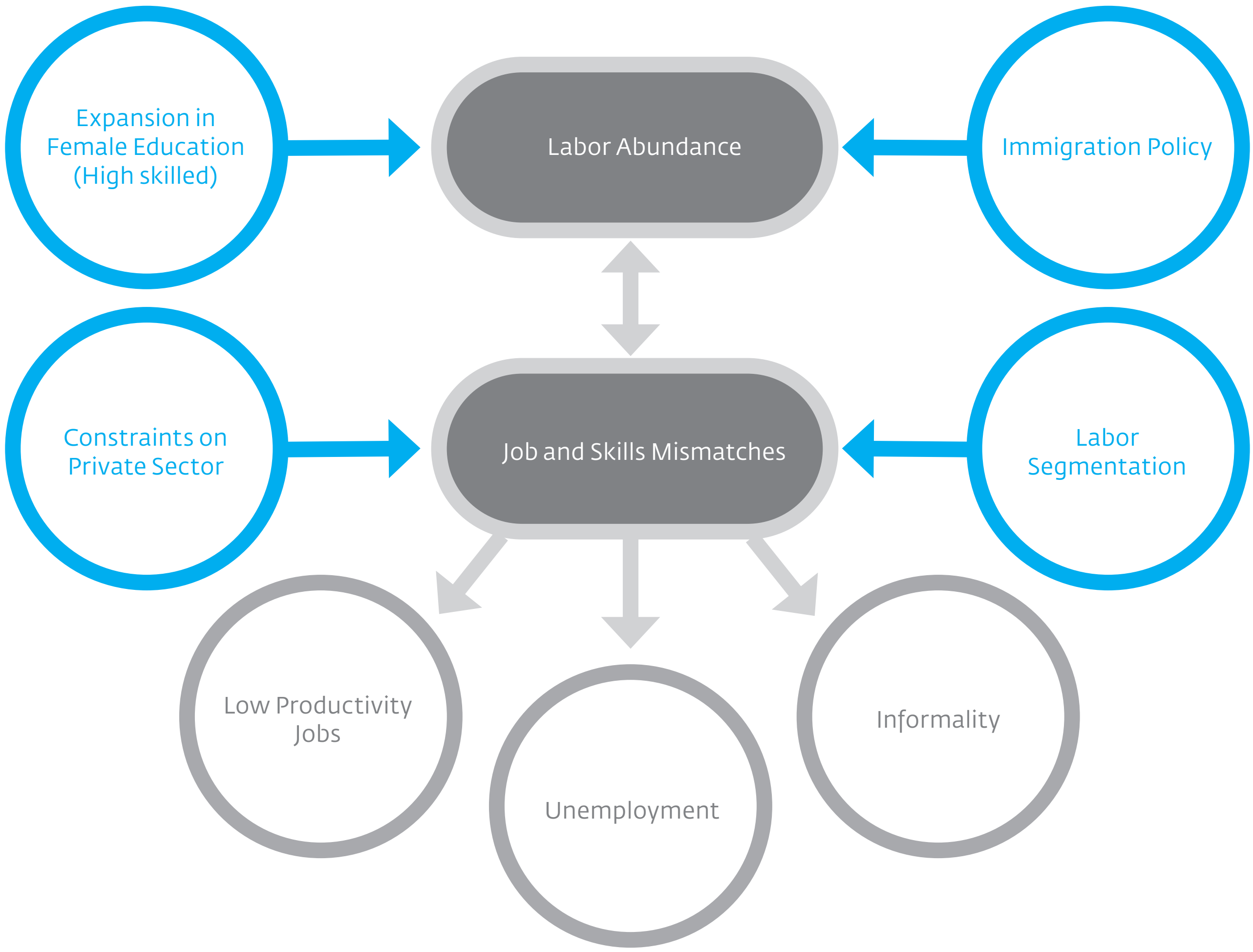
The demand for labor by the private sector—rather than issues related to the supply of workers—appears to be main issue underlying high rates of unemployment in Jordan. The private sector has not been able to generate a large enough number of jobs nor to create the right types of jobs to meet the supply of Jordanian labor. New private sector jobs are increasingly in lower-productivity sectors, and the share of employment in small firms, which tend to be less productive, is rising; dynamic sectors are not labor intensive. This shift is supported by evidence showing that wages for higher-skilled workers are stagnant, while wages of low-skilled and informal workers are rising. The result has been a declining skill premium and wage compression since 2010 (Winkler and Gonzalez, 2019). The reasons behind the lack of dynamism in private sector job creation include the broad constraints discussed in this report that limit entry, growth, and exit of firms—namely, a poor environment for competition, high costs, and a difficult business environment characterized by excessive regulatory uncertainty. Partly because of the challenges of landing a well-paid, high-skilled private sector job, about 400,000 Jordanians have emigrated, mostly to GCC countries. Most of these emigrants have middle- to high-skilled occupations and are on average more skilled than those Jordanians who remain at home (Jobs Diagnostic 2018).

In addition to the relatively low demand for labor from the private sector, labor policies have hindered the efficient matching of workers to jobs, preventing the economy from leveraging labor, one of the country's main strategic resources. Policies have segmented the labor market by gender, nationality, sector, and legal status (formal/informal), and this fragmentation is increasing. There is little movement of workers between segments, thus implying suboptimal labor allocation across sectors and jobs, harming productivity. The productivity gains observed between 2004 and 2016 are almost entirely explained by within-sector productivity growth (Jobs Diagnostic 2018).[26] Segmentation may have also encouraged the shift toward less productive sectors by (a) slowing the impetus to apply technology in sectors in which low-skilled workers are abundant, (b) contributing to higher informality by creating obstacles to the more flexible movement of labor between sectors, and (c) encouraging low labor force participation of Jordanians by increasingly fragmenting the job market according to nationality (figure 3.4).[27]

Market segmentation between Jordanian and non-Jordanian workers is the result of restrictions on the employment of foreign workers and barriers to hiring refugees and has led to a sorting of many of these workers into the informal sector, despite growing demand for their skills. Key sectors such as agriculture, construction, administrative services, and real estate are dominated by non-Jordanian workers. Some professions are reserved entirely for Jordanian nationals; sector quotas apply in many areas; work and residency permits are costly and time consuming to obtain, require approval from the Ministry of Labor and the Ministry of Interior, and must be renewed on an annual basis; and foreign workers are not entitled to change jobs without applying for new work and residency permits. These and other constraints encourage immigrants and refugees to work informally (informal workers are estimated to constitute 60 percent of the workforce), for lower—albeit rising—wages (Fitch Solutions 2019; Winkler and Gonzalez 2019).

Segmentation between public and private jobs has an impact on the ability of the private sector to attract the workers they need at reasonable cost. The public sector continues to play a key role as an employer of nearly one half of Jordanian workers. Although the number of public sector jobs as a share of the population in Jordan is not particularly high, it is very high relative to the small number of private sector jobs: more than 40 percent of employed Jordanians work for the public sector. Moreover, a high wage premium for government jobs (which has increased by 300 percent over the past decade, not counting benefits and job stability) coexists with stagnant real wages in the private sector. The private-public sector wage gap is likely to affect private sector labor costs and competitiveness, distorting price adjustment mechanisms that match labor demand and supply. Moreover, high public sector wages and benefits are likely to have contributed to job queuing and to unemployment by making private sector jobs increasingly unattractive to Jordanians and by raising the reservation wage of job seekers. Similarly, remittances may affect the supply of workers by inflating their reservation wage. Some empirical evidence supports this claim, whereby individuals who receive remittances are almost 6 percentage points less likely to participate in the labor force than their peers who do not receive them (Emilsson 2011 cited in Winkler and Gonzalez 2019). High transportation costs and lack of childcare are also likely contributors to a high reservation wage.

FIGURE 3.4. SOME FACTORS AFFECTING POOR LABOR MARKET OUTCOMES IN JORDAN



The divide between female and male labor markets is another facet of the Jordanian labor market, one that represents a major missed opportunity for the country given the high educational attainment of Jordanian women.[28] Women have barely increased their formal labor force participation, which has been extraordinarily low at just over 13.2 percent (2016) over the past two decades. Only Syria and Yemen have lower participation rates; Jordan's female labor force participation rate is below both the averages for lower-middle-income countries (38 percent) and for the Middle East and North Africa (21 percent). In Jordan, only 19 percent of businesses are co-owned by women, and a mere 2 percent of firms have females on their top management teams (World Economic Forum 2017). Comparing workers with the same characteristics reveals a 14 percent wage gap between genders. Low female labor force participation has very real costs at the aggregate level too. In the case of Jordan, the International Labour Organization (ILO) estimates that by increasing women's labor force participation by 25 percent, the GDP would grow by 10 percent (assuming these women find jobs).[29]

The causes of low female labor force participation include legal segmentation. Internationally, Jordan has among the most differences in laws by gender—including legal constraints on the jobs and tasks that women may undertake; such stipulations are strongly linked to poorer labor market outcomes for women. Indeed, of a possible score of 100 in the World Bank's Women, Business and the Law index, Jordan scores just 35 (Morocco had the highest score in the Middle East and North Africa region, at 73.13 in 2019) (World Bank 2018c and 2019a)[30].

Other major factors reducing female labor force participation include social norms, lack of childcare options, and inadequate public transport. Social norms play a role in the low labor force participation rate of women. The large majority of men and women agree that "when jobs are scarce, men should have more right to a job than women," and around half of all men and women agree with the statement "If a woman earns more money than her husband, it's almost certain to cause problems." Women are also considered primary caregivers meaning that, married women are 12.5 and 9.6 percentage points less likely to be in the labor force or employed, respectively, than single women (Jordan Jobs Diagnostic, 2019). Poor public transport options also play a major role. According to a recent study in Jordan (Aloul, Naffa and Mansour 2018), 47 percent of the surveyed women reported having turned down job opportunities because of the state of public transportation; they named sexual harassment, affordability, and service coverage as key barriers. In the same study, 80.5 percent of the women surveyed said that public transportation is integral to their economic participation. Even highly educated women find it difficult to overcome those barriers. Of every 10 unemployed women, 9 are university graduates (World Bank 2018); perhaps because of this amalgam of difficulties, skilled women show a strong preference for public sector jobs, with 68 percent of working women employed in education, health and social work, and public administration.

Beyond reforms that boost the dynamism of the private sector and increase the entry and growth of firms, reforms to reduce labor market segmentation are needed. Understandably, these reforms may have to be undertaken gradually to soften their impact. And it may be the case that Jordan will have to live, in the near and medium term, with high rates of unemployment given the enormous challenge of creating enough jobs for a rapidly growing population under difficult economic conditions. Nevertheless, labor market reforms are necessary to increase the employment-to-growth elasticity, such that more jobs are created as the economy grows. A visa reform allowing high-skilled foreign labor immigration, for instance, is a jobs-creation measure because high-skilled immigrants contribute to technological adaptation that has been shown to result in jobs for less skilled native workers (Constant 2014). In other words, high-skilled foreign workers are likely to complement less skilled workers—not replace them; they add value to the work of others and improve productivity and growth overall (Ottaviano, Peri, and Wright 2010). Moreover, segmentation is not only an inappropriate instrument for achieving social objectives, but it has also harmed productivity growth and equity, and it may be contributing to social unease.

COMPETITION CHALLENGES

Competition could leverage the private sector to promote continued social progress by boosting productivity growth and consumer welfare. Firms facing vigorous competition have strong incentives to reduce their costs, to innovate, and to become more efficient and productive than their rivals.[31] As a result, the economy produces well-priced and higher-quality inputs that increase overall competitiveness. At the same time, sustainable growth through expansion of markets and productivity cascades into increased prosperity and opportunities, allowing consumers to obtain a wide variety of well-priced quality products and services that improve their quality of life.

International experience shows that the effective implementation of comprehensive national competition policies can bring substantial economic gains. Estimates suggest that competition policy reforms boosted Australia's GDP by at least 2.5 percent or $20 billion through their effect on increased productivity and lower prices during the 1990s. At the same time, tough enforcement against the practices of cartels, based on well-designed anticartel laws, constitutes are an example of an effective tool to reduce harm of anticompetitive behavior (Alexander 1994; Symeonidis 2008).

A comprehensive policy framework includes a set of policies and regulations ensuring that competition in the marketplace is not restricted in a way that reduces economic welfare (Motta 2004). In practical terms, competition policy involves two pillars:

- *Enforcing antitrust laws* to control distortions caused by noncompetitive market structures (merger control) and strategic behavior of firms (identification, sanction, and deterrence of abuses of dominance and cartel conduct).

- *Reducing market distortions caused by direct and indirect government intervention* in markets, particularly related to
  - Economywide interventions, such as the ill-advised presence of state-owned enterprises, the lack of competitive neutrality, the discriminatory provision of subsidies, and restrictive public procurement and international trade and foreign investment rules;
  - Sector-specific policies and regulations that reinforce dominance or limit entry, facilitate collusive outcomes, discriminate between market players, and protect vested interests.

The role played by an effective competition authority

The effective promotion of competition is not a task for one agency or ministry but demands the engagement of all government entities that participate in markets as regulators, providers, or consumers of products and services. Nevertheless, competition authorities have a primary role in the identification, sanction, and deterrence of anticompetitive behavior by market players, be they public or private. In many countries, the government authority responsible for implementing competition law acts as both enforcer of antitrust rules and promoter of procompetition government interventions, both economywide and sector specific.

In Jordan, the Competition Directorate has been timid in both functions. As an enforcer of antitrust rules, the directorate faces hurdles associated with an inadequate mandate, insufficient enforcement tools, the lack of institutional independence, and the lack of resources. As an advocate for competition policy across the economy, in addition to insufficient resources, the directorate further lacks a mechanism to identify and monitor restrictive policies and regulations affecting the economy as well as a strategy for engaging with other government authorities, including ministries and sector regulators.

Igniting antitrust enforcement in Jordan

The effectiveness of Jordan's Competition Act, while it touches on a wide range of topics covered by a sound antitrust law, could be strengthened through both legal amendments and improved policy implementation. A robust antitrust regime prevents inefficient market structures by ex ante merger control and deters anticompetitive practices by prosecuting and sanctioning harmful strategic behavior. The lack of human and financial resources and the insufficient use of available enforcement tools further hinder the capacity of the current framework to detect, sanction, and deter anticompetitive practices.

Boosting the fight against anticompetitive practices

Legal permission to grant exemptions to the competition law—which limits its effectiveness—should be applied sparingly and underpinned by solid economic analysis. Article 7.B gives the minister of industry, trade and supply (MoITS) the right to exempt all conduct under articles 5 and 6—both coordinated and unilateral practices, including all types of hardcore cartels. Offering the legal basis to exempt any sort of antitrust infringement opens the door to discretionary decisions, potentially undermining legal certainty and allowing for discrimination among market players. Exemptions should be applied in a restrictive rather than an expansive manner. In particular, the act should remove hardcore cartels from the list of conduct that may be exempted, establishing objective criteria regarding the meaning of "exceptional circumstances."

Improving the effectiveness of merger control

The Competition Act should provide greater clarity on which transactions fall under its merger control regime and need to be reviewed by the Competition Directorate.[32] The act should include a definition of economic concentration that considers mergers as a lasting combination of at least two previously independent economic entities. It should also ensure applicability of merger control to joint ventures and vertical and conglomerate concentrations. Moreover, the act should replace the market structure notification trigger by a turnover criterion, with a nexus to the local economy and individual thresholds that are periodically reviewed to account for economic growth and inflation. Finally, the competition framework of Jordan, either through law or regulation, should establish objective criteria that guide the substantive analysis of merger review, including guidance on merger remedies.

Strengthening institutional set-up, enforcement tools, and implementation of competition law

The ability of competition authorities to make independent decisions is central to their applying competition rules in a sound, stable, and coherent manner that is based on legal and economic arguments. A reassessment of the enforcement strategy used by the MoITS and the Competition Directorate is needed to ensure this principle. In Jordan, the administration of the competition law directly depends on the national executive branch—namely, the minister of ITS, who alone holds the mandate to refer anticompetitive cases to judicial prosecution; administrative prosecution by the directorate is not an option in the legislation. In this context, since the law entered into force in 2004, only 14 cases of anticompetitive behavior have been prosecuted before the judiciary. The last case sent by the ministry for prosecution was in 2016. All other investigations conducted by the MoITS Competition Directorate were resolved at the ministry level without formal written proceedings, sanctions, or publicity. This approach, at odds with international best practice, limits due process and the possibility of raising awareness about the law and consequences of non-compliance. Local practitioners reported that the current Competition Law framework did not create sufficient incentives for firms to bring cases to the Directorate, particularly due to the current institutional arrangements. Based on regional experience the independence of competition agencies to decide on antitrust cases had a positive impact on the number of cases being prosecuted.[33]

The Competition Act should strengthen investigatory and prosecutorial powers to effectively fulfill its mandate. First, to punish violators and deter future infringements, fines should account for both the (a) illegal benefit enjoyed by the wrongdoer and (b) losses suffered by victims. Current legal fines, limited to 5 percent of revenues or JD 50,000 (about US$70,000) when revenue data is not available, do not offer enough deterrence. International practice is a maximum fine of 10 percent of revenue in the previous year. Second, although the Competition Act mentions the possibility of settlements before both courts (article 17.B) and the ministry (article 10.B, for mergers), no specific procedures are detailed. This lack of direction can harm legal certainty and incentives to settle (article 17.B) and undermine the use of a well-known tool for administrative efficiency. Third, leniency programs play a key role in destabilizing and prosecuting cartels, and Jordan would benefit from such a framework once provisions on sanctions and investigation tools are reviewed.[34] Additionally, Jordan needs to address the significant human and financial resource restrictions that hinder the Competition Directorate's ability to enforce the Competition Law.[35]

Promoting procompetitive government intervention through advocacy

Jordan would benefit from further developing its advocacy mandate, guaranteeing that competition concerns are considered in policy making. The Competition Act sets the foundations for advocating competition, including the mandate to review laws and regulations that relate to competition or those that grant new privileges or exceptional rights and further to work to promote, protect, and encourage a culture of competition (see articles 12 and 14). Jordan's 2025 National Vision and Strategy recognizes the need for a national competition policy that incorporates both competition law enforcement and advocacy for procompetition regulatory frameworks. In this sense, Jordan could start by leveraging the institutional mandate of the MoITS (dealing with price controls, market monitoring, investment, trade, and antitrust) to ensure that the potential effects of the lack of competition are quantified and factored into the ministry's decision-making and that actions are identified to promote competition in support of the objective of enhancing the competitiveness of Jordanian industries.

For example, the Competition Act should avoid allowing pervasive price controls that distort market signals and affect the costs of key business inputs. Although article 4 of the Competition Act affirms that the prices of products and services shall be set in accordance with market rules and the principles of free competition, it allows price controls set by the Industry and Trade Law (Trade Law) and other specific laws. The Trade Law allows the Council of Ministers to set the prices for basic materials and any other commodity without clarifying the criteria used to choose markets and define prices. Such a broad mandate has the potential to not only prevent competition but also to distort the allocation of resources throughout the economy, harming consumers, productivity, and growth. These powers are applied in key input services that affect the Jordan's competitiveness—for example, in cargo transportation and professional services.

At the same time, as the sector assessments will show in greater detail, market distortions caused by restrictive sector regulations harm competition and reduce investment. The sector assessments also present everal opportunities for competition advocacy to raise compliance with anticartel rules and remove regulations that restrict contestability, entry, and expansion. These include, for example:

- **Tourism.** Restrictive regulations affect the entire tourism value chain. Tour operators are required to provide significant bank guarantees and cannot hire full-time guides or own transport vehicles. Guides must be Jordanians, cannot offer other professional services, and must tolerate minimum prices fixed by an association. Transport providers cannot use their vehicles for other services and must provide high minimum capital and a minimum number of buses. Certain regions, such as Petra, face restrictions to investing in accommodations.
- **Cargo transportation and logistics.** In trucking, restrictive policies and regulations increase the market power of trucking companies, freight forwarders, and clearing agents to the detriment of individual truckers. The policies compound problems associated with oversupply, information asymmetry, and search costs to identify suitable drivers. Restrictions include a prohibition on entering Aqaba port unless associated with a trucking company, restrictions on fleet renewal for individual truckers, and sectorwide restrictions such as minimum prices and maximum number of trips allowed between Aqaba and Amman per month. Particularly with regard to shipping agents, associations seem to be a means to set minimum prices, although this is not explicitly allowed by their law.
- **Telecommunications.** A weak framework for access to infrastructure (including interconnection charges and rules) and rights of way, spectrum policy (allocation and pricing), and lack of number portability reduce the potential for more competitive markets and expansion of smaller players. The legislation also limits competition by mobile virtual network operator (MVNOS) and over-the-top services (OTTs).

INFRASTRUCTURE AND MAXIMIZING FINANCE FOR DEVELOPMENT

In addition to the horizontal themes elaborated on in the previous sections, this CPSD delves more deeply into three sectors: tourism, transport and logistics, and ICT. Private investment is relatively easy to envision in these sectors. In a number of other sectors, collaboration between the private and public sectors is needed, particularly in the case of infrastructure. Transportation, power, and public utilities are critical network and service sectors in which the private sector may have a larger role than it does today. Such a role depends, to a great extent, on the financing options available to support private participation in projects. That is the subject of this section of the CPSD.

Jordan has been very effective in attracting large volumes of private sector investment and finance into its infrastructure sectors. Power distribution was privatized over a decade ago, and the country boasts world-class transactions such as the financing of the Queen Alia International Airport, the Aqaba Container Terminal, three large-scale PPP investments in the water sector, as well as multiple renewable-energy projects that have closed since 2012. The need to improve investment efficiency, combined with fiscal constraints has encouraged the government to prioritize leveraging private finance to fill infrastructure gaps.

The state of Jordan's infrastructure

Access to infrastructure services

Jordan has achieved high rates of access to many network services as a result of investments that have significantly expanded infrastructure assets. As indicated in table 3.1, Jordanians enjoy nearly 100 percent access to electricity, 99 percent access to improved water sources despite being the world's second poorest country in per capita water availability, and 97 percent access to improved sanitation; in addition, the rail network has been nearly doubled. Internet and mobile subscriptions are lagging, however. This important issue is addressed in the ICT sector analysis later in the report.

TABLE 3.1. INFRASTRUCTURE ACCESS AND OUTPUT IN JORDAN, 2007 AND 2017

		2007	2017	MOROCCO 2017
Access to electricity	% of population	98.8	100	100
Improved water source	% of population	99.1	(1) 98.6	(1) 83.0
Improved sanitation facilities	% of population	97.9	(1) 96.7	(1) 83.5
Rail lines	km	294	(2) 509	2109
Sontainer Ports Traffic	number/GDP, 00 per Bn USD	24.2	19.9	41.7
Air Transport	passengers / 100 people	36.2	34.9	23.6
Internet use	% of population	20	66.8	61.8
Mobile cellular suscriptions	per 100 people	77	100	123
GDP per capita	USD, ppp (3)	8942	9173	8225
(1): 2015	(2): 2014	(3): purchasing power parity		

Source: World Bank (World Development Indicators)

Yet, the perceived quality of Jordan's infrastructure has declined during the past decade.[36] From a rank of 34 out of 134 countries in infrastructure quality in 2009–08, Jordan dropped to 63 out of 137 countries in 2017–18 (table 3.2). A number of factors explain the decline. Perhaps the most important is the increasing pressure on infrastructure from the high rate of demographic growth (at 2.2 percent in 2017) combined with a massive influx of Syrian refugees. In addition, Jordan's fiscal consolidation efforts over the past decade have reduced public resources available for capital investment and maintenance. Moreover, the efficacy of investment has declined over the same period. The incremental capital output ratio (ICOR)[37] has more than doubled since 2007, indicating a falling efficiency of investments (WBG 2019). An International Monetary Fund (IMF) assessment of public investment management also notes that the efficiency of public investment in Jordan could be further improved (IMF 2017a).

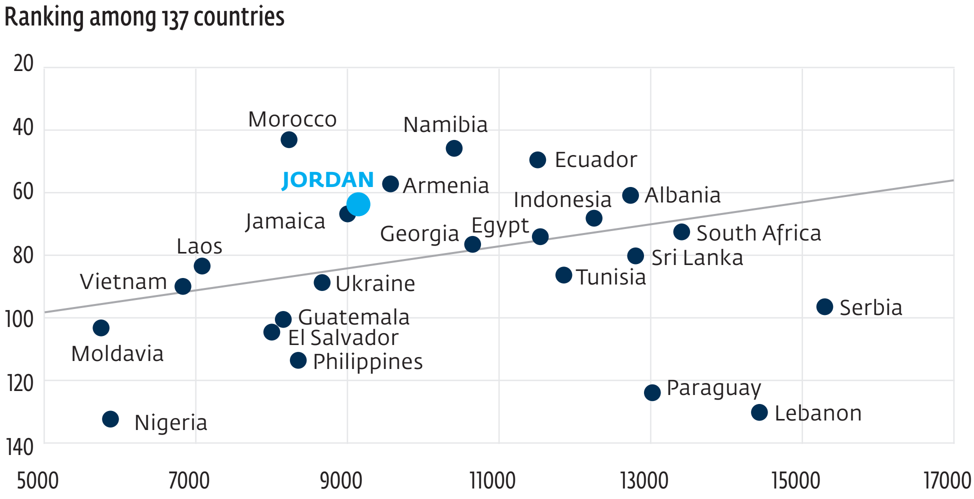
Nevertheless, and although the perceived quality varies across different types of infrastructure, Jordan compares favorably to middle-income peer countries (figure 3.5). The Global Competitiveness Report ranks the perceived quality of Jordan's infrastructure ahead of countries with higher GDP (at purchasing power parity), such as South Africa, Indonesia, Egypt, and Tunisia, but behind Morocco, a country that has invested heavily in infrastructure. Jordan's decline in ranking stems largely from the perceived deterioration of its road infrastructure (see table 3.2).

TABLE 3.2. COMPARATIVE RANKING OF JORDAN'S INFRASTRUCTURE QUALITY, BY SECTOR, 2008–09 AND 2017–18

	2008-2009 134 COUNTRIES	2017-2018 137 COUNTRIES
Overall quality	**34**	**63**
Roads	38	68
Railroad	91	81
Port	46	51
Air transport	31	33
Electricity supply	36	43
Fixed-line telephone	87	102
Mobal telephone	57	4

Source: World Economic Forum (The Global Competitiveness Report)

FIGURE 3.5. GDP (AT PURCHASING POWER PARITY) PER CAPITA AND PERCEPTION OF THE OVERALL QUALITY OF INFRASTRUCTURE



Source: World Bank, World Economic Forum
Note: PPP = purchasing power parity.

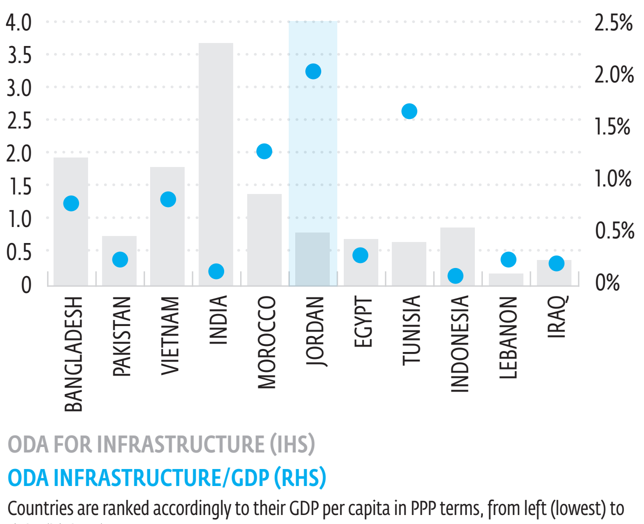
Infrastructure investment and financing in Jordan

Public investment and official development assistance

Jordan has a very limited ability to undertake public investment from fiscal resources. Central government capital expenditures contracted by half, from a pre-financial crisis (2000–2009) annual average of 7.4 percent of GDP to 4.2 percent during the past decade, a level below comparator countries such as Morocco or Tunisia that invest around 5.5 percent of GDP. The IMF estimates that Jordan's public capital stock had fallen to 77 percent of GDP by 2015, half its level in 1990. Moreover, sovereign borrowing is constrained by a very high level of public debt (close to 90 percent of GDP at the end of 2018, well above all other similarly rated countries) (IMF, 2017a).

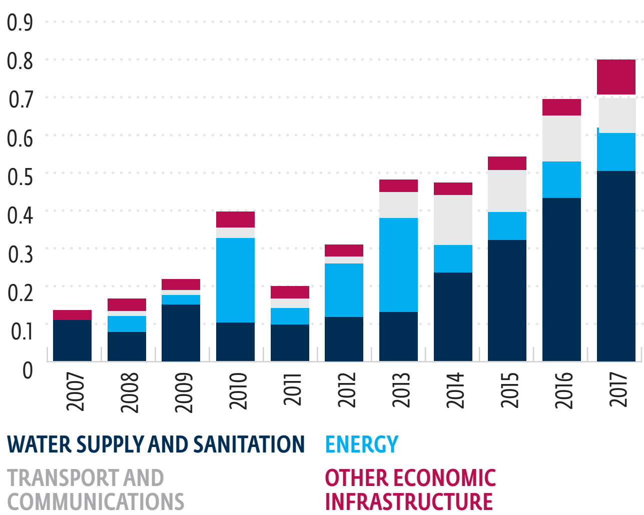
The country has been very successful, however, in funding infrastructure investment through international donors, whether in the form of heavily concessional financing to the government, grants, or other official financing. Relative to the size of its economy and population, Jordan is one of the leading recipients of official development assistance (ODA) for economic infrastructure,[38] partly as a response to the massive influx of refugees (figure 3.6). The volume of ODA for economic infrastructure has been rising, reaching US$800 million in 2017 (figure 3.7), equivalent to 2 percent of GDP or US$83 per capita. Jordan also received US$350 million in "other official flows" (OOF)[39] in 2017, of which half were for economic infrastructure. In Tunisia, the second-largest recipient of ODA for economic infrastructure in the Middle East and North Africa region, disbursements represented 1.6 percent of GDP or US$57 per capita; in Egypt, Iraq, and Lebanon, such disbursements do not exceed 0.3 percent of GDP. State-owned infrastructure utilities in Jordan have limited access to commercial finance and rely on state budget support funded largely through ODA. Similarly, the Aqaba Special Economic Zone Authority (ASEZA) and its investment arm, the Aqaba Development Corporation (ADC), have access to substantial fiscal resources (as well as nonbudget resources such as land sales) but do not borrow from commercial sources.

FIGURE 3.6. COMPARATIVE INFRASTRUCTURE OFFICIAL DEVELOPMENT ASSISTANCE RECEIPTS, 2017



Countries are ranked accordingly to their GDP per capita in PPP terms, from left (lowest) to right (highest)

FIGURE 3.7. JORDAN INFRASTRUCTURE OFFICIAL DEVELOPMENT ASSISTANCE FLOWS, 2007–17



Source : OECD, International Development Statistics.

Note: GDP = gross domestic product; ODA = official development assistance; PPP = purchasing power parity.

Public-private partnership investment in Jordan

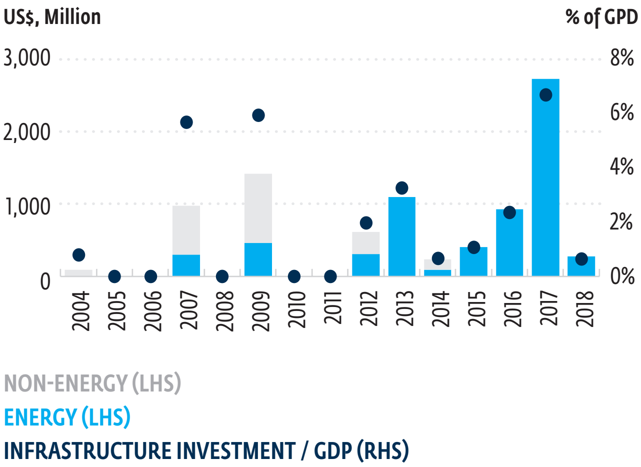
Jordan has also attracted vast volumes of investment through PPPs.[40] Jordan has attracted more than US$9 billion in investments from over 30 PPP transactions financed since 2004 (table 3.8), according to the CPSD team's estimate. During a first wave (2004–09), Jordan closed six major transactions totaling US$2.7 billion. During the second wave (2012–18), over 25 PPP projects (on average 3.6 transactions annually) were closed for a total investment of US$6.4 billion. As of end-2018, Jordan's PPP capital stock was estimated to surpass 22 percent of GDP. Nearly a third of the public sector's investment portfolio was procured through PPPs by 2015, compared with just 6 percent on average for emerging economies (IMF 2017a). None of these infrastructure PPP projects is known to have faced credit events, although in some cases (power and water), some payments from state-owned enterprises (SOEs) to project companies under the PPP contracts have reportedly been delayed. Financially, from the point of view of equity investors and debt providers, Jordan's PPP track record to date can be considered satisfactory.

TABLE 3.8 MAJOR PUBLIC-PRIVATE PARTNERSHIP PROJECTS FINANCED IN JORDAN,2004–18

	NUMBER OF PROJECTS	CAPITAL EXPENDITURE (USD BILLION)
Thermal power	6	4.5
Renewable power	20+	2.1
Water and sanitation	2	1.4
Transport	2	1.1
Total	**30+**	**9.1**

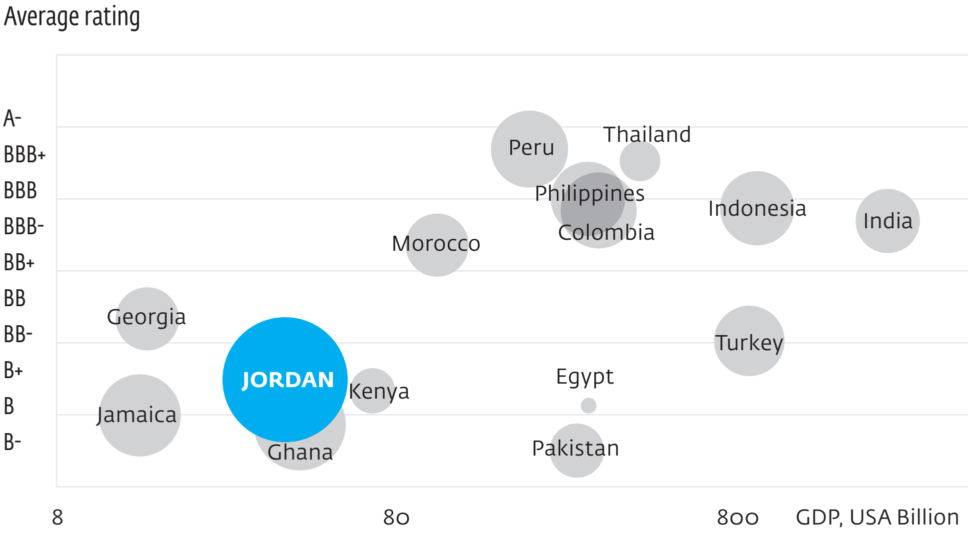
Note: GDP = gross domestic product.

FIGURE 3.9. INFRASTRUCTURE PROJECT FINANCING IN JORDAN, 2014–18



Relative to comparators, Jordan's performance in attracting PPP investment and finance—at 2 percent of GDP over the past five years—has been remarkable, particularly considering the country's modest sovereign long-term credit rating (B+). Figure 3.10 shows volumes of infrastructure project finance (average deal volume per year between 2012 and 2016) in various emerging economies comparable to Jordan. Over this period, peer countries attracted infrastructure project finance volumes ranging from 0.2 percent to 1.0 percent of GDP per year, with a sample average of 0.6 percent of GDP. Within the sample, a subset of six countries possess an international credit rating of B– to B+, roughly comparable to Jordan's; the infrastructure project debt volume for these countries averaged 0.5 percent of GDP over the period. Notably, however, this success in attracting infrastructure finance was not due to a particularly robust, or "good," PPP law in Jordan, because most financing went into the power and water sectors, which are exempted from the provisions of the law.

FIGURE 3.10. INFRASTRUCTURE PROJECT FINANCE —RELATIVE VOLUME OF PROJECT DEBT (% OF GDP, 2012–16) VERSUS ECONOMY SIZE (X AXIS) AND CREDIT RATING (Y AXIS)



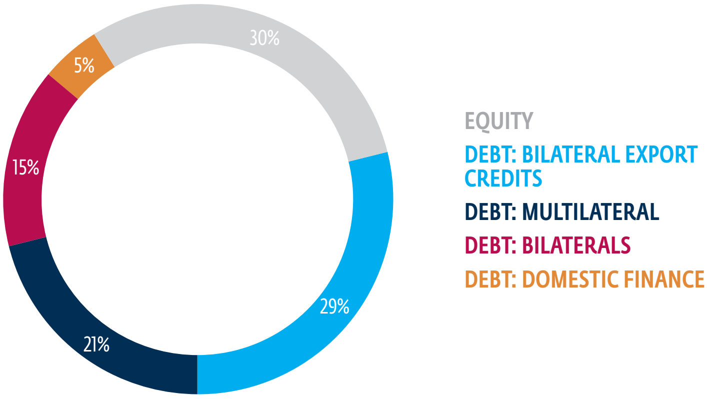
Note: Bubble size reflects project finance volumes as a % of gross domestic product (GDP).

Public-private partnership financing structures and sources

PPP transactions have been mostly financed through "project finance" borrowing structures. In these, PPP project companies raise long-term debt based on expected project cash flows, with limited recourse to the project sponsors. Only the Aqaba Container Terminal was financed using a corporate finance structure, in which debt and equity are arranged by the foreign partner. Power and water projects are backed by long-term offtake agreements with NEPCO and WAJ, respectively. Offtake payments are secured by sovereign guarantees backing the obligations of NEPCO and WAJ.

About 30 percent of the capital expenditures undertaken by PPP projects were funded by equity, while the remaining 70 percent (approximately US$6.4 billion) has been financed largely through external debt (figure 3.11). Export credits have been the dominant source of infrastructure finance to date in Jordan and are usually tied to the supply of equipment (and in some cases to construction contracts or equity investments in project companies). They include direct loans from export-import banks and (more marginally) export credits from international commercial banks with political or commercial risk cover from national agencies. [41] Multilateral debt represents 21 percent of PPP financing, including 14 percentage points in International Finance Corporation (IFC) A and B loans.

FIGURE 3.11. PUBLIC-PRIVATE PARTNERSHIP FINANCING STRUCTURE AND SOURCES



Source: IFC calculations.

Only a small share of PPP project financing over the past 15 years— 5 percent or US$450 million—has been sourced from the domestic financial system.[42] The Jordanian banking system is considered fairly healthy[43] and could probably increase its financing to infrastructure, subject to appropriate monitoring and hedging of maturity and interest-rate mismatches (and subject also to improved public investment management, a topic addressed later). According to Central Bank of Jordan (CBJ) statistics, "public services and utilities" account for only 14.5 percent of the total domestic loan book, which probably includes working capital facilities and financing to cover past losses of NEPCO and WAJ.[44] Besides commercial banks, the Social Security Investment Fund (SSIF) is a major component of the domestic financial system. SSIF had total assets of JD 10.5 billion as of March 2019 and its liability profile requires investments and long-term assets. SSIF may invest in equity or bonds and lend to corporations, although currently nearly half of its portfolio is in Treasury bonds. SSIF participated in the financing of the Samra wastewater project in 2004 through a local bank syndicate as well as in the project's extension in 2012 (for US$16 million). Its potential to invest in infrastructure is still relatively untapped and could be expanded in the future, although, again, the development of long-term lending will require strengthened supervision and improved public investment management.

TABLE 3.4. LICENSED BANKS CREDIT TO PUBLIC SERVICES AND UTILITIES, JD, BILLION

	2014	2015	2016	2017	2018	2019 MARCH
Credit, total	19,3	21,1	22,9	24,7	26,1	26,4
o/w: Public services and utilities	2,2	3,2	3,2	3,7	3,9	3,8
o/w: Central government	1,1	2,2	2,2	2,1	2,0	1,9
o/w: Public entities	0,3	0,3	0,4	0,4	0,4	0,5
o/w: Others	0,7	0,7	0,8	1,2	1,4	1,5
Credit/Deposit ratio (%)	63,7	64,7	69,6	74,5	77,1	78,1

Source: Central Bank of Jordan

Note: o/w = of which

The following sections contain a brief review of sector needs as well as an overview of private investment in electricity, water and sanitation, and transport.

Electricity

Jordan's power sector is mostly owned and operated by private investors. The sector consists of the following actors: (a) three private (formerly state-owned) companies, which distribute power under concession agreements; (b) a state-owned utility, National Electric Power Company (NEPCO),[45] which takes charge of power transmission and distribution outside the areas covered by the three private distributors (NEPCO also supplies gas to independent power producers [IPPs] and offtakes their output under long-term "tolling" contracts, with these commitments to IPPs supported by a state guarantee); (c) IPPs. Power generation is largely private—indeed the IPP share in Jordan is one of the highest in the world—with two exceptions: the fully state-owned Samra Electric Power Company (SEPCO), with a capacity of 1,300 megawatts (MW), and GEPCO, with a capacity of 1,074 MW, which is 51 percent owned by ACWA of Saudi Arabia and 49 percent owned by the state and SSIF. Altogether, the thermal and renewable power IPPs closed by the end of 2018 represented 3.7 gigawatt (GW) of capacity (some are still under construction).

One of Jordan's priorities in the power sector is to increase the share of schedulable renewable energy in its grid.[46] Jordan's reliance on imported fossil fuels for its primary energy needs creates an energy security risk and places a heavy burden on the balance of payments. The country has therefore launched a large renewable energy (wind and solar) program. The program has been extremely successful, and the price of renewable energy sharply declined during three successive rounds of tender. Over 20 projects, mostly sponsored by regional equity funds and developers, reached financial close between 2013 and 2018, adding 1.1 GW in generating capacity at a cost of US$2.1 billion. The success of the program was due in part to (a) its sequencing (consecutive rounds of reverse auction basis, with the first round starting with relatively small projects to test market appetite), (b) a well-drafted, bankable, 20-year power purchase agreement (PPA) template, and (c) the involvement of multilateral (European Bank for Reconstruction and Development [EBRD], IFC) and bilateral financial institutions in all the transactions; several export credit agencies also provided country risk cover for the supply of equipment.

Water and sanitation

PPPs in water and sanitation usually require significant fiscal support from the government and donor grants to make them to financially viable. These investments are nevertheless particularly suitable for structuring as PPPs to allow access to technical and commercial expertise. The different needs affect structuring options: water sector projects should be designed to improve efficiency by leveraging private sector operations and maintenance expertise rather than focusing on attracting private sector financing. The scarcity of water resources in Jordan makes investment in water supply, efficiency, and water loss reduction (the water loss rate is estimated at 41 percent) essential. Additional investment opportunities exist in water distribution and wastewater treatment.

The water sector consists of (a) the Water Authority of Jordan (WAJ), under the Ministry of Water and Irrigation, and (b) three large-scale PPPs: one in desalination, one in wastewater treatment, and one in the transportation of water. WAJ supplies most bulk water (from pumping or desalination), transports the water, and distributes it through six regional subsidiaries. WAJ also treats wastewater for use in irrigation. WAJ suffers from high debt and recurrent losses due to very high levels of nonrevenue water (47 percent in 2017) and high energy costs, as well as water tariffs that do not fully cover operating costs. The only viable option for WAJ to resolve these difficulties is to increase its technical efficiency (by reducing losses, increasing energetic efficiency) and its financial efficiency (reducing nonrevenue water, improving collections, and adjusting water tariffs).

Transport

Jordan invests less than 1 percent of GDP in transport infrastructure, compared with 1–3 percent invested in other middle-income countries. Roads also require timely maintenance; for every US$1 spent in routine maintenance, US$3–$4 can be saved in road rehabilitation costs. PPPs can be an efficient solution to develop, build, operate, and maintain transport infrastructure.

The main SOEs providing transport infrastructure are as follow:[47]

- Aqaba Development Corporation (ADC). ADC is the investment arm of the Aqaba Special Economic Zone Authority (ASEZA), an autonomous institution responsible for the development of the Aqaba Special Economic Zone under the supervision of the prime minister's office. ADC owns the Aqaba port and the airport, as well as strategic parcels of land. It has awarded port concessions, notably the Aqaba Container Terminal (ACT).
- Two railway companies: (a) the Hedjaz Jordan Railway, which provides passenger and freight services between Amman, Irbid in northern Jordan, and the Jordan-Syria border, and (b) the Aqaba Railway Corporation, which transports phosphate from the Ma'an mines to the port of Aqaba.

Two large projects have been successfully developed and financed as PPPs: The Queen Alia International Airport and the Aqaba Container Terminal. The Queen Alia International Airport project was undertaken as a build-own-transfer structure, in two successive phases. The project increased airport capacity to 12 million passengers per year in 2016, at a total cost of US$825 million. A consortium of regional investors and airport operator ADP won the tender with an offer to share 54.6 percent of gross revenues with the state. In 2018, 8.4 million passengers traveled through the terminal. Debt was financed by IFC project loans in both phases (with the participation of Arab Bank) and the Islamic Development Bank. The shareholders now include ADP (51 percent) and Meridiam, a French infrastructure investment fund (32 percent). ACT is a 50/50 joint venture between ADC and APM Terminals of the Maersk Group (Denmark), set up to expand and operate the facilities under a 25-year joint development agreement. Last year, ACT's container traffic stood at 0.8 million twenty-foot equivalent units (TEU), for a capacity of 1.2 million. Capital expenditure incurred to date is understood to be US$300 million. Financing seems to have been raised through APM on a corporate basis.

PPP projects currently being planned in the transport sector include

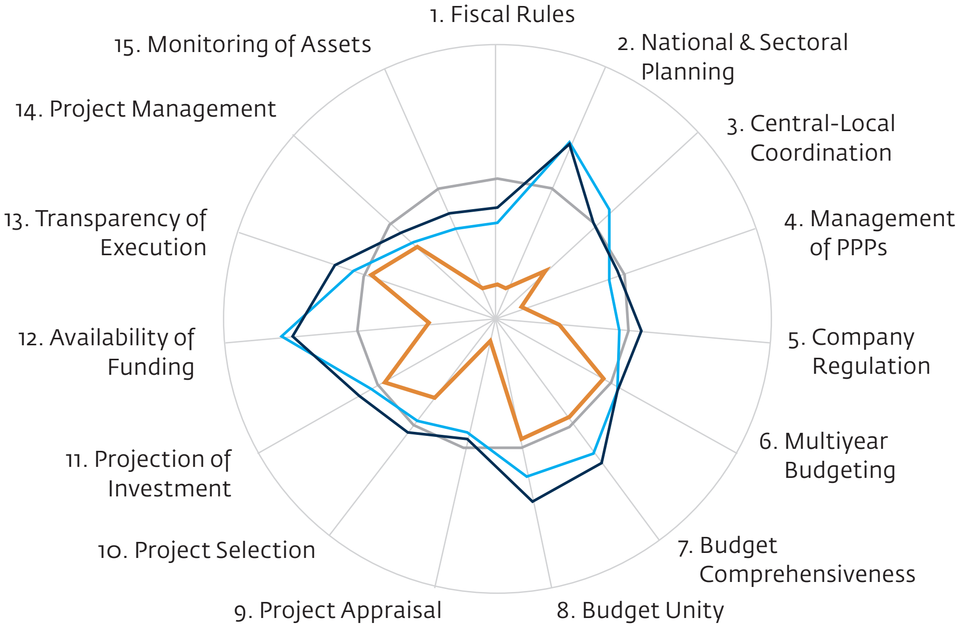
- The King Hussein Bridge modernization (US$140 million) linking Jordan to the West Bank.
- Amman Development Corridor (Ring Road) would have a total length of 118 kilometers (km), of which a first phase of 40 km has already been built by the Ministry of Public Works.
- Development of Bus Rapid Transit (BRT) to improve transport within the Greater Amman Municipality. The BRT would also serve Zarqa, the second-largest city in Jordan.
- Tolling concessions that would allow upgrading of existing highways—notably, the link between Amman and Aqaba, Jordan's only port—and some new construction as well as improved maintenance.

Sustainability of future PPPs

Jordan's success in attracting private finance into infrastructure masks important vulnerabilities in the planning of public investment. The quality of investment has been variable, and some laxity in analyzing the fiscal implications of projects is evident. Public sector strategic plans include many capital projects that lack a strong project appraisal and selection framework, thus resulting in the intensive use of PPPs without a suitable monitoring structure. An assessment of public investment management (PIM) institutions in Jordan shows that Jordan falls short of the average of emerging economies in most measures (figure 3.12), with particular weaknesses in areas related to the planning of public investment (IMF 2017).

Jordan lacks a framework for measuring contingent liabilities, those potential losses that may appear several years after a project has been built. Projects may be economically desirable but not financially sustainable, generating fiscal liabilities for the public sector. For example, one of the largest power sector PPPs, the Attarat shale mining and power project, will not be able to recover capital and operating costs, as has already been noted. Such projects inevitably result in higher taxes, increased debt, or both. (In Jordan's case, most of the contingent liabilities will be largely borne by the government, not by the banking system, which has not participated in infrastructure project financing to a significant extent). Importantly, this can reduce the room for fiscal expenditure to address other issues identified in this CPSD.

FIGURE 3.12. STRENGTH OF PUBLIC MANAGEMENT INSTITUTIONS



Source: IMF 2017.

Note: PPP = public-private partnership.

Significantly, a very large portion of private investment has been in the subsectors in which financial sustainability is relatively easier to attain, such as in power generation. Large investments in the power sector have meant that demand is now adequately covered for a number of years to come. In the next stage, as Jordan increasingly moves to attract private investment in infrastructure sectors other than power, financial sustainability will be more challenging to attain, and government subsidies are likely to be required. Putting in place robust frameworks for public investment management, PPPs, and the assessment of contingent liabilities thus becomes even more urgent. Progress on this effort has already begun and is supported by the World Bank's Development Policy Financing (DPF) series. A revised PPP law has been submitted to Parliament, but much work is required to operationalize the new approach to PPPs. Above all, decision-makers in government need to be very clear from the outset about the potential fiscal implications of infrastructure projects financed through PPPs and must not treat them as necessarily fiscally cost free. The justification for financing projects as PPPs should rely more on technical and efficiency objectives than on fiscal ones.

Implications for Jordan's investment strategy

The government will need to articulate policies that leverage the country's scarce public resources through approaches that maximize finance for development (MFD) in infrastructure. Such a strategy has several key strands:

Approving only optimal investments. It is essential that, given the large magnitude of infrastructure investments and their major impact on economic growth, only the most economically optimal projects—those that generate significant economic externalities—are undertaken. Accordingly, the government has decided to implement a more systematic evaluation and prioritization of projects through closer integration between the PPP and the PIM (public investment management) frameworks. This measure was approved by Cabinet Decision No 7968 of May 21, 2018 and its implementation will be of critical importance.

Tracking fiscal commitments and contingent liabilities (FCCL). Even though some PPP projects may be fully funded nominally by commercial financing sources, in practice many of these projects create long-term payment obligations that must be funded ultimately from the national budget and in turn from ODA. Jordanian authorities need to undertake a review to identify, consolidate, and record fiscal commitments and liabilities incurred in past PPPs, and to systematically incorporate FCCL aspects in the assessment and negotiation of future PPP projects.

Strengthening the efficiency, financial viability, and governance of subsovereign entities so that they may eventually be weaned off budget support and raise financing from commercial sources without the need for state guarantees. This effort requires continued operational improvements and possibly the financial restructuring of key SOEs (especially WAJ and NEPCO). This may be helped by PPP arrangements. For example, in municipal water distribution, it may possible to improve collections and reduce technical and commercial losses by outsourcing billing and other functions through performance improvement contracts with the private sector. Separately, the potential to further develop the municipal finance market (which the Greater Amman Municipality has begun to tap in collaboration with EBRD and IFC) could also be explored.

Revamp the PPP framework to facilitate project origination. Although Jordan has managed to attract an impressive volume of PPP investments, the country's PPP origination system is now facing challenges. The volume of PPP finance fell to 0.6 percent of GDP in 2018, its lowest level since 2011. Most recent projects (and all projects closed in 2018) were in renewable energy. Most of the PPP investments closed in recent years are in subsectors that generate stable cash flow to recover most of the operating and capital cost. Going forward, the PPP framework will need to foster project origination in subsectors in which private investment can deliver excellent value for money but more extensive support is required from the state to attract private investment and finance. This is the case, for example, for Jordan's toll-roads (such as the Amman Ring Road) and social infrastructure (proposed school PPP) programs. This has at least two major institutional implications.

- **Project development fund.** While PPP transactions can create excellent value for money on a project life-cycle basis, their origination and management involves a high upfront cost, including (a) "upstream" capacity building within the PPP unit and line ministries and agencies, (b) "midstream" cost of prefeasibility studies and early-stage advisers for project screening and pipeline management, (c) "downstream" cost of transaction advisers (financial, legal, engineering, environmental, and social), and eventually (d) "post-closing" project monitoring, which may include the cost of advisers in case of a credit event or breach of contract. For this purpose, the government is planning to establish a project development fund, which would be funded from a mix of international donor funds, government budget contributions, and success fees paid by winning consortia upon PPP tender awards.
- **Financial viability support/viability gap fund.** To attract private sector investment and commercial finance in projects that generate high socioeconomic returns but low financial return, Jordanian authorities will need to establish a financial viability support system, which could take the form of a viability gap fund or an availability payment mechanism.
- **Local currency financing.** The bulk of PPP investments in Jordan have been financed from offshore sources. Such arrangements provide the foreign currency required to pay for equipment and engineering imports but create a currency mismatch between the operating revenues and debt service obligations of the borrowers. In recent years Jordanian banks have also joined the financing of PPP transactions (especially renewable energy projects); however, this lending has been mostly through their offshore subsidiaries. Only an estimated 7 percent of the PPP investment volume in Jordan has been funded from domestic debt sources. Subject to monitoring and hedging of maturity and interest-rate risks, and the usual oversight by the central bank, it should be possible to increase the participation of the domestic banking system in Jordanian PPPs. SSIF's significant long-term funding resources could also be tapped for well-structured transactions involving a relatively low risk profile.

RECOMMENDATIONS FOR CROSS-CUTTING ISSUES

ISSUE	PRIORITY RECOMMENDATIONS
Healthy competition: Antitrust enforcement and competition advocacy	• Limit the scope and establish objective criteria for granting exemptions under the Competition Law, revamp anticartel enforcement and investigation of abusive practices by dominant firms, strengthen the fines regime to meet international best practices and establish a settlement procedure • Improve the effectiveness of merger control through providing clarity on what transactions fall under the merger control regime, amending the notification trigger by including a turnover criterion and setting criteria to guide the substantive analysis of merger review. • Strengthen the institutional setup by enabling the Competition Directorate to independently decide on cases and to implement greater transparency and due process during and after the investigation, in addition to increasing the directorate's human and financial resources. • Condition the application of price controls on the Competition Directorate's prior approval. • Enhance advocacy efforts to increase compliance with the Competition Law by the business community and remove regulatory restrictions to entry, expansion, and competition in key markets.
Labor markets	• Consider measures to encourage formalization of workers, such as harmonizing the minimum wage across sectors, reducing the difficulty and time required to obtain work permits, easing the procedures to shift jobs across sectors, and making nationality and sector quotas more flexible (especially because these are already circumvented by workers). • Increasingly tie public wage increases to prevailing wages in the private sector, where possible. • Review policies regarding entry of new migrants to prioritize those with needed skills rather than to maintain wages at a low level in certain sectors. • Amend the decision of the Minister of Labor issued in 2010 that restricts the employment of women in certain sectors and their working hours. Dissemination of this decision among businesses is also needed. • Institute a code of conduct in addressing harassment in the workplace and public spaces—progress has begun on this, but compliance mechanisms are needed, with the transport sector the top priority. • Use a wide range of media-based campaigns to disseminate tailored messages to change social norms around female employment. • Expand public sector provision of childcare services and consider a stimulus package to support private sector–led provision of childcare.

Business costs and unpredictability	• A number of critical reforms are underway, but implementation and avoiding policy reversal are keys to success. • Continue to reduce equity limits on foreign direct investment by reforming the negative list of foreign investment; this is particularly important for high-potential services sectors. • Simplify regulatory requirements and procedures affecting business entry and business operations to reduce the burdens on businesses. • Reduce the number of exceptions and exemptions provided—in particular, to individual businesses or subsectors—and instead focus on addressing the underlying cost drivers. • When policy changes are required, ensure that the private sector (including a wide range of stakeholders) is sufficiently consulted and that there is an adjustment period for compliance. • Strengthen the institutional and operational effectiveness of the Jordan Investment Commission to improve governance, support its investment promotion mandate, allow hiring and managing outside of the confines of the public sector, and buttress the investor grievance mechanism. • Attract investments in the services sector by promoting specific identifiable investment transactions that result in actualized investments.
Infrastructure finance and maximizing finance for development (MFD)	• Continue progress, committed to under the DPF 2, to operationalize the revised public-private partnerships (PPP) law, underpinned by a Council of Ministers-approved public investment management (PIM)-PPP framework policy and implementation plan to ensure more selectivity and better management of the government's contingent liability exposure. • Undertake a review to identify, consolidate, and record fiscal commitments and liabilities incurred in past PPPs. • Revamp the PPP framework to foster project origination in subsectors in which private investment could deliver excellent value for money but requires more extensive support from the state to attract private investment and finance.

4. TOURISM

INTRODUCTION

Jordan has many of the building blocks for an economically productive and sustainable tourism sector, yet it has not been able to fully leverage this potential. The sector is mired in business environment uncertainties and bureaucracies, minimal hiring of women and youth, and uneven delivery of what should be highly competitive products. With the adoption of a series of key actions, Jordan's tourism sector can build on its foundations and prove to be an inclusive export powerhouse that attracts investment, generates jobs, employs women and youth, and fosters entrepreneurship. Building beyond what Jordan is known for in tourism today can drive the sector's competitiveness and economic productivity going forward—the greatest opportunities for Jordan are in repositioning and further developing three segments: adventure, faith-based, and medical tourism.

The COVID-19 pandemic has hit the tourism sector particularly hard and recovery is likely to only be gradual. The issues raised in this chapter, however, remain essential to the recovery and long-term sustainability of tourism in Jordan. Advances in ensuring a greater degree of contestability and ease of entry to the sector will ease the recovery; understanding and monitoring shifts in consumer preferences and demand is essential to the resurgence of the sector; an upgrading of service range and quality will separate successful tourism destinations from the pack; investment in capacity building and training can help to bridge the hiatus created by the pandemic and meet an identified quality gap; and a more focused strategy, pursuing excellence, competitiveness and differentiation will support a more rapid and robust return to tourist activity.

STATE OF THE SECTOR AND CROSS-CUTTING CONSTRAINTS

Tourism is an important contributor to Jordan's economy and is prioritized by the government as a key sector for economic growth. The total contribution (direct, indirect, and induced) of tourism to Jordan's GDP was 15.8 percent of GDP in 2018 (equivalent to US$7.2 billion), far greater than most other countries in the region, with much of it stemming from international visitors. Though capital investment in the sector has increased steadily over the past decade, reaching $0.9 billion in 2018, it remains significantly lower than in regional comparators[48].

Jordan offers a diversity of products and experiences, and distinctive attractions, but the country is challenged by difficulties in delivering a consistent quality of services at a fair price. The World Economic Forum's (WEF) 2019 *Travel and Tourism Competitiveness Report* ranked Jordan's overall competitiveness 84th out of 140 countries, below a number of other regional destinations such as Qatar (51), Israel (57), Oman (58), Bahrain (64), Egypt (65), Morocco (66) and the Kingdom of Saudi Arabia (69). Supply issues include the geographic concentration of tourism resources—limiting the sector's contributions to job creation and inclusion—and the shortage of lower-grade accommodations, which has left an important gap in the tourism value chain.

The tourism sector in Jordan faces a number of constraints, both cross-cutting as well as sector specific. The main cross-cutting obstacle to more dynamic private sector participation in the sector is the legal and regulatory framework that has generated an uncertain, unpredictable, and noncompetitive business environment with a pattern of regulating by exception—this has resulted in weak private investment in the sector. Other pressing constraints to tourism include: (a) site infrastructure and services that are not able to respond to demand, (b) lack of appeal to the workforce, (c) insufficient public sector capacity and funding for the sector, and (d) unreliable and untimely sector data.

Noncompetitive environment in tourism

The tourism sector in Jordan is highly regulated, with laws and bylaws that affect the whole value chain and often create barriers to entry, facilitate collusion, and discriminate between market players. The 1988 Tourism Law sets out the overall structure of the sector, assigning to the Ministry of Tourism the responsibility to oversee the sector's functioning while establishing business associations to further regulate the main service providers—namely, tour operators, specialized land transport companies, guides, and accommodations. Although some legitimate policy goals, such as safety and consumer protection, inform the need to regulate tourism services, the current framework unnecessarily distorts market dynamics without effectively promoting policy objectives. These limits include the imposition of restrictive licensing rules, setting minimum prices, and discriminating against foreign workers and investors.

The discretion granted to ministries, government authorities, and business associations reduces transparency and facilitates discrimination between market players. The Tourism Law states that the Ministry of Tourism may revoke licenses and sanction licensees who practice illegal competition with others or harm the national economy.[49] However, the law does not define what illegal competition is, and does not refer to the Competition Law or the role of the Competition Directorate. At the same time, the Council of Ministers may issue the necessary regulations for the implementation of the provisions of the Tourism Law, including the prices and fees of tourism services.[50] Finally, the Tourism Law not only creates associations for each type of tourism service, but it also assigns regulatory roles and mandatory membership to these associations. This can further distort market dynamics by preventing entry, facilitating collusion, and discriminating among competitors.[51]

The following paragraphs map the value chain and how the different players, mainly (a) tour operators, (b) guides, (c) providers of special transport services, and (d) other services such as accommodations and restaurants are affected by the various government interventions.

- Tour operators: Regulatory requirements that impose significant restrictions on entry and investment include (i) general requirements such as for capital and skills that are highly discriminatory against foreigners, (ii) bank guarantees are significant and create artificial barriers to service diversification; guarantees further discriminate against foreigners, (iii) requirements on minimum office space and number of employees limit the entry of digital providers and impose unnecessary costs to entry, (iv) license fees stipulating annual payments by branch could potentially limit the expansion of players, and (v) the tour operators' association enjoys legal mandates that can facilitate the exchange of sensitive information, may generate conflicts of interest, and reduces incentives for merit-based competition. Those requirements and regulations are exacerbated by complex, lengthy, and opaque procedures such as multiple enforcing and oversight entities with unclear or overlapping mandates. Jordan appears to have potential to establish a much larger tourism market if the government clarified the policy goals it wants to promote and designed less restrictive interventions.
- Guides: Obtaining a guide license is demanding and costly in Jordan, and several regulations create barriers to entry and limit the capacity of market players to expand their business and innovate, including (i) minimum requirements to become a guide discriminate against foreigners, restrict the capacity of professionals to offer other types of services, and impose training courses that are either insufficient or inadequate for the responsibilities of a guide, (ii) prohibition of guides to be employed full time or to set up a company, (iii) the law allows for discrimination through discretionary exceptions by the minister, (iv) price fixing and market allocation for guides, and (v) the monopoly of a sole educational entity for the provision of the mandatory training course, which charges relatively high prices and delivers low-quality courses following an inadequate curriculum.
- Special transport services: Regulation establishes that the transport of tourists is a specialized service, demanding specific licensing and fulfillment of a set of regulatory criteria. Most of the requirements for businesses to provide land transport for tourism significantly restrict entry, investment, and expansion without contributing to other policy objectives, such as (i) limit of business activities to special tourism transport only, (ii) hold a minimum capital of JD 3 million, (iii) own or lease no fewer than 20 tourism vehicles, with each vehicle's age not exceeding one year at the time of initial registration as well as other vehicle requirements, (iv) provide an annual bank guarantee of JD 50,000, and (v) provide special parking spaces for the vehicles, with the consent of the relevant authorities. This has resulted in insufficient transport vehicles to meet demand, with stakeholders reporting that prices are high and the overall quality of transportation is low. Less-restrictive regulatory strategies such as (i) allowing companies in other segments to acquire vehicles and (ii) allowing smaller players to enter the market with lower capital and fewer vehicles required could better serve relevant policy goals without imposing unnecessary market distortions. In addition to all the restrictions affecting the provision of land transport, regulations affecting air transportation also harm the overall performance of the tourism sector in Jordan. Access to Jordan is costly and time consuming, with often lengthy and inconvenient connections due to limited direct flights and the dominance of the national airline, Royal Jordanian.

- Hotels, accommodations, and restaurant services: A level playing field in this segment is constrained by a number of rules and measures including (i) some regions in the country known for their touristic potential (e.g. Petra) suffer from restrictive rules of entry and investment, (ii) restaurants were not included in investment law No. 30 of 2017 and only tourism restaurants inside hotels benefit from incentives for investment such as customs tax exemption and reduced income tax, (iii) licensing and municipal fees are considered high and unpredictable, and (iv) the 2016 investment law initially offered incentives only to hotels and recreational parks though in 2017 additional incentives were offered to restaurants in Amman and governates but excluded ASEZ, Petra, and the centers of large cities.

The combination of restrictions may contribute to low sector performance. As pointed out by various stakeholders and complemented by a review of the regulations, tourist guides in Jordan are insufficient in number, are poorly trained, and operate in a regulatory environment that limits competition. Air transport offers limited connectivity, and Jordan plays the role of only an add-on destination: extra days added to a vacation to Israel or Egypt, completed by land rather than by air. At the same time, the supply of land transport for tourism is insufficient in quantity, low in quality, and expensive. Efficient tour operators face several barriers to expansion, including restrictions to (a) foreign employment and investment, (b) vertical integration, and (c) diversification of services. Restrictions on investment and the development of the accommodations industry in key touristic sights help generate shortages and lead to low quality given the prices, such as in Petra for most of the year.

SECTOR-SPECIFIC CONSTRAINTS

Jordanians seem to have a limited appetite for working in tourism and hospitality. Various reasons appear to underlie this situation, including seasonality, market shocks, cultural taboos, and the widely held perception that jobs are short term without a professional career path. Despite 16 vocational training corporation (VTC) centers and a growing "Pathways to Professionalism" program, which offers inclusive, industry-based training and certification in eight hospitality and tourism professions at four levels, training remains limited and not widely available. Entrepreneurship, integral to hospitality and tourism, needs to be nurtured as it is in ICT and technology, with special training involving both technical and "soft" skills. Alternatives, including the opportunity to live and work in GCC locations, can be more appealing monetarily although they require moving away from family and friends.

Capacity at MoTA is not commensurate with the requirements of a rapidly changing sector that is being disrupted by new technologies and the growth of sharing economy business models. Institutional capacity in the public sector is undermined by a revolving door, limited skilled human capital, and only partial willpower to implement an impactful tourism reform agenda. Limited, fluctuating budgets exacerbate the problem despite the priority placed on the sector in Jordan's five-year reform matrix. In conjunction with supporting desperately needed institutional capacity, adequate and predictable multiyear funding for marketing and promotion is critical for empowering growth and improved yield per visitor. Jordan spent US$2.80 in marketing per tourist arrival in 2017, slightly lower than spending in countries of similar size, such as Hungary and Portugal, and significantly lower than Australia and New Zealand, which are known adventure travel destinations and aspirational models for Jordan's targeted development. While Jordan's spending per tourist is comparable to that of regional peers, it is significantly lower than Egypt's, which is US$12.40.

Another constraint hindering the tourism sector is the limited availability and quality of sector data. Sector data must inform policy in support of productivity and sustainability. Data are also essential to guide the private sector to make investments, build businesses and commit for the long term. New technologies, combined with emerging big and small data resources, are being embraced by the tourism sector globally. Previous efforts through the MoTA and private sector partnerships have facilitated the pioneering use of user-generated content to promote the sector online. The next step is to embrace technologies for timely, consistent, and credible data collection and wide dissemination. This requires technical expertise, financial resources, and high-level commitment to implementation of an enduring program. Data are crucial to achieving private sector engagement, job generation, productivity, and inclusiveness objectives.

A NEW VISION FOR THE TOURISM SECTOR

Jordan's travel and tourism decision-makers have publicly stated that Jordan is not in the business of mass tourism; however, in some segments, it is. Mass tourism is a function of numbers and a type of programmed and packaged tourism experience that has little opportunity to be tailored or adjusted for individual preferences; examples are packaged tours in Egypt and Jamaica. While Jordan has many sites, 80 percent of tourism development, infrastructure, and services are clustered in 20 percent of Jordan in key nodes such as Amman, the Dead Sea, Petra, and Aqaba. Relatively small volumes of tourists can create a sense of mass tourism. In contrast, niche tourism allows for much more tailored or particular experiences for different groups. Niche offerings can still attract large numbers of tourists (for example, exotic religious and cultural tourism in Thailand). Jordan's policies and strategies seem to point to offering a very wide variety of "niche" products to a growing volume of visitors; that is difficult to pull off. Focusing on a few niches—while safeguarding cultural tourism assets and deriving higher value from visitors to those sectors is likely to be a more effective approach.

A focus on a limited number of tourism niches does not imply disregarding Jordan's achievements to date. With a streamlined and competitive business environment, Jordan can offer both mass and niche tourism. Jordan has built its tourism industry to support organized tours. Much of the growing tourism packaging and experiences are being organized in a formulaic manner that seeks more tourists on tightly programmed itineraries. There is a clear market for these kinds of limited-itinerary packaged tourism offerings, which Jordan can continue to tap. Alongside this, targeted product development and support for limited niche offerings could enable wide inclusion and employment in marginalized areas. It is in that effort to develop a high-quality set of niche offerings—limited in number—that Jordan has struggled so far.

High impact product segments and breakthrough opportunities

The greatest opportunities for Jordan are in repositioning and further developing three segments: adventure, faith-based, and medical tourism. This recommendation emerges from an analysis of demand trends, Jordan's tourism resources and assets, and the need to spread tourism more widely across the country for greater economic and social benefit. Today, Jordan's key product segments are (a) culture and heritage, (b) adventure, (c) faith, (d) film, (e) medical and wellness, and (f) meetings, incentives, conferences, and exhibitions (MICE), according to the MoTA. Yet attempting to successfully deliver in all of these subsectors, particularly in a cumbersome business environment, with constrained resources, is not realistic or advisable. Instead, building beyond what Jordan is known for in tourism today can drive the sector's competitiveness and economic productivity going forward.

The next challenge for tourism in Jordan will be to raise—and consistently maintain—overall industry competitiveness to support medium- and long-term growth. This goal can be achieved by working with the private sector to address constraints, strengthen existing products, and target high-value markets. Concerted effort is needed, by both the public and private sectors, to understand demand, develop core resources, improve the business-enabling conditions, and coordinate development of tourism "soft" and "hard" infrastructure. In addition to developing new products and innovative tourism experiences, Jordan also needs to build reasons for tourists to stay longer and spend more.

High-impact segment: Adventure tourism

Jordan has tapped into the adventure tourism subsector and, notably, was ranked in the top 10 developing countries for adventure tourism in the 2018 Adventure Tourism Development Index (ATTA 2018a); the sub-sector nevertheless is the most unregulated subsector in Jordan's tourism portfolio, with a pressing need for specific policies, regulations, and technical human capital development. Globally, the adventure tourism subsector has been growing rapidly, at an estimated 21 percent compound annual growth rate for the industry since 2012 (ATTA 2018). In Jordan, the establishment of the Jordan Trail in 2016 is an indicator of the opportunity and challenge of adventure tourism development. The 650 km trail, at various stages of development, passes through 52 villages between Um Qais in the north and Aqaba in the south, with great potential throughout to foster entrepreneurship, inclusive businesses, and community engagement. The absence of policies and regulations for adventure tourism is a major obstacle to the subsector's growth. Managing risk and enabling competitiveness along the trail for instance, in canyons and in caves, is pressing. Establishing clear requirements for business—including, for instance, first aid certification and quality assurance of equipment used for hard and soft adventure tourism—is integral to the growth and sustainability of this subsector.

High-impact segment: Faith-based tourism

Jordan has an important competitive advantage in faith-based tourism as the home to unique sites, but it has not leveraged its strengths. Faith-based tourism is a resilient and growing segment; an estimated 330 million tourists visit major religious sites annually worldwide (UNWTO 2014). Jordan competes with its neighbors—Israel and the West Bank and Gaza—for this growing segment, but its sites are often viewed as a brief add-on rather than meriting a dedicated itinerary in the country. Israel receives upwards of 344,000 Christian travelers and 325,000 pilgrimage travelers on an annual basis, according to the country's Ministry of Tourism. Jordan attracts some of these faith-based visitors from Israel for brief (one- to three-day) package tours to sites with limited and unreliable services.

The market has significant potential to grow through attracting more visitors, expanding offerings, and improving quality of experiences. The introduction of expanded low-cost carrier (LCC) air services in Jordan could also stimulate this subsector. Requirements for achieving the full potential of this subsector include development and implementation of a strategy that aligns government and the private sector to establish a brand for Jordan religious tourism, improve and link sites, expand visitor experiences, and develop specialized guides.

High-impact segment: Medical tourism

Jordan has an established record across the spectrum of medical and wellness tourism and has recently prepared a comprehensive strategy for developing this segment[52]. The Medical tourism segment is burgeoning globally, with estimates of the sector's global worth reaching US$74 billion–$92 billion.[53] In Jordan, health tourism includes eight distinct subsegments: dental, medical, wellness, accessible, spa, sport, gastronomy, and retirement offerings. Initiatives are underway to address quality assurance, accreditation monitoring, specialized marketing, investment, and digital platform development. However, an adequate insurance and liability regulatory framework, acceptable to diverse demand and medical providers, continues to be lacking.

Medical tourism has significant potential for Jordan, across the spectrum, and the multiplier effects associated with the segment are significant. A significant destination in the past for medical travelers from across the region, some funded by their home governments, Jordan received an estimated 160,000 medical tourists during the 2016–17 period.[54] Many of these patients traveled with companions or family members, contributing to the economic impact of this segment. Jordan's Private Hospitals Association estimates that 35 percent of economic impact is through payments to service providers such as hospitals and clinics, with the remaining 65 percent of economic impact spilling over to other sectors. The breakthrough pay-off with medical tourism is its cascading potential for creating employment, inclusion, public sector revenues, and public-private partnerships.

Medical tourism is, however, an extremely competitive and shifting subsector and demands a robust and conducive environment. The segment requires (a) extensive collaboration across ministries and agencies in the public sector; (b) an open business environment for the private sector with transparency of regulations, licensing, and taxation; (c) consistent investment and technical upgrading; d) wide-ranging international insurance agreements; and (e) ethical promotion. Further, to attract a wide array of medical tourists from various source markets, medical liability laws and recognized insurance standards will need to be fully developed in Jordan to be competitive and to assure greater patient confidence. Wellness tourism, already established in the Dead Sea area, requires continuous upgrading to tap emerging trends, such as in mindfulness, and to consistently capture market share in the dynamic, trending marketplace.

POLICY RECOMMENDATIONS

Addressing business costs and regulatory uncertainty; market competition; labor markets and fragmentation; and infrastructure, particularly in the tourism sector is crucial as this sector is often viewed as a demonstration sector that catalyzes job generation and strengthening of the private sector overall. Failure to address these constraints in the sector will lead to continued undermining of productivity and limited growth. There are actions that can enable breakthroughs beneficial to the tourism sector and beyond as summarized in the following table.

There are actions that can enable breakthroughs beneficial to the tourism sector and beyond as summarized in the following table.

Recommendations for the tourism sector

ISSUE	POLICY RECOMMENDATION
Lack of competition, excessive segmentation of tourism sector, and resistance to new entrants	• In light of the decision to abolish licenses under Ministry of Tourism, the ministry should revise its legislative and institutional framework and ensure its classification scheme is sufficient to cover any regulatory gaps from abolishing the licensing process. While doing this, is the ministry should also revisit legal, financial, and technical requirements it imposes on touristic businesses to rationalize requirements and reduce costs for businesses. • Issue bylaws and instructions on the mountaineering industry to address issues related to the lack of technical specifications, requirements, and safety standards, minimizing negative effects on functioning of the market and stepping up enforcement. • Revise the tour operators bylaw to reconsider business classification, registration fees, and requirements on minimum capital, employment conditions, and minimum office space. • Revise the tour guides bylaw to reconsider minimum requirements for tour guide licensing, the minister's discretionary power to exempt some of those requirements, the setting of guides fees, the mandatory training course, and the prohibition of full-time employment and setting up the tour guide's own company. • Revise the specialized tourism transport bylaw to reconsider limitations on business activities and requirements of minimum capital, minimum number and type of vehicles, bank guarantees, and special parking spaces. • Enhance ease of entry to the domestic flights market. • Level the playing field between restaurants regarding tax exemptions and other incentives. • Eliminate entry barriers for foreigners to build hotels. • Eliminate mandatory membership to associations and review self-regulation powers of associations. Undo the policy reversal on foreign direct investment (FDI) equity restrictions in travel agencies and management of touristic tours and trips. • Continue to pursue liberalization of FDI equity restrictions in transportation services and transport auxiliary services, as per Investment Bylaw No. 77-2016, as amended by Bylaw No. 80-2019 for non-Jordanian investments.

Noncompetitive levels of service in tourism and hospitality entities	• Improve the quality of service delivery in all links of the tourism value chain by (a) introducing and further expanding international certification and professionalization schemes; (b) expanding technical and language training (offerings and locations) to enable participation of women, youth, and immigrant workers—these training opportunities must be designed with the private sector and in accordance with its needs. • Reduce informality with improved responses to market demand and expectations.
Cultural bias against hospitality and tourism as a socially acceptable or desirable employment or entrepreneurial opportunity	• Provide high-level support for the sector as well as cultural sensitivity adapted to modern context: – Design and launch national awareness program reinforcing the value of the sector for all Jordanians and the employment opportunities for all • Support innovation, entrepreneurship, and technology adoption initiatives that foster improved tourism value chains and productivity.
Lack of appropriate regulations for adventure tourism sector	• Issue bylaws and instructions for the mountaineering industry to address issues related to the lack of technical specifications, requirements, and safety standards, minimizing negative effects on market functioning; step up enforcement. • Expand policies that enable higher standards of market-driven site management through greater stakeholder engagement and joint responsibility with the public sector.
Poorly developed and managed sites	• Accelerate and expand the 2016 Site Management Bylaw that allows for private sector concessions at tourism sites for guiding, interpretation, facility upgrade, facility operation and management, experiences and activities with new incentive programs.
Uneven geographic distribution of lodging and shortage of three-star accommodations	• Support upgrading and new development of three-star lodging entities, particularly in less developed regions. • Diversify sources and methods of financing.

5. LOGISTICS

INTRODUCTION

Jordan aspires to become a regional logistics hub, given its strategic location as a transit gateway between Eastern Europe and Turkey with the Persian Gulf. Competition is intense, however, in the provision of traditional regional logistics services, and the country is at a disadvantage because of a number of factors including restrictive and distortive regulations that affect the supply or road transport and logistics services, trade facilitation constraints, a small domestic market, as well as Aqaba's location outside the major shipping routes. There is scope, however, to transition into the new and exportable business of e-commerce, based on electronic transactions and supported by more efficient physical logistics. To support such a transition, and also to reinforce traditional trade competitiveness, it will be necessary to accelerate reforms in trade facilitation, improve the level of service and sustainability of road transport, invest in improved distribution of consumer goods domestically, and harness logistics services to add value to exports. All of these efforts will also require regulatory reforms that make the investment climate less cumbersome and that facilitate a smoother functioning of markets.

As elsewhere, in Jordan logistics is a service that depends on the underlying demand for trade in goods. The principal logistics-intensive exports from Jordan are garments, pharmaceuticals, vegetables, machinery, and plastic goods. Most of these goods are transported in containers, making the long-distance movements relatively straightforward. Collection, distribution, and transit storage present the major challenges. The logistics-intensive imports are consumer goods: both fast-moving consumer goods, including food products, and slow-moving goods, including white goods and electrical equipment. Some of these are e-commerce shipments delivered by air and distributed by third-party logistics companies such as DHL and Aramex. Others are delivered to Aqaba in containers, nearly all of which are then transported to warehouses in Amman, before being distributed to retailers (or producers in the case of semi-finished goods).

SUPPLY OF TRANSPORT SERVICES

Jordan is served by road, sea and air freight services. Of the major components of supply chains in Jordan, the greatest opportunities for improvement in terms of level of service, efficiency, and technological improvement are: (a) road transport, which has restrictive regulations and low profitability, (b) local distribution and collection, which are relatively inefficient because of the small size of the enterprises that dominate retail and local production, and (c) storage and inventory management, whereby a majority of warehousing and inventory management systems do not incorporate the advances necessary to effectively minimize inventory.

The domestic freight transport market is dominated by trucking, which is characterized by two very different segments: (a) containers and general freight which suffers from excess supply and relatively low quality of transport services, low tariffs, restrictive regulations, and low profitability, and (b) dry and liquid bulk products, which have limited supply, high tariffs, reliable services, and high profitability. The four major markets served by tractor-trailers in Jordan are:

1. Containers to and from Aqaba port. About 5,600 are involved in a regulated spot market that is rationed among operators who are registered to transport containers.
2. Oil and grain imported through Aqaba transported through haulage contracts bid out by the government to larger trucking companies. About 3,700 trucks are involved in this market.
3. Transit cargo in Jordanian trucks to and from neighboring countries under bilateral agreements. Restricted to operators with permits allocated under these agreements.
4. Other freight moves within Jordan using the originator's own account or third-party transport. About 730 trucks are operated on the originator's account. Third-party transport includes contract haulage and spot market transactions.

The first three markets are regulated by the public sector. To spread demand, the trucks registered to transport containers (first market) are restricted in the number of trips and containers allowed. The trucking company must own at least 10 trucks but can also hire independent operators registered with the company to supplement its fleet. Truck operators registered to carry containers may not participate in the haulage contracts for oil and grain, and vice versa. However, they are allowed to participate in the other two markets. Since 2005, Jordan has regulated the first two markets using Nafith, a Jordanian logistics company, to monitor eligibility of drivers, and to control the movement of trucks into the terminals and prevent queuing on the surrounding road network, which has significantly improved the efficiency of port operations.

LOGISTICS SERVICE PROVIDERS

In addition to the providers of trucking services already noted, other players active in the transport and logistics value chain are also affected by anticompetitive regulations or act anticompetitively in the market. Shipping agents, clearance agents, and freight forwarders play a key role in logistics services in Jordan, yet a combination of restrictions appear to render the regulatory framework around these players' services restrictive and inefficient.

Shipping agents

Acting on behalf of the shipping lines normally under exclusive, long-term contracts, shipping agents benefit from a list of minimum prices published by the sector association (Jordan Shipping Association)[55] that may facilitate collusion and that may contradict the Jordanian Competition Law. For instance, the agents levy additional port charges on the movement of empty containers from the truck to the vessel over and above the agreed charge for land transport for the return of empties; these charges are passed to the owner of the cargo even if the containers return full and are covered by the owner of the export cargo. Legislation also limits shipping agent activity to Jordanians (access is restricted to Jordanian natural or juridical entities subject to a limitation of 50 percent foreign equity), although arrangements are in place to allow international companies to have local associates conduct their operations.

Customs clearance agents

These agents are mainly responsible for dealing with customs obligations on behalf of cargo owners, but they are also commonly integrated downstream with forwarding and trucking services. The suspension of the issuance of new licenses by Jordan Customs reduces contestability and competitive pressure on incumbent agents. The regulated fees for customs clearance services—generally unregulated in other jurisdictions—can become a focal point for (tacit) coordination among competitors. Burdensome requirements abound, including the need to maintain at least three branches and the payment of annual fees per employee. Additionally, only Jordanian companies (access restricted to Jordanian natural and juridical entities subject to the limitation of 50 percent foreign equity) may be licensed to provide customs clearance services. These requirements are only loosely related to the ultimate goal of promoting quality and safe services but do restrict the level of market contestability, particularly in the absence of antitrust enforcement.

Non-official players

Stakeholders have also reported the presence of informal factoring agents who take on midterm/delayed receivables from drivers in exchange for discounted upfront payments. This dynamic has been reported to be more common in general cargo transport. Although this practice might be efficient, it is worth monitoring market dynamics and the effects on individual truckers.

Business associations

Close-knit business associations in transport and logistics have led to collusive behavior, which contravenes competition laws and has resulted in higher transport and logistics costs. The Competition Directorate could play a more active role in advocating for less restrictive regulatory alternatives, in particular to tackle the problems faced by the trucking sector. While these regulations may be useful to mitigate social problems in the short run, a more sustainable package of reforms is needed. To increase efficiency, reduce prices, and improve services, policies should favor an ecosystem in which efficient and productive players coexist irrespective of size or legal form. In other developed and emerging economies, individual truckers coexist with trucking companies, and regulations help create an environment for efficient operation of both types of road transport operators. In this context, it is necessary to identify the most cost-effective and least distortive measures capable of simultaneously (a) mitigating the social impacts on individual truckers and (b) improving efficiency in the transport and logistics value chain.

TRADE FACILITATION/CUSTOMS

Since Jordan began its trade facilitation modernization program in 1997, much has been achieved in improved outcomes. As an early adopter of ASYCUDA World (2009), Jordan Customs was able to quickly develop an internet-based, single-window portal, which has facilitated cross-border trade, and enhanced transparency and accountability. Clearance times for imports have been reduced from an average of four weeks in 2008 to two to three days today. More recently, greater reliability in clearance times has been attained. This has allowed officials to preplan the movement of containers through ACT and up to Amman so as to minimize the use of storage and improve the scheduling of the trucks transferring goods to Amman.[56] Jordan Customs has also been active in establishing an Authorized Economic Operators program, which currently accounts for only 18 percent of trade value due to the small number of large companies in Jordan.

Nevertheless, despite rapid improvements in customs processes, challenges still exist. Jordan Customs still has an exceptionally high rate of physical inspection despite having introduced green/yellow/red channels, X-ray inspection, risk management, and intelligence sharing with other countries. Officials generally cite concerns regarding security to explain this situation, but such a concern is not unique and other countries have been able to manage their risk requirements. In addition, delays caused by inspections and approvals by OGAs responsible for clearing cargo remain one of the major challenges for trade facilitation. A steering committee comprising ministers representing six OGAs was recently established in an attempt to streamline the activities of these agencies. However, this process will take time.

TRADE FINANCE

In Jordan the use of trade finance is limited because of the predominance of small enterprises in trade, absence of audited accounts, and high levels of perceived risk. The availability of trade credit insurance in Jordan is also very limited, with insured flows equivalent to less than 1 percent of GDP, less than other developing markets such as South Africa (15 percent), Morocco (7 percent), and Tunisia (4 percent). Because of the moderate size of its economy, Jordan is not well served by international credit insurers. Jordan Loan Guarantee Corporation (JLGC) is mandated to address this market gap and has developed a strategic plan supported by a JD 100 million long-term concessional loan from the Central Bank (45 percent shareholder of JLGC).

OPPORTUNITIES FOR IMPROVING LOGISTICS SERVICES

Five specific strategies are proposed for improving the logistics services for both domestic and international trade. The strategies focus on improvements in

- Road transport services
- IT-based logistics services
- Export value chains
- Distribution of consumer goods
- Trade facilitation

Managing the supply of road transport

The oversupply of trucks for transporting cargo from the port of Aqaba to inland destinations prevents an effective pricing model. Due to the oversupply, the current price is at a level that will cover the short-run marginal costs but does not provide sufficient returns on capital to replace the older equipment. Ideally, a system that allows shippers to select from available providers and to negotiate the freight rate while ensuring truck operators have equal access to the demand for transport would be implemented. Economic rents captured by trucking companies due a restrictive rule that limits the entry to Aqaba to companies (rather than to independent contractors) also distort prices.

There are several ways to reduce oversupply of trucks and economic rents captured by trucking companies as broker for independent contractors, and to improve the efficiency of road transport services. The introduction of environmental standards as part of the annual inspection can complement the natural wastage that takes place as older vehicles experience an increase in maintenance costs and reduction in reliability. This would result in additional loss of employment but ensure that the remaining fleet is able to meet future environmental standards. The introduction of an electronic market would provide independent operators, besides trucking companies, with direct access to the shippers, much like how IT platform Uber connects drivers and riders. A regulatory environment can guarantee the quality of services. Service efficiency is affected by the limitations on the number of containers that trucks can carry on the inbound journey and the arrangements for carriage of outbound containers. The former may not be a serious problem because the weight of cargo carried in 20-foot boxes is generally equal to or greater than for cargo carried in 40-foot boxes. Strict enforcement of load limits may achieve the same effect. The latter is currently managed by the shipping lines, which maintain yards for storage of empty containers and then dispatch them to exporters in trucks hired by the shipping lines. If necessary, this could be supplemented by including those movements in the electronic market.

New e-commerce opportunities

There may be potential for developing new business-to-business (B2B) e-commerce services that could be exported. One example is the provision of reverse logistics for e-commerce goods which include repair and replacement, disposal, and reselling of returned items. The latter offers the greatest potential because the rate of return for delivered goods often exceeds 50 percent in Jordan where the sale is on a cash-on-delivery basis. Reselling requires a separate B2C platform that includes an efficient gateway, a free-trade environment, and modern warehousing services.

Given the lack of any physical competitive advantage, establishing a logistics hub that offers services similar to those in regional leader Dubai would be extremely difficult. However, success in e-commerce requires a suitable enclave in which current regulations affecting commercial activities have been revised and harmonized and complemented by competitive trade facilitation.

Enhancing the value of exports

Logistics is essential for delivering inputs for lean manufacturing and for conducting major marketing programs for consumer goods, increasing product value in several ways. A reduction in delivery time and an increase in reliability not only decreases the amount of inventory required but also provides greater flexibility in marketing new products. Information transmitted through the supply chain has also become an important contributor to product value.

Garments, one of Jordan's leading exported goods, is one of the industries most affected by improvements in the design of the supply chain. However, the industry is a basic FOB operation in which the manufacturers procure inputs from suppliers designated by the buyer and then arrange shipments of garments through forwarders and shipping lines, also designated by the buyers. The current order cycle is three to six months. The products are lower-middle value (US$10–$15 FOB per piece) with order sizes of up to a few hundred thousand.

To diversify the market and, more importantly, to increase the unit value of exports, the involvement of exporters in the supply chain must be extended from FOB to original equipment manufacturing (OEM). Also, the supply chains need to be restructured and the order cycle reduced to two months. Doing so requires the selective use of airfreight, greater flexibility, reduced time for setting up production lines, greater reliability of delivery for both raw materials and products, less time for clearing cargo, and multiple sequential shipments to allow early delivery. It will also require improvements in the transactions and flow of information between supply chain participants in order to reduce the time and increase the reliability of delivery to the market. These changes will increase the cost of production but will be more than compensated by the increase in value of the product.

Improved distribution of consumer goods

The distribution of consumer goods to the retail sector in Amman is still inefficient in terms of both cost and use of the road network. Most retail activity is at small, family-owned stores that serve their immediate community. Similar to large retail chains and big box stores, the efficiency of distribution of small-scale retail will require improvements in the ability of firms to

- Collect and process sales data,
- Monitor inventory,
- Process orders,
- Consolidate product shipments, and
- Plan and execute delivery to individual stores.

A growing number of digital applications and equipment is available to enable the same improvements for small-scale retail. For example, the use of internet-connected sales registers to monitor changes in inventory, generate restocking orders as well as analyze and forecast demand for individual products. At the same time, applications to increase the efficiency of deliveries have been developed. Further local applications are still needed to meet the specific requirements of retailers in the Amman area.

Enhancing trade facilitation

Planned improvements in customs procedures and attempts to modernize the practices of OGAs involved in regulating trade need to be completed as soon as possible to advance the logistics sector. Two areas requiring immediate attention are tariff classifications for new products and changes in regulations and procedures to facilitate e-commerce. Tariff classification issues arise not only from confusion regarding the coverage of the harmonized system codes but also from the lack of knowledge of what the new products are used for. This problem can be addressed through increased collaboration with other customs agencies or with importers and exporters. In the future, blockchain technology will address the problems by providing an additional level of confidence regarding information on the sources, handling, and characteristics of the products. The growth of e-commerce will create new challenges for clearing cargo, collecting duties and taxes, and detecting anomalies. In the case of containers with consolidated shipments, the forwarder will need clearance to act as the nominated consignee responsible for payment of all duties and taxes but should not be liable for sales tax on the goods transferred to the actual consignees.[57]

Jordan Customs is planning to update its ASYCUDA software to provide additional functionality but is also considering developing its own software in the future. This plan may make sense given the considerable advances made in IT, including database and artificial intelligence applications, since ASYCUDA World was first introduced. However, Jordan needs to avoid a complete redesign, given the resulting disruption during implementation.

RECOMMENDATIONS FOR THE LOGISTICS SECTOR

ISSUE	RECOMMENDATIONS
Supply of road transport	• Develop a regulatory framework that allows for the introduction of an electronic market and operation of digital platforms to facilitate matching supply and demand for trucking services, particularly for individual truckers. This framework would supplement the existing practice of direct negotiations between shippers and trucking companies and would provide independent operators with direct access to shippers. • Eliminate restrictive rules on access to Aqaba, including the number of trips, number of 20-foot containers, and access by individuals. • Remove restrictive rules on the licensing and registration of trucks by individuals and companies. • Remove minimum or reference prices set by associations along the transport and logistics value chain (mainly shipping agents, customs clearance agents, and freight forwarders) that are contrary to the competition law. • Eliminate minimum prices for trucking services imposed by the government once the updated scrapping program is in place and the restrictive rules on access to Aqaba, licensing, and registration are removed. • Introduce environmental standards as part of the annual truck inspection; this task should ensure that the remaining fleet is able to meet future environmental standards.
Trade facilitation	• Introduce tariff classifications for new imported products to reduce delays at customs due to lack of knowledge of what the products are used for. This task can be done through collaboration with other customs agencies or with importers and exporters. • Introduce procedures to facilitate e-commerce. The growth in e-commerce will create new challenges for clearing cargo, collecting duties and taxes, and detecting anomalies. For containers with consolidated shipment, allow the forwarder to act as the nominated consignee responsible for payment of all duties and taxes without being liable for sales tax on the goods that are transferred to the actual consignee. • Reduce the exceptionally high rate of physical inspection by Jordan Customs through greater use of risk-based methods, container tracking, and so on. Many such methods are already in place in other countries. • Accelerate efforts at government agencies other than customs to make the cargo clearing process more agile, matching the improvements in customs processes.
Competition in transport services	• See recommendations for supply of road transport.

Potential e-commerce logistics hub	• Conduct a market study of both domestic and regional e-commerce activities. • Promote the concept to potential locators, both regional and international. • Survey the Aqaba Special Economic Zone for available land with good access to the port and road transport. • Expedite the introduction of proposed customs reforms. • Review rules to reduce conflicting regulations, simplify procedures, and provide a business environment comparable to that in competing hubs.

6. INFORMATION AND COMMUNICATION TECHNOLOGIES MOTIVATION: POTENTIAL AND CHALLENGES

Political stability, proximity to GCC markets, abundance of university graduates, and good infrastructure are competitive advantages for Jordan's Information and Communications Technology (ICT) sector, which offer significant potential to contribute to employment, exports, and value addition. The Information and Communications Technology (ICT) sector accounted for a direct contribution of 4 percent of GDP in 2018 (Innovative Jordan n.d.), and an estimated total contribution of about 12 percent of GDP (INT@J 2018). The sector employs over 1 percent of the labor force, with women accounting for 33 percent in 2018, above the national average (DoS 2018). ICT sector revenues grew 10.7 percent between 2017 and 2018 (INT@J 2018), five times the total GDP growth in the same year (1.9 percent).[58] Moreover, ICT services accounted for 5.7 percent of exports[59] and 21.6 percent of value added in 2017.[60] With a small domestic market, the local ICT sector can scale only through exports, which account for 35 percent of total IT sector revenue in 2018 (INT@J 2018).

The global growth of ICT is expected to be very buoyant. The sector is growing and will continue to grow at twice the rate of GDP growth as new technologies begin to account for a larger share of the market. Prior to the onset of the COVID-19 pandemic, the global information technology outsourcing (ITO) market was expected to grow at a CAGR of over four percent during the period 2018–22; this is likely to be even higher as a result of COVID-19. There is strong growth potential in consumer, business, and government adoption of ICT in the MENA region, where there is a need to catch up with the rest of the world. In financial services, the region is severely underbanked, meaning there is potential to develop innovative technologies with localized content to provide access to financial transactions and other banking services.

Jordan has made excellent progress in ITO, and has potential as a source of digital entrepreneurship and start-ups, but a number of challenges remain. Global giants such as Cisco, Expedia, Amazon, Microsoft, and Oracle have established operations in the country, while local companies specializing in ITO and BPO have expanded their operations over the past decade to service regional and international clients. That being said, the growth of both ITO and digital entrepreneurship in Jordan face challenges including issues regarding regulatory stability, work permits, and institutional setup of the sector. Establishing a less ad hoc and more institutionalized approach to attracting tech investors is important and would involve resolving regulatory challenges and developing an enabling ecosystem. Other challenges including regulatory instability and lack of transparency, constraints that affect the private sector as a whole and are discussed earlier in this report. To overcome these challenges, many private businesses and investment funds register holding companies offshore and then register local subsidiaries for ease of doing business. Though Jordan suffers from a major shortage in qualified software engineers, firms face issues in obtaining foreign skilled-worker permits. Given high business costs in Jordan, the country needs to aim for ITO at higher technical levels, where cost disadvantage is less likely to matter. With regards to the entrepreneurial ecosystem, Jordan lagged the region in high growth potential, risk capital, risk acceptance, networking, and human capital indicators[61]. The key priority for nurturing an effective entrepreneurship ecosystem is to support entrepreneurs through the processes of designing, launching, and running a new business.

Given this potential, but also the real challenges, the following assessment will analyze the state of a range of aspects of the digital ecosystem, from digital infrastructure to digital payments. The goal is to help shine a light on the prospects for growth in the ICT sector in general and in particular on how Jordan could (a) improve as an ITO location for major international technology companies and (b) foster a start-up and entrepreneurial ecosystem for the creation and growth of smaller tech companies.

GOVERNMENT STRATEGY

The ICT sector has relatively significant engagement, regulation, and support from the government of Jordan. In 2016, Jordan produced REACH2025, an ambitious and comprehensive ICT development and digitization strategy to transform the country into a digital economy and a regional IT center. The strategy recommends many reforms—including improved access to finance, investor incentives, and tax exemptions—many of which have been adopted recently. The plan's core elements include smart specialization and growth, public sector innovation, start-up and entrepreneurship support, skills development, improvements to the business environment, and the creation of smart digital infrastructure. REACH2025 was incorporated into the government's midterm economic development agenda, the Jordan Economic Growth Plan (JEGP), which runs from 2018 to 2022.

The government has acknowledged the importance of the private sector in driving the ICT sector's growth. Following a wave of liberalization reforms and adoption of ICT development policies, the Information Technology Association of Jordan (INT@J) was created. INT@J plays a supportive role in the formation of national ICT strategies, data collection, and industry lobbying. In addition, the government established Oasis500, one of the largest start-up seed investors in the region. Moreover, Jordan's National Information System is seeking to identify new modalities to attract private sector investment in developing and managing e-government services. Similarly, the JEGP reports that public-private partnerships (PPPs) will be essential for rehabilitating post offices and launching knowledge stations, which will provide financial and social support and a range of e-commerce and e-government services.

The remainder of this assessment follows the framework proposed in the World Bank Group's MENA Digital Economy Benchmarking report, which identifies five pillars of the digital economy—namely, digital infrastructure, digital entrepreneurship, digital skills, digital platforms, and digital financial services. The report benchmarks performance along these five pillars according to a set of indicators that reflect key components that make up each pillar. Figure 6.1 summarizes the assessments for Jordan.

DIGITAL INFRASTRUCTURE

Public and private investments in mobile and broadband infrastructure have enabled an increase in access to the internet. The use of the internet by individuals in Jordan at 53 percent is above the world average, and mobile and broadband subscriptions have grown in recent years. Three operators dominate Jordan's telecoms landscape: Orange Jordan, Zain Jordan and Umniah, a subsidiary of Bahrain's Batelco. Orange Jordan, the incumbent operator, grew out of a privatization in 2000, with the government maintaining a 30 percent stake. At present Orange is the only integrated operator offering mobile, fixed-line, wholesale telecoms and internet services. Jordan is also home to 16 internet service providers, with Orange as a major player. The government has also played a large role in the provision of broadband nationally through the National Broadband Network (NBN). The NBN rollout is expected by end 2022, and the network aims to connect different health care, public, and educational entities through fiber optic networks.

FIGURE 6.1. BENCHMARKING ITC IN JORDAN

Given the data available, Jordan appears to be **Advanced** in the **Digital Infrastructure** pillar

This is based on country performance within 16 indicators across topics related to: Broadband Access, Quality, Affordability. Market Competition, Government Ownership, and Legal Frameworks

Given the data available, Jordan appears to be **Advanced** in the **Digital Entrepreneurship** pillar

This is based on country performance within 7 indicators across topics related to: Access to Finance, Entrepreneurship, and Technology Adoption.

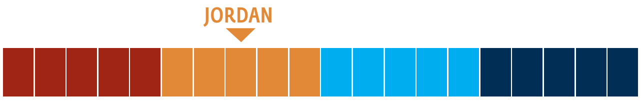
Given the data available, Jordan appears to be **Advanced** in the **Digital Skills** pillar

This is based on country performance within 9 indicators across topics related to: Internet Use, Social Media, Digital Skills and Skills.

Given the data available, Jordan appears to be **Advanced** in the **Digital Platform** pillar

This is based on country performance within 19 indicators across topics related to: Government Platforms, Private Sector Platforms and Logistics.

Given the data available, Jordan appears to be **Emerging** in the **Digital Financial Services** pillar



This is based on country performance within 11 indicators across topics related to: Payments and Legal Frameworks.

Source: World Bank.

The National Information System notes three key points regarding the future of the NBN. First, the creation of large-scale demand and use of e-government services is necessary to make private investment in the NBN economically feasible. Second, a partial or complete handover to the private sector will reduce or eliminate the government's operational costs. Third, because the NBN holds significant excess capacity, the government is undertaking a feasibility study for the commercialization of the spare capacity through a PPP model, in order to increase competition in the fixed broadband wholesale market. The NBN is connected to over 3,000 government entities (mostly schools), making it relatively cost-effective to extend lines from these entities to nearby households using aerial fiber cables, including outside main cities. Increasing access to high-speed broadband services may broaden the employment base for people whose mobility is restricted by family, health, or other considerations.

Challenges and recommendations for digital infrastructure

Despite the investments made, both mobile and fixed internet in Jordan are relatively expensive compared to peers. These relatively high prices would be more justified if internet speeds were high, but speeds are below the global average. One source of the relatively high costs is substantial telecom taxes. Jordan's substantial fiscal constraints have resulted in a series of tax increases, including the scrapping of tax exemptions for fixed and mobile internet services, effectively doubling the tax rate for these services to 16 percent, as well as a JD 2.60 (US$3.67) tax charged on the purchase of every prepaid and postpaid SIM card, as of February 15, 2017.

Another underlying cause of high prices and slow speeds is the limited competition in both the broadband and mobile markets. This is perpetuated by the lack of enforcement of regulations on number portability as well as right-of-passage and infrastructure sharing. Bids for the spectrum auctions designed for 3G and 4G are also absent, and was instead allocated through negotiations between market players and the government. Initial consultations for the 5G spectrum indicates that a similar pattern is expected— incumbents want to get their 4G licenses extended to 5G rather than participate in an open and competitive selection process.[62]

Over-the-top providers (OTTs) and mobile virtual network operators (MVNOs) receive different treatment from that of providers of retail telecommunications services, as OTTs and MVNOs are services that may compete directly with the mobile network operator (MNO) services. In other countries, contracts between OTTs and MNOs provide for payment for connection. This is not occurring naturally in Jordan, so regulation may be needed. MVNOs are similarly not guaranteed access to the infrastructure they need to offer their services. The only company that has tried such a model in Jordan could not survive: two out of the three providers simply denied access. The third provider allowed access only to voice; without data, the MVNO could not compete effectively.

Price controls can be applied to all services, including retail services. According to the Telecom Law, the Telecommunications Regulatory Commission (TRC) has the power to fix prices of services, including for retail.[63] The law establishes that market players may not increase the charges or prices of their services except after placing an announcement in two local daily newspapers for a period not less than one month. Changes cannot exceed what is stated in the terms of the license agreement, instructions, or decisions issued by the TRC. In all cases, the licensee must inform the TRC of any amendments made to fees and prices. The current regulation does not differentiate between the prices that should be regulated, such as between interconnection rates because of their nature as a monopoly, and those that should follow market dynamics, such as retail prices offered under competition.

Ministry of Digital Economy and Entrepreneurship (MoDEE) and the Competition Directorate have the mandate to identify and sanction anticompetitive behavior in the sector, but they have not chosen to do so. The Competition Directorate has the mandate to advocate for pro-competition interventions in the economy, including improving the regulatory framework affecting the telecommunications value chain.

DIGITAL ENTREPRENEURSHIP ENVIRONMENT

Although the entrepreneurship ecosystem in Jordan has improved significantly over the past decade, particularly in urban areas, key challenges hinder its growth and connectedness. Based on the Global Entrepreneurship Index 2019, where Jordan ranked 63rd out of 137 countries, the country lagged the region in high growth potential, risk capital, risk acceptance, networking, and human capital indicators. Digital entrepreneurs in Jordan are also hindered by the challenging business environment more broadly, notably difficulties in starting a business, and the unpredictability of the business environment. Jordan has recently taken favorable steps by approving the insolvency and secured transaction laws in the Parliament and amending the Companies Law to allow for venture capital registration. However, additional steps are needed to develop a legal and regulatory environment that is friendly to entrepreneurs. The growth of digital entrepreneurship in Jordan is also hampered by the loss of businesses to the Gulf region, particularly the UAE which gives strong incentives such as access to venture capital, tax breaks, and sometimes free office space. Access to finance, particularly access to venture capital, is also a significant challenge for ICT entrepreneurs. Jordanian start-ups also face difficulty in hiring foreign talent due to the country's restrictive criteria for hiring foreigners, in addition to the brain drain of local talent for opportunities elsewhere in the region.

DIGITAL SKILLS

Many ICT graduates in Jordan do not find employment in the sector—or at all. Only about 7.5 percent of ICT graduates work in their field. This problem may indicate a skills mismatch with actual market needs and a general weakness in the preparedness of graduates for work. However, it is also undoubtedly linked to a lack of overall demand for ICT workers from employers, combined with significant demand for Jordanian ICT workers in the Gulf, suggesting the lack of job opportunities in the sector as well.

Despite a large number of graduates in computer science, mathematics, and engineering fields, graduates remain ill equipped with the specialized skills needed to thrive in an advanced digital economy. Five core weaknesses underly the skills mismatch: (a) an outdated university curriculum; (b) lack of soft skills; (c) lack of awareness of and experience with global technology trends; (d) little to no practical hands-on experience; and (e) brain drain to neighboring countries. Furthermore, a mix of essential technical, English, and soft skills is needed to better equip youth for future jobs. Despite being outdated, curricula are difficult to update because of government rules and a combersome compliance and accreditiation process.

A two-pronged approach is required to address the gaps in the supply of digital skills: (a) immediate attention to the stock of educated youth with skills gaps and (b) a systematic focus on foundational gaps in the education system that result in a flow of unprepared students. Innovative rapid skills enhancement models to train a few hundred graduates every year on skills for future jobs have been piloted by MoDEE and have produced promising preliminary results. Graduates from these programs have been rapidly absorbed by the private sector at a placement rate of more than 80 percent. Scaling up these models in a sustainable manner remains a challenge but also presents an opportunity for development. Also, these models should inform the content of university curricula as well as providing an opportunity for PPPs. It may be wise also to consider whether employers are demanding graduates with a full-length university degree or whether there may be opportunities to meet market demand with shorter, more focused programs.

Finally, relevant skills can be built through the MoDEE's network of 150 "knowledge stations" across Jordan. The stations would provide technical and soft skills training and coaching and coworking space facilities to Syrian and Jordanian youth in underprivileged communities to (a) work as employees for high-growth companies (physically or remotely), (b) provide back-office support through outsourcing units at the hubs, (c) work as freelancers on global portals (like Upwork and others) at a hub's coworking space, and (d) pitch to incubators, accelerators, and investors to receive mentorship, financing for their projects, or both. The government would be encouraged to partner with private entities (through concession agreements) to manage these hubs.

DIGITAL PLATFORMS

Digital platforms can support greater digital exchange, transaction, and access to public and private services online; this includes e-government, national ID coverage, and private sector platforms, among others. The government has made significant gains in digitally transforming service delivery, including the development of a consolidated government portal (Jordan.gov.jo) that offers access to 240+ e-services to citizens and businesses, and development of a shared services infrastructure to reduce redundancies in systems and capital investments in ICT. Furthermore, MoDEE launched Sanad, a mobile application which includes 100+ e-services for eight government entities and is expected to offer 395 services by the end of 2020. However, many of the services remain informational only at this stage. MoDEE is also enhancing the GBUS platform, which allows governmental entities to exchange and verify data, in order to ensure the interoperability and delivery of e-services.

The government of Jordan is keen to rapidly expand e-government services by partnering with the private sector on the development of applications, services, and solutions. By including the private sector in the transformation, Jordan can also strengthen national capacity, advance the local tech ecosystem, create economic opportunities, and support public sector innovations. With respect to the private sector platform, the Jordanian labor market is not realizing the full potential of using the gig economy to access economic opportunities in various tech and non-tech sectors.

DIGITAL FINANCIAL SERVICES

The digital payments ecosystem in Jordan is relatively new, and there is significant room for growth. The government of Jordan has committed to increasing the percentage of the population making or receiving digital payments from 33 percent to 50 percent by 2020 and to digitizing 80 percent of government-to-citizens payments by 2021. Jordan does have good infrastructure to support a strong payments system, with wide-reaching GSM coverage and smartphone penetration of 85 percent. Moreover, the CBJ has created an enabling regulatory and policy environment to overcome challenges faced in the sector. Jordan has relatively low, but gradually increasing, financial inclusion, although mobile wallets are only a small part of the financial ecosystem.

Difficulties with the agent network for mobile money are a reason for slow uptake of digital payments. There are only about 15 agents per 100,000 adults, well below the 22 in peer countries. Since retail outlets with mobile payment options are lacking, mobile wallets operate primarily in competition with automated teller machines (ATMs) and banks as a cash-in, cash-out service rather for payment of day-to-day purchases. Consumers are far more likely to have bank accounts in urban areas, where there are also strong ATM networks and wider access to card-based point-of-sale devices. The CBJ has recently required banks to offer basic bank accounts to low-income households with lower fees, which may generate competition for Payment service providers (PSPs) even among low-income users.

The market for mobile payments is fragmented, currently with five licensed PSPs and two more about to enter. eFAWATEERcom, a bill payment system that links public and private institutions with banks and PSPs launched by the CBJ, also competes with mobile wallets on bill payments. PSPs often rely on exchange houses as agents; this may not be an effective approach as exchange houses compete with mobile wallets for both over-the-counter bill payments and domestic person-to-person transfers.

The government is generating other use cases for mobile money to increase its adoption. These include using mobile money for national aid payments and bread subsidies (through the National Aid Fund), transportation payments (Greater Amman Municipality and Ministry of Transport), and health records and billing (Ministry of Health). Transportation payments, in which rider might pay directly for buses from their mobile wallets, is the most promising initiative to increase mobile money transactions. The government has also implemented overarching digital infrastructure projects that act as an enabler for digitization of government payments, including nationwide identification and authentication, secure networking, and key payment system platforms.

Alternative and innovative financial payments options are entering the market. Several financial technology businesses, such as Emerging Markets Payments, GreenWallet, and MadfooatCom are already offering mobile financial services in Jordan, while PayFellow and Middle East Payment Services have been active in secure e-payment processing. Peer-to-peer (P2P) lending platforms, including Islamic P2P lending start-up liwwa, also offer alternative financing channels for small businesses and entrepreneurs, further supporting improved financial inclusion.

RECOMMENDATIONS FOR THE INFORMATION COMMUNICATIONS AND TECHNOLOGY SECTOR

ISSUE	RECOMMENDATIONS
Supporting competition in digital infrastructure	• Enforce number portability and review rules on mobile virtual network operators (MVNO) to ensure that potential entrants can access the infrastructure they would need. • Enforce rules on right of passage and infrastructure sharing, including review of interconnection rules and charges to reduce duplication of investments and overall costs of networks. • Establish a competitive selection process for the 5G spectrum. • Enable and require mobile network operators to provide support for voice and video services offered by over-the-top service providers to increase competition and consumer choice. Consider revisions to the taxes on mobile operators to improve affordability • Support MoDEE's effort to expand and commercialize the NBN through a PPP model • Increase attractiveness of the National Broadband Network project to the private sector by identifying regulatory reforms required to increase competitiveness in both wholesale and retail sectors, and adapting pricing, taxation, license tenors
Tailoring digital skills to market demand	• Support private sector–led digital skills development, including establishment of the National Skills Council for information and communication technology (ICT), as a financially and administratively independent legal entity, with a majority private sector board members and representation from key public sector stakeholders, and with a mandate to (a) conduct demand-side and supply-side assessments, (b) establish national occupational standards to be adopted by the Vocational and Technical Skills Development Commission (VTSDC), (c) qualify service providers, (d) accredit training curriculum, (e) create and disseminate online training materials, (f) conduct national awareness activities, (g) engage in monitoring and evaluation, and (h) establish comprehensive customer relation management system for the beneficiaries. • Enhance digital skills competencies for public school students by introducing quality technology and computer science courses in public classrooms in grades 7–12 and identify gaps in the existing information technology courses, developing context-relevant technology learning assets and training teachers in the new courses. • Support and scale up short, soft-skills courses for existing graduates, such as those under way at ReBootKamp (RbK) and Al-Hussein Technical University.

Enhancing the environment for digital entrepreneurship	• Matchmaking program: Support building business-to-business links between Jordanian high-potential tech start-ups and potential partners or investors in regional and global value chains, to provide access to market and investments. Pilots are currently underway to link Jordanian startups potential investors and/or partners in the United Kingdom and the United States. • Provide working spaces in underserved communities through tech hubs: support upgrading and equipping three to five technology hubs (tech hubs) as "for fee" venues for skills programs, coworking spaces, information technology outsourcing (ITO) and business process outsourcing (BPO) spaces, and networking spaces for trainers, entrepreneurs, freelancers, chief security officers, and ITO businesses in nearby communities. (Tech hubs are being supported through the 2020 Youth, Technology and Jobs project). • The start-up regulatory framework: continue a participatory approach to identify and tackle legal and regulatory constraints facing entry, growth, and exit of entrepreneurs.

Digital platforms	**Government platforms:** Assess the following key areas in the Jordan e-government program: • Public value assessment of services, already available to ensure efficiency, quality, and user acceptance • Shared services assessment covering interoperability, systems capabilities, data governance, and resilience • The services inventory that ministries, departments and agencies have identified for re-engineering and automation over the period 2018–21. Enable the **infrastructure** for integrated e-service delivery: • Incentivize creation and upgrading of foundations for e-government, including expansion of an interoperability platform for data exchange to support automation of service delivery, upgrades to the government cloud, database security, and public key infrastructure (PKI) upgrades. • Support a whole-of-government digital transformation. **Build capacity** at the Ministry of Digital Economy and Entrepreneurship and other government agencies. • Provide long-term technical expertise to implement the Digital Jordan program, including specialists in business process re-engineering, digital payments, mobile applications, API (interface) design, and other skills. **Private sector platforms** • Address regulatory and taxation issues, including classification of economic activity and avoiding uncertainty in domestic regulations and taxation. • Address issues related to regulations of freelancers. • Provide working spaces in underserved communities through the tech hubs previously mentioned. • Support adoption of the gig economy through outreach, awareness-building campaigns, and training on how to access and offer services on online freelancing marketplaces.
Boosting use of digital payments	• Develop an implementation roadmap for government e-payment services. • Develop an overarching government payment architecture. • Develop a high-level change management framework. • Develop regulatory guidelines and policies regarding digital government-to-person payments and financial inclusion. • Accelerate the digitization of government payments (National Aid Fund, bread subsidy, health, and transport) to generate use cases for digital payments. • Implement IT enhancements in the identification systems to meet the needs of the financial sector. Encourage and support PSPs to develop partnerships with private sector companies, such as retailers and merchants, to digitize payments, including point of sale terminals as well as payroll for employees. • Support and accelerate the rollout of electronic know-your-customer functions to make it easier to open a mobile wallet or bank account.

REFERENCES

Adventure Travel Trade Association. 2018a. “ATDI: The Adventure Tourism Development Index—The 2018 Report.” ATTA, Monroe, WA. https://www.adventuretravel.biz/research/2018-adventure-tourism-development-index.

ALG Transportation and Logistics. 2018. xxxx

Alexander, Barbara (1994). The Impact of the National Industrial Recovery Act on Cartel Formation and Maintenance Costs. Review of Economics and Statistics, 76(2): 245-54.

ATTA (Adventure Travel Trade Association). 2018. “20 Adventure Travel Trends to Watch in 2018.” ATTA, Monroe, Washington. https://www.adventuretravel.biz/research/20-adventure-trends-to-watch-for-2018

Aloul, Sahar, Randa Naffa, and May Mansour. 2018. “Gender in Public Transportation: A Perspective of Women Users of Public Transportation.” Research study, Sadaqa and Friedrich–Ebert–Stiftung, Amman,

Center for International Development (CID), Harvard University. 2018. Jordan’s Growth Narrative. Mimeo.

Constant, A.F. 2014. Do migrants take the jobs of native workers? IZA World of Labor, May.

Department of Statistics of Jordan. 2018. Labor Force Survey.

Economic Policy Council. 2018. *Jordan Economic Growth Plan 2018–2022*. Amman: Economic Policy Council and Government of Jordan.

The Economist Intelligence Unit, World industry: Sun, sea and surgery. July 28, 2018

Emilsson, A. 2011. The Impact of Remittances on Labor Supply: The Case of Jordan. Lund University. http://lup.lub.lu.se/student-papers/record/2169708.

Euromonitor International. 2017. “Niche Markets and Global Sizing: Summary of Market Segments.” Prepared for the International Finance Corporation and Papua New Guinea Tourism Promotion Authority, October.

Fitch Solutions Group. 2019. Jordan Labor Market Risk Report Q4 2018. Business Monitor International Ltd.

GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit). 2019. Jordan’s ICT Sector Analysis and Strategy for Sectoral Improvement.

Government of Lebanon. 2018. Lebanon Economic Vision.

Hausmann, Ricardo, Tim O’Brien, Miguel Angel Santos, Ana Grisanti, Semiray Kasoolu, Nikita Taniparti, Jorge tapia, and Ricardo Villasmil. 2019. "Jordan: The Elements of a Growth Strategy." CID Faculty Working Paper, 346, Center for International Development, Harvard University, Cambridge, MA, February.

IDC (International Data Corporation). 2017. "United Arab Emirates and Saudi Arabia BPO Market Size and Forecast, 2015–2021." IDC, Framingham, MA.

IMF, June 2017 Article IV review.

IMF. 2017a. Jordan Technical Assistance Report—Public Investment Management Assessment.

Innovative Jordan. n.d. "Sectors: ICT." Innovative Jordan website, https://innovative.jo/ict/.

INT@J (Information and Communications Technology Association–Jordan). 2018. "Sector Profile." Mimeo.

International Monetry Fund, 2018. Jordan: Technical Assistance Report-Public Investment Management Assessment (PIMA).

Kitzmuller, Markus, and Martha Martinez Licetti. 2012. "Competition Policy: Encouraging Thriving Markets for Development." Viewpoint Note 331, World Bank Group, Washington, DC.

Labor Force Survey, 2018 (DoS)

Lunt, N., R. Smith, M. Exworthy, J. Hanefeld, and R. Mannion. 2014. "Market Size, Market Share, and Market Strategy: Three Myths of Medical Tourism." Policy and Politics 42 (4): 597–614. http://doi.org/10.1332/030557312X655918

Market Research Future. 2020. *Global Business Process Outsourcing (BPO) Services Market Research Report - Global Forecast till 2024*. Maharashtra, India: Market Research Future.

McKinsey Global Institute. 2016. Independent Work: Choice, Necessity, and the Gig Economy.

Mistura, Fernando & Caroline Roulet. 2019. "The determinants of Foreign Direct Investment: Do statutory restrictions matter?," OECD Working Papers on International Investment 2019/01, OECD Publishing.

Momtaz, M. (2018). Egypt chapter. The European, Middle Eastern and African Antitrust Review.; GAC (2107). Annual report.

Ministry of Tourism and Antiquities (MoTA), Department of Statistics (DoS) and USAID (2018). Jordan Tourism Satellite Account (TSA) 2016

MoTA (Jordan Ministry of Tourism and Antiquities). 2018. Statistical newsletter.

MoTA, DoS and USAID; Jordan International Visitor Survey, 2017.

Motta, Massimo. 2004. *Competition Policy: Theory and Practice*. Cambridge: Cambridge University Press.

Netherlands Embassy, Bangkok. 2017. "Tourism Industry in Thailand." https://www.rvo.nl/sites/default/files/2017/06/factsheet-toerisme-in-thailand.pdf.

OECD. 2019. GIG Economy Platforms: Boon or Bane?

Ottaviano, G., Giovanni Peri and Greg C. Wright. 2010. Immigration, Offshoring and American Jobs. National Bureau of Economic Research, Working Paper 16439.

Oxford Business Group. 2017. Jordan targets small business growth. https://oxfordbusinessgroup.com/news/jordan-targets-small-business-growth

Patients Beyond Borders, "Quick Facts about Medical Tourism: How Big is the Market?," Patients Beyond Borders website, https://patientsbeyondborders.com/media.

Petersen, M., and Raghuram G. Rajan. 1997. "Trade credit: theories and evidence." The Review of Financial Studies 10 (3):661–691.

Razzaz, S. 2017. *A challenging market becomes more challenging: Jordanian workers, migrant workers and refugees in the Jordanian labour market*. International Labour Organization - Beirut: ILO.

Razzaz, S. and F. Iqbal. 2008. Job Growth without Unemployment Reduction: The Experience of Jordan. The World Bank.

Schiffbauer, Marc, Abdoulaye Sy, Sahar Hussain, Hania Sahnoun, and Philip Keefer. 2015. *Jobs or Privileges: Unleashing the employment potential of the Middle East and North Africa*. Washington, DC: World Bank.

Strategy& and Endeavor. 2018. Scaling up MENA SMEs: How a handful of firms can fast forward economic growth.

Symeonidis, G. 2008. "The Effect of Competition on Wages and Productivity: Evidence from the UK." Review of Economics and Statistics 90 (1): 134–46.

Tanase, V., C. Kunaka, N. Paustian, and P. Philipp. 2016. *Road Freight Transport Services Reform: Guiding Principles for Practitioners and policy Makers*. Washington, DC: World Bank Group.

UNDP and UNICEF. 2015. Socio-Economic Inequality in Jordan.

UNWTO. Tourism can promote and protect religious heritage. http://media.unwto.org/press-release/2014-12-10/tourism-can-protect-and-promote-religious-heritage.

UNWTO. 2019. Tourism in the MENA Region (March 2019).

USAID (US Agency for International Development). 2017. "Assessment of the Mountaineering Sector in Jordan." USAID Jordan Local Enterprise Support Project report, USAID, Washington, DC, January 20.

van der Veer, K.J.M. 2015. "The Private Export Credit Insurance Effect on Trade." The Journal of Risk and Insurance. Vol 83, Issue 3, September 2015, pp 601-625. https://doi.org/10.1111/jori.12034

Winkler, Hernan and Alvaro Gonzalez. 2019. "Jordan Jobs Diagnostic." World Bank, Washington, DC. License: Creative Commons Attribution CC BY 3.0 IGO

World Bank. 2016. Hashemite Kingdom of Jordan: Promoting Poverty Reduction and Shared Prosperity. Systematic Country Diagnostic. Report No. 103433-JO.

World Bank. 2018a. The Global Findex Database 2017. https://globalfindex.worldbank.org/

World Bank. 2018b. International Logistics Performance Index. https://lpi.worldbank.org/international/scorecard/radar/254/C/JOR/2018/R/MNA/2018

World Bank. 2018c. Draft Jordan First Equitable Growth and Job Creation Programmatic DPO.

World Bank. 2018d. Aide Memoire: Promoting competition across the Jordanian economy. Mimeo.

World Bank. 2018e. Jordan: Services Trade Performance and Competitiveness Diagnostic. Mimeo.

World Bank. 2019a. DPL2.

World Bank. 2019b. Strategic Assessment: The 2019 Project Pipeline for Jordan and investment opportunities.

World Bank. 2019c. Jordan Improving Women Economic Opportunities: Select Entry Points for Policy Dialogue and Operational Interventions.

World Economic Forum. 2009-2018. The Global Competitiveness Report. Geneva: World Economic forum

World Economic Forum. 2016. Human Capital Report. Geneva: World Economic Forum. http://reports.weforum.org/human-capital-report-2016/learning-through-the-life-course/.

World Economic Forum. 2017. The Global Gender Gap Report. Geneva: World Economic Forum.

WTTC (World Travel and Tourism Council). 2017. “Travel and Tourism Economic Impact 2017 Jordan.” WTTC, London. https://www.wttc.org/-/media/files/reports/economic-impact-research/countries-2017/jordan2017.

WTTC. 2020. Travel and Tourism: Global Economic Impact and Trends 2020.

WTTC. 2020. Jordan 2020 Annual Key Research Highlights.

Youngman, I. 2013. "How do Medical Tourists Make Decisions about Destinations." International Medical Travel Journal, August 9. https://www.imtj.com/articles/how-do-medical-tourist-make-decisions-about-destinations/.

NOTES

1 The divide between female and male labor markets, for instance, is stark, and women have barely increased their formal labor force participation rate over the past two decades. A large public sector and public sector wages that are much higher than those in the private sector inflate the reservation wage of many Jordanian job seekers; this is exacerbated by remittances.

2 Moreover, segmentation, burdensome regulation, and an immigration policy that has encouraged the entry of low-skilled workers, while limiting that of skilled ones, may also have encouraged the shift toward sectors that rely on lower skills by creating an abundance of low-skilled workers and unintentionally increasing the incentives to work informally.

3 Iraq's geopolitical struggles have hampered transportation and trade in the country. While Umm Qasr has a more favorable land transportation cost and time to Baghdad than Aqaba, Iraq's unfavorable shipping transit times may present Aqaba with an opportunity to attract cargo through its port

4 Refer to individual Sector Assessments for more details.

5 This relationship between investment and output is also referred to as the incremental capital output ratio, or ICOR, and indicates the additional unit of capital or investment needed to produce an additional unit of output. A worsening ICOR reflects the declining ability to translate investment into GDP growth.

6 The MIT Observatory's export sophistication index for Jordan is declining, suggesting little innovation in the country's merchandise exports

7 The percentage change in employment associated with a 1 percent change in economic growth.

8 Exports to Iraq, Jordan's largest export destination in 2013, fell by 66 percent between that year and 2016; exports to Syria, Jordan's fifth most important market, fell by 76 percent between 2011 and 2016.

9 These imbalances added to preexisting fiscal pressures, and especially the persistent revenue shortfalls brought about in part by the collapse in property taxes beginning in 2009 because tax expenditures were used to mitigate the impacts of the financial crisis, and the subsequent tax cuts implemented as fiscal stimulus measures.

10 According to Jordan Department of Statistics. "More educated" corresponds to those with postsecondary diplomas and above.

11 http://www.jordansmes.com/about-us.html

12 Greater production from renewables, projected to increase from 10.8 percent in 2018 to 15.0 percent in 2021, will help reduce costs as well as contain greenhouse gas emissions. A recent international bidding process for renewable energy led to a record-breaking price of 2.3 US cents per kWh for solar photovoltaic energy. However, to succeed at scale, the renewable energy sector needs a strong natural gas complement, energy storage, schedulable solar energy (concentrated solar power), modern control systems, and, in the medium term, increased interconnections with neighboring countries (World Bank 2019a.)

13 This approval was given under the World Bank's Economic Opportunities for Jordanians and Refugees Program for Results.

14 Effective as of January 23, 2020.

15 A large investor calculated that it had to incur losses in the amount of JD 56 million because of administrative delays in making decisions. That investor had initiated a construction project on the basis of an earlier decision that was then suspended.

16 Examples are raw materials versus finished products or construction materials versus accessories.

17 Furthermore, these procedures are increasingly being recentralized to the respective agencies issuing them, while agency representatives at the Jordan Investment Commission investment single window lack real authority or decision power. Similarly, various estates and economic zones no longer have power to complete some procedures on behalf of the investor.

18 According to desktop research and as confirmed by practitioners, Jordan has been involved in 9 investor-state dispute settlement (ISDS) cases that led to 12 proceedings. This is a relatively high number when the volume of inward foreign direct investment (FDI), which varies between US$3 billion and US$1 billion per year, is considered.

19 Access restrictions in services markets (mode 1) and on the movement of customers abroad (mode 2) also generate some costs to firms. Labor-related costs are addressed in the next section.

20 World Development Indicators (WDI), World Bank.

21 About 53 percent of registered migrants in 2016 were Egyptian, 30 percent were from South Asia, and 11 percent were Syrian (Jordan Department of Statistics).

22 Modeled International Labour Organization estimate, WDI.

23 According to the Jordan Department of Statistics (DOS). This corresponds to those with post-secondary diplomas and above.

24 The Jordan Jobs Diagnostic finds that "the process of educational upgrading witnessed by Jordan over the past decades was almost exclusively led by women." Note that, although the share of men with tertiary education is very similar for cohorts born in the 1950s and for cohorts born in the 1990s, 12 percent of women born in 1952 have a tertiary degree, but more than 50 percent of women born in 1991 have one (Winkler and Gonzalez, 2019).

25 Labor productivity, however, has declined, and Jordan in 2017 had the third-lowest labor productivity in the region (Fitch 2019).

26 This lack of productivity-enhancing reallocation of resources has been cited as a potential explanation for the difficulty of scaling up certain sectors in Jordan, including ICT, pharmaceuticals, health services, and renewable energy (Jordan Systemic Country Diagnostic 2016, cited in Jobs Diagnostic 2018).

27 Labor force participation is extremely low for all Jordanians, but especially for women. Jordan has one of the lowest levels of labor force participation in the world, and only one of every three working-age Jordanians has a job.

28 This section draws directly on the document "Jordan Improving Women Economic Opportunities" (World Bank 2019c).

29 ILO estimates presented on the interactive website "How Much Would the Economy Grow by Closing the Gender Gap," https://www.ilo.org/global/about-the-ilo/multimedia/maps-and-charts/enhanced/WCMS_556526/lang--en/index.htm.

30 The government of Jordan is undertaking some reforms to such laws, with the support of the World Bank.

31 For a series of competition reforms that have improved the economy, see Kitzmuler and Licetti 2012.

32 If the transactions that qualify as mergers are defined too broadly, many kinds of ownership changes that are unlikely to have a real impact on competition will be notified and reviewed, increasing the costs for business and the authority. On the contrary, if the definition is too narrow, problematic operations could fall out of the scope of merger review.

33 See Momtaz 2018, Egypt chapter; GAC 2017.

34 Leniency instruments are devised to encourage self-reporting by providing incentives that ensure companies are always better off by cooperating with the authority. To this end, leniency programs normally reward the first cartel member to report a secret cartel to the authority and enable it to take appropriate action with a complete exemption from sanctions.

35 The Competition Directorate comprises only 10 specialists to deal with all antitrust and merger cases, with an approximate annual budget of JD 10,000 (approximately US$14,000), excluding overhead and salaries.

36 Data from the World Economic Forum's Global Competitiveness Report, mostly (on roads, railroads, ports, air transport, and electricity) from "perceived opinions," collected mainly among private sector executives. Figures on telecommunications are based on hard data.

37 The ICOR measures the efficiency of investments by quantifying the additional capital required to increase output by one unit.

38 Power, water and sanitation, and transport.

39 "Other official flows" are transfers that do not meet the minimum 25 percent grant-equivalent component required to be classified as ODA, or transfers that are not aimed at development.

40 PPP projects are the most significant channel of commercial investment and finance in Jordan. Additional channels include private infrastructure corporations (such as Jordan Telecom, listed on the Amman Stock Exchange, whose privatization started in 2000. Today, 51 percent of the company is owned by Orange of France, with the Social Security Investment Fund (SSIF) and the government of Jordan together owning another 32 percent) and local governments (essentially the Greater Amman Municipality). Municipal investment accounted for 0.7 percent of GDP in 2017.

41 The two largest transactions financed with export credits were thermal power plants: Attarat (with Chinese financing) and Al Qatrana (with Japanese financing).

42 The most active local bank has been the Arab Bank Group. Since 2014, it has taken a significant role in various renewable energy projects and in the Al Zarqa thermal power plant. Its London-based subsidiary, Europe Arab Bank, has also joined several offshore financing operations.

43 "Stress tests conducted by the Central Bank of Jordan – including sensitivity analyses and macroeconomic scenarios – confirm the banking sector's resilience to shocks" (IMF 2017).

44 Exposure of JD 3.8 billion versus a loan book of JD 26.4 and total assets of JD 51.4 billion at the end of March 2019; see table 4.

45 In 2017, NEPCO had revenues of about JD 1.5 billion and total assets of JD 1.1 billion. The company undertakes limited investment, averaging JD 26 million between 2014 and 2017. Because of past interruptions in gas supply and other external events, NEPCO has accumulated losses of nearly JD 5 billion and depends on state support for its operations and financing. Discussions are being held to restructure its balance sheet. NEPCO's results have significantly improved from 2015, but the coming online of a high-cost IPP in 2020 (Attarat oil shale and generation project, whose capital cost per MW is three times more expensive than the average cost of other thermal generation projects) may further weaken its financial situation.

46 Jordan now has enough reserve capacity until at least 2022. Between 2007 and 2018, six new thermal power generation transactions added a capacity of 2.6 GW at a cost of US$ 4.5 billion (see appendix B). Except

for AAEP, a tri-fuel (natural gas and heavy and light fuel oil) power plant, and Attarat, these projects use imported gas as feedstock.

47 Royal Jordanian Airlines could also be mentioned, although, strictly speaking, it does not provide infrastructure. The company was partly privatized in 2007, with the state and SSIF retaining a 42 percent stake.

48 Includes capital investment spending by all industries directly involved in travel and tourism. This also constitutes investment spending by other industries on specific tourism assets such as new visitor accommodations and passenger transport equipment, as well as restaurants and leisure facilities for specific tourism use.

49 This should change as the ministry revises its legislation to abolish licensing and implement other types of penalties for noncompliant businesses.

50 See Articles 12(B), 15 (A)(2) and 16 of the Tourism Law No. 20 for the year 1988.

51 See Article 14 of the Tourism Law No. 20 for the year 1988.

52 "Medical tourism" is a broad label for a segment that spans a continuum of products and services. It is generally defined as travel and activities related to securing medical treatments such as surgeries (including dental) in an international destination while "wellness tourism" is a broad term for "travel that allows the traveler to maintain, enhance or kick-start a healthy lifestyle, and support or increase one's sense of wellbeing". See the Wellness Tourism Association, glossary, https://www.wellnesstourismassociation.org/glossary-wellness-tourism-industry-terms/.

53 Patients Beyond Borders, "Quick Facts about Medical Tourism: How Big is the Market?," Patients Beyond Borders website, https://patientsbeyondborders.com/media.

54 According to the Jordan Tourism Board, many services are done on an outpatient basis at a variety of public and private hospitals, clinics, and physicians' offices. In addition to issues of privacy, the prevalence of payments made in cash makes accurate tracking difficult.

55 See the 2018 table available at http://www.shipping.com.jo/sites/default/files/2018-01/tariff%20final%20 2018%20in%20english%20_1__0.pdf.

56 Jordan Customs in recent years has also done the following: (a) introduced X-ray units at all border crossings; (b) used GPS for tracking transit trucks; (c) resolved conflicts related to the guidelines and oversight activities of metrology and environment and in the process integrated the customs guidelines; (d) signed mutual assistance agreements with a large number of customs administrations in the Middle East and elsewhere; (e) introduced a blue lane for goods requiring clearance for specific other government agencies (OGAs); (f) reduced the supporting documentation required for exports to the certificate of origin and an invoice; (g) sent inspection certificates, when required, directly to the foreign importers (and in cases such as for the United States, a 24-hour notice may also be required); (h) established dry ports (which are actually inland clearance points because they cannot accept marine bills of lading); and (i) established inland quarantine facilities for animals waiting for results of tests on samples submitted at the point of entry.

57 This has not been a problem for air cargo because shipments are generally identified as separate items, and fewer items are shipped on air freighters than in container vessels.

58 World Bank National Accounts Data 2018

59 Atlas of Economic Complexity website, 2017.

60 Atlas of Economic Complexity website, 2017.

61 Global Entrepreneurship Index 2019.

62 It is important to mention the role played by the "revenue share" system introduced in Jordan by the 1994 Telecommunications Law. Private stakeholders indicate that the parameters of this model are unbalanced, squeezing profits and capacity to invest. It may also be affecting their capacity for and interest in participating in an open bid for spectrum, considering they would have to pay significant shares of their revenues over time anyway.

63 See Article 12, (a) 7, Law of Telecommunications 1995: "The Council shall exercise all the powers necessary for the Commission to carry out its duties in accordance with the provisions of this law, including: Establish the basis for determining the prices and fees of telecommunications services provided to the beneficiaries of the licensees in accordance with the reality of competition in providing the service and its level and monitoring their compliance with their application if necessary."

IFC
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

CONTACTS

Zeinab Partow
zpartow@ifc.org

Kinley Salmon
ksalmon@worldbank.org

ifc.org

WORLD BANK GROUP
THE WORLD BANK IBRD • IDA
IFC International Finance Corporation